



**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

Domingo P. Martinez, CGFM  
State Auditor

Carl M. Baldwin, CPA, CFE  
Deputy State Auditor

February 9, 2005

SAO Ref. No. 385

William C. Sisneros, Executive Director  
New Mexico Finance Authority  
409 St. Michaels Drive  
Santa Fe, NM 87505

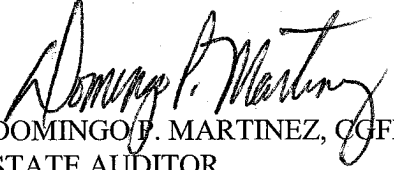
SUBJECT: Audit Report—New Mexico Finance Authority—2003-2004 Fiscal Year—Prepared by  
Neff & Ricci, LLP

Your agency audit report was received by the Office of the State Auditor (Office) on December 15, 2004. The State Auditor examination of the audit report required by Section 12-6-14 (D), NMSA 1978, has been completed. This letter is the authorization to make the final payment to the independent public accountant (IPA) who contracted to perform the agency's financial and compliance audit. In accordance with the Section 2 (B) of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

Per Section 12-6-5 (A), NMSA 1978, **the audit report does not become public record until ten days after the date of this letter.** Once the ten day waiting period has passed the audit report shall be:

- released by the Office of the State Auditor to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer; and
- presented by the agency to a quorum of the agency's governing authority at a public meeting, for approval, per Section 2.2.2.10 K. (3) (d) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies.*

The independent public accountant's findings and comments are included in the audit report on page 83. ***It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.***

  
DOMINGO P. MARTINEZ, CGFM  
STATE AUDITOR

cc: Legislative Finance Committee  
Department of Finance and Administration  
Financial Control Division & Budget Division  
Office of the State Treasurer  
Neff & Ricci, LLP

Received in NMFA

FEB 11 2005

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Time \_\_\_\_\_

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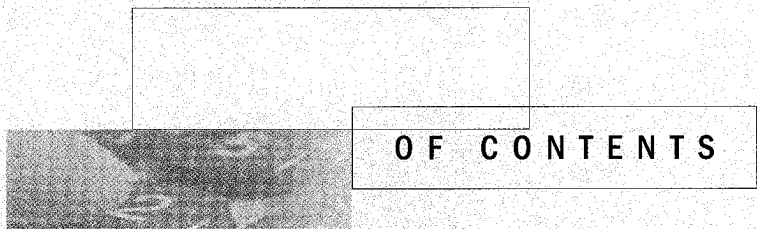
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CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

**NEW MEXICO FINANCE  
AUTHORITY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2004**



**NEW MEXICO FINANCE AUTHORITY**

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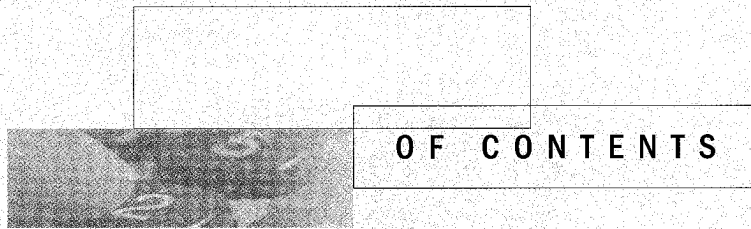
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**NEW MEXICO FINANCE AUTHORITY**

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**NEW MEXICO FINANCE AUTHORITY**  
**JUNE 30, 2004**

**Official Roster**

**Governing Board**

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

**Executive Director**

William C. Sisneros

**Chief Financial Officer**

Keith H. Mellor

**Controller**

Joe Gosline



## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the New Mexico Finance Authority (Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Authority's nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor fund of the Authority, as of June 30, 2004, and the respective changes in the financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

*Neff + Ricci LLP*

Albuquerque, New Mexico  
December 3, 2004

**NEW MEXICO FINANCE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2004**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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

**HIGHLIGHTS**

***Financial Highlights***

**Statement of Net Assets (see table 1)**

The Authority's total net assets at FY 2004 year end were \$118,103,992 compared to \$149,344,036 in FY 2003 a net decrease of \$31,240,044 due to the following factors: The governmental net assets for FY 2004 were (\$21,388,860) compared to \$29,053,630 in FY 2003 a decrease of \$50,442,490. This was primarily due to the defeasing of two highway bond issues and the subsequent liquidation of the funds; and the accelerated redemption of a state automation bond issue. Business-type FY 2004 net assets were \$139,492,852 compared to \$120,290,406 in FY 2003 an increase of \$19,202,446. This was due primarily to increases in PPRF loan production. Generally, the other Business-type funds experienced growth.

**Statement of Activities (see table 2)**

The Governmental and Business-type activities FY 2004 Program revenue was \$20,732,745 down from \$27,195,280 in FY 2003, a decrease of \$6,462,535. This was primarily due to a decrease in pledged tax revenue FY 2004 related to accelerated bond redemptions and defeasing. The Governmental and Business-type activities FY 2004 General Revenue and Transfers were \$39,081,849 down from \$49,325,234 in FY 2003, a decrease of \$10,243,385 due to the reason stated above.

The change in net assets was a decrease of \$29,183,116 in fiscal year 2004, due to the reasons explained above. The total FY 2004 cost of all NMFA programs was \$88,997,710 compared to \$79,771,251 in FY 2003, a net increase of \$9,226,459 due to an increase of \$17,773,084 in governmental funds and a \$8,546,625 decrease in Business-type funds. The \$17,773,084 increase of Governmental Type expenses was due entirely to debt service expenditures related to the defeasing of the Highway bonds. The \$8,546,625 decrease of Business-type expenses was due mainly to reduced operating expenses of the PPRF loan program; and reduced transfers to other state agencies.



**NEW MEXICO FINANCE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2004**

The Authority's gross assets decreased from \$622,798,012 in FY 2003 to \$609,471,888 in FY 2004; a decrease of \$13,326,124.

***NMFA Highlights***

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

The Authority's core program, the PPRF loan program, has provided financing for a variety of infrastructure and equipment projects. In FY 2004, the PPRF program made approximately ninety loans totaling approximately \$115.2 million compared to seventy loans totaling \$70.7 million in FY 2003.

In cooperation with the New Mexico Environment Department (NMED), the NMFA administers the DWRLF program, a federally funded loan program to provide local authorities with low-cost financing and technical assistance in the construction, renovation or expansion of necessary drinking water facilities. In FY 2004, the DWRLF made one loan totaling \$1.8 million compared to three loans totaling \$5.9 million in FY 2003. The FY 2004 binding commitments numbered seven, approximating \$31.5 million compared to four totaling approximately \$16.5 million in FY 2003.

The PCCF program helps qualified non-profit primary care clinics in medically indigent and underserved areas by providing low-cost financing for capital equipment and infrastructure projects. Since the inception of the program through June 30, 2004, the NMFA Board has approved fourteen loans totaling \$7.75 million.

During FY 2004, the NMFA issued \$1.17 billion in bonds to provide all or part of the financing for several state projects, including the additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center located at the University of New Mexico Health Sciences Center in Albuquerque as well as certain transportation projects authorized by the New Mexico Department of Transportation.

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

**NEW MEXICO FINANCE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2004**

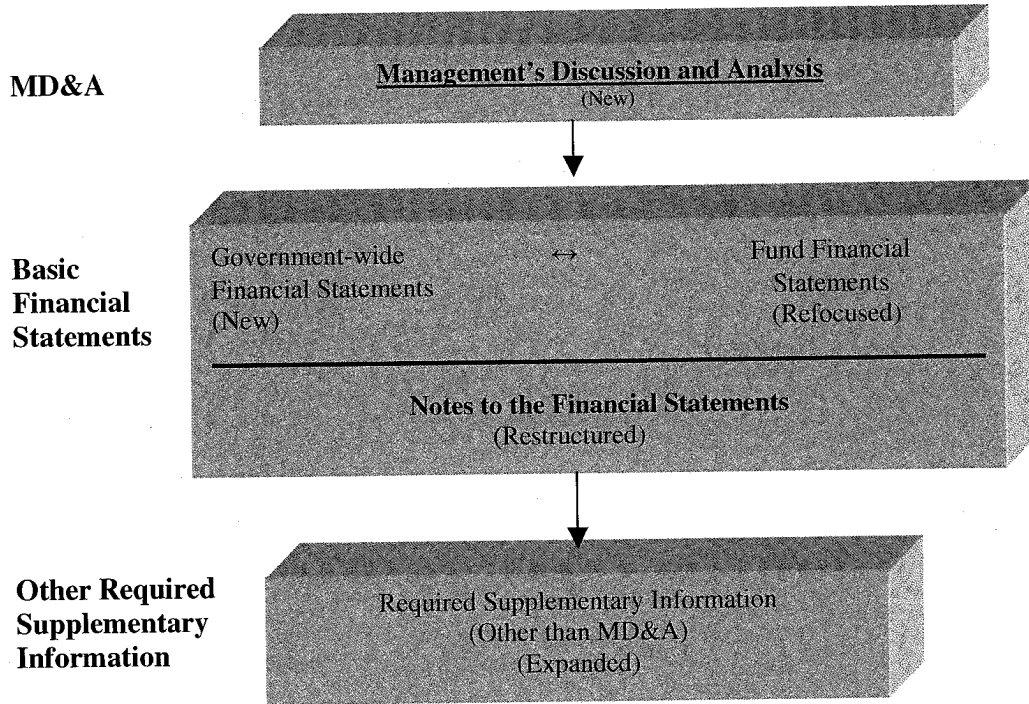
The 2001 Legislature passed the Water Project Finance Act to provide a financing mechanism to promote water use efficiency, water resource conservation and protection of, fair distribution of and the allocation of water to all users. To this end, the Act created the Water Trust Fund and the Water Project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

The Water Project Fund is created in the NMFA, which provides staff support to the Water Trust Board and makes loans or grants to qualified entities for projects prioritized by the Board, approved by the Legislature and on terms and conditions established by the Water Trust Board. The NMFA is authorized to recover from the fund the costs of administering the fund and originating loans and grants. In FY 2003, House Bill 88, as amended, appropriated \$22.5 million for identified regional projects as well as an appropriation for future use to the Water Project Fund in FY 2004. In FY 2004, the Water Trust Board reviewed 28 applications for funding. Beginning with FY 2005, funding will come from severance tax.

**USING THIS ANNUAL REPORT**

The focus is on both the NMFA (government-wide) and the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the NMFA is an instrumentality of the State of New Mexico Government, the primary government focus in this financial report is the NMFA and not the State of New Mexico as a whole. The following is a graphic presentation of the new accounting model:

**NEW MEXICO FINANCE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2004**



**Management's Discussion and Analysis**

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

**Government-Wide Financial Statements**

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

**NEW MEXICO FINANCE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2004**

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

- **Governmental Activities** – All of the Authority's stand alone bond financings and grant programs are included in the governmental activities. State dedicated revenues and grant appropriations finance most of these activities. The funds included in Governmental Activities for the NMFA are the, Metro Court Financing, State Building Program Financing, State Building Purchase Financing, University of New Mexico (UNM) Health Sciences Financing, Water Project Financing, Water/Wastewater Grant Fund, Behavioral Health Clinic Financing, Economic Development Financing, Emergency Drought Relief Grant Fund, Water Planning Fund, Workers Compensation Building Financing, State Capitol Improvement Financing, and Equipment COP Financings and the Insurance Department Financings.
- **Business-type Activities** – The Authority's revolving fund programs and operating fund are included in the Business-type activities. The funds included in the Business-type activities for the NMFA are the Public Projects Revolving Fund, the Federal Drinking Water Loan Revolving Fund, the Primary Care Loan Revolving Fund, the GRIP Administrative Fund, and the General Operating Fund.

**Fund Financial Statements**

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

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

**Governmental Fund Types:**

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

**NEW MEXICO FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**June 30, 2004**

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

Proprietary Fund Types:

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

**Notes to the Financial Statements**

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

**Infrastructure Assets**

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

**Budgetary Comparisons**

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

**NEW MEXICO FINANCE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2004**

**FINANCIAL ANALYSIS OF THE NMFA AS A WHOLE**

**Net Assets:** Table 1 summarizes the Authority's net assets for the fiscal years ending June 30, 2004 and 2003 on a comparative basis. FY 2004 net assets for Governmental Activities and Business-type Activities were (\$21,388,860) and \$139,492,852 respectively. Total NMFA net assets for fiscal year 2004 are \$118,103,992. However, most of those net assets are restricted as to the purposes for which they can be used.

Table 1  
The NMFA Statement of Net Assets

	Governmental Activities FY 2003	Governmental Activities FY 2004	Business- type Activities FY 2003	Business- type Activities FY 2004	Total FY 2003	Total FY 2004
<b>ASSETS AND OTHER DEBITS</b>						
Current and Other Assets	\$ 122,223,030	122,103,991	172,454,211	165,606,355	294,677,241	287,710,346
Capital and Non-Current Assets	111,867,524	5,465,722	216,253,247	316,295,820	328,120,771	321,761,542
<b>Total Assets</b>	<b>\$234,090,554</b>	<b>\$127,569,713</b>	<b>\$388,707,458</b>	<b>\$481,902,175</b>	<b>\$622,798,012</b>	<b>\$609,471,888</b>
<b>LIABILITIES</b>						
Current Liabilities	\$ 31,094,603	12,212,900	68,511,006	105,575,960	99,605,609	117,788,860
Long-Term Liabilities	173,942,321	136,745,673	199,906,046	236,833,363	373,848,367	373,579,036
<b>Total Liabilities</b>	<b>205,036,924</b>	<b>148,958,573</b>	<b>268,417,052</b>	<b>342,409,323</b>	<b>473,453,976</b>	<b>491,367,896</b>
<b>NET ASSETS</b>						
Invested in capital assets	-	23,010	30,056	46,023	30,056	69,033
Restricted	29,053,630	(21,411,870)	120,242,644	138,667,438	149,296,274	117,255,568
Unrestricted	-	-	17,706	779,391	17,706	779,391
<b>Total net assets</b>	<b>29,053,630</b>	<b>(21,388,860)</b>	<b>120,290,406</b>	<b>139,492,852</b>	<b>149,344,036</b>	<b>118,103,992</b>
<b>Total liabilities and net assets</b>	<b>\$ 234,090,554</b>	<b>\$127,569,713</b>	<b>\$388,707,458</b>	<b>\$481,902,175</b>	<b>\$622,798,012</b>	<b>\$609,471,888</b>

**NEW MEXICO FINANCE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2004**

**Statement of Activities: (Table 2).**

**Revenue**

Total revenue for The NMFA as a whole in FY 2004 was \$59,814,594. The Authority's revenue was generated from a number of sources.

For governmental-type activities total revenue was \$23,093,430 of which tax revenues comprised 71%, operating grants and contributions comprised 5%, interest and investment income comprised 9%, charges for services and transfers comprised 10% and other revenue comprised 4%.

For business-type activities total revenue was \$36,721,164 of which tax revenues comprised 50%, operating grants and contributions 12%, interest and investment income 3%, and charges for services and transfers 35%.

Table 2  
NMFA Statement of Activities

	Governmental - type Activities (Infrastructure financing) FY 2003	Governmental - type Activities (Infrastructure financing) FY 2004	Business-type Activities (Infrastructure financing) FY 2003	Business-type Activities (Infrastructure financing) FY 2004	<u>Total</u> FY 2003	<u>Total</u> FY 2004
Expenses	\$53,208,538	\$71,484,073	\$26,562,713	\$17,513,637	\$79,771,251	\$88,997,710
Total program revenues	7,330,051	3,561,199	19,865,229	17,171,546	27,195,280	20,732,745
Changes in net assets:						
Net (expense) revenue	(45,878,487)	(67,922,874)	(6,697,484)	(342,091)	(52,575,971)	(68,264,965)
Total general revenues and transfers	32,326,639	10,532,410	16,998,595	20,549,439	49,325,234	39,081,849
Change in net assets	(13,551,848)	(49,390,464)	10,301,111	20,207,348	(3,250,737)	(29,183,116)
Net assets - beginning, as adjusted	42,605,478	28,001,604	109,989,294	119,285,504	152,594,772	147,287,108
Net assets - ending	\$29,053,630	(\$21,388,860)	\$120,290,405	\$139,492,852	\$149,344,035	\$118,103,992

**Expenditures**

Total expenditures for The NMFA as a whole in FY 2004 were \$88,997,710.

The Authority's total expenditures for government-type activities during the fiscal year were \$70,981,622. Approximately 1% of the expenditures are in the area of operating costs which include salaries and benefits, professional services, travel, etc. Grant expenses comprise 6% of the total, debt service expenditures 65%, and transfers to other state agencies 28%.



**NEW MEXICO FINANCE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2004**

Expenditures for business-type activities totaled \$17,513,637. The majority of expenditures for business-type activities were for debt service and grant expense, 61% and 24% of total expenditures respectively. Within the operating cost category salaries and benefits comprised 10% of total expenditures and all other operating costs such as professional services, repairs and maintenance, travel, supplies etc., were 5% of total expenditures.

**Budgetary Highlights**

For FY 2004 the NMFA completed the year with a favorable expenditure variance of \$354,898 for its combined total of all budgeted funds (please see Table 3).

Table 3

**Total of all Budgeted Program Funds**

	<u>Y-T-D Budget</u>	<u>Y-T-D Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Administrative Fees	\$ 823,047	\$ 823,047	\$ -
Set-aside Revenue	-	-	-
Reimbursement Revenue	1,769,019	1,032,659	(736,360)
Interest Income	-	-	-
Grant Revenue	-	-	-
Total Revenue	<u>2,592,066</u>	<u>1,855,706</u>	<u>(736,360)</u>
Operating Transfers in	<u>2,471,914</u>	<u>2,471,914</u>	-
Total Revenue and transfers in	<u>\$ 5,063,980</u>	<u>\$ 4,327,620</u>	<u>\$ (736,360)</u>
	<u>Y-T-D Budget</u>	<u>Y-T-D Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Expenditures:</b>			
Current:			
Personnel Services	\$ 1,130,205	\$ 1,050,985	\$ 79,220
Employee Benefits	484,095	438,721	45,374
In-State Travel	66,570	41,106	25,464
Office Supplies	33,000	30,301	2,699
Contractual Services	627,369	439,522	187,847
Operating Costs	272,209	262,482	9,727
Out-of-State Travel	<u>24,996</u>	<u>13,147</u>	<u>11,849</u>
Total Current Expenditures	<u>2,638,444</u>	<u>2,276,264</u>	<u>362,180</u>
Capital Outlay	<u>61,002</u>	<u>68,284</u>	<u>(7,282)</u>
Total Expenditures	<u>\$ 2,699,446</u>	<u>\$ 2,344,548</u>	<u>\$ 354,898</u>

**NEW MEXICO FINANCE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2004**

**Capital Assets and Debt Administration**

At the end of fiscal year 2004, the NMFA has invested a total of \$46,023 net of depreciation in business-type activities and \$23,010 in fixed assets for government-type activities. During FY 2004, capital outlay expenditures totaled \$62,281. This amount represents purchases for technical upgrades, office equipment and leasehold improvements. More detailed information about the Authority's capital assets is presented in Note 9 to the financial statements.

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

**Long-Term Debt**

The Authority's long term debt is all outstanding bond issues related to the various programs administered by the NMFA. At the end of fiscal year 2004, the total amount outstanding was \$399 million (excluding the \$1.1 billion GRIP bonds which are administered by but are not a direct liability of the Authority.) More detailed information about the Authority's long-term debt is presented in Note 10 to the financial statements.

**Bond Ratings**

The Authority's insured bond ratings are as follows:

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

The Authority's uninsured bond ratings are:

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

There were no changes in bond ratings during the year's ended June 30, 2004 and 2003.

**NEW MEXICO FINANCE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2004**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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

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

The Authority's primary operating budget for FY 2004 is \$2,699,446, compared to the FY 2003 budget of \$2,376,425, a 12% increase.

**CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

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

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

**NEW MEXICO FINANCE AUTHORITY  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
JUNE 30, 2004**

<b>ASSETS</b>	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 82,059,100	45,319,092	127,378,192
Receivables			
Taxes	1,358,595	1,951,709	3,310,304
Interest	-	3,036,590	3,036,590
Grant and other	-	3,029,573	3,029,573
Loans, net of allowance	500,000	312,377,608	312,877,608
Securities	-	13,783,817	13,783,817
Due from other funds	70,968	-	70,968
Due from other state agency	-	308,194	308,194
Cash and cash equivalents - restricted	38,545,216	98,177,380	136,722,596
Capital assets, net of depreciation	23,010	46,023	69,033
Deferred issuance costs	4,942,712	3,864,579	8,807,291
Other assets	70,112	7,610	77,722
<b>Total assets</b>	<b>\$ 127,569,713</b>	<b>481,902,175</b>	<b>609,471,888</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	461,152	777,191	1,238,343
Accrued payroll, fringe benefits and compensated absences	12,133	140,525	152,658
Accrued interest payable	853,685	815,253	1,668,938
Debt service payable	1,971,553	21,679,063	23,650,616
Long-term notes payable	2,000,000	-	2,000,000
Funds held for others	59,409	62,915,790	62,975,199
Due to other state agencies	-	552,138	552,138
Due to other funds	70,968	-	70,968
Bonds payable, current	13,722,931	18,696,000	32,418,931
Bonds payable, long term	129,806,742	236,833,363	366,640,105
<b>Total liabilities</b>	<b>148,958,573</b>	<b>342,409,323</b>	<b>491,367,896</b>
<b>NET ASSETS</b>			
Invested in capital assets	23,010	46,023	69,033
Restricted for			
Debt service	(55,077,839)	65,201,128	10,123,289
Program funds	33,665,969	73,466,310	107,132,279
Unrestricted	-	779,391	779,391
<b>Total net assets</b>	<b>(21,388,860)</b>	<b>139,492,852</b>	<b>118,103,992</b>
<b>Total liabilities and net assets</b>	<b>\$ 127,569,713</b>	<b>481,902,175</b>	<b>609,471,888</b>

*See Notes to Financial Statements.*

**NEW MEXICO FINANCE AUTHORITY  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004**

	Governmental - Activities	Business-type Activities	Total
Expenses - Capital Financing	\$ 71,484,073	17,513,637	88,997,710
Program revenues			
Charges for services	2,306,199	12,803,198	15,109,397
Operating grants and contributions	1,255,000	4,368,348	5,623,348
<b>Total program revenues</b>	<u>3,561,199</u>	<u>17,171,546</u>	<u>20,732,745</u>
Net (expense) revenue	<u>(67,922,874)</u>	<u>(342,091)</u>	<u>(68,264,965)</u>
General revenues			
Taxes			
Governmental gross receipts and gross receipts taxes	16,499,786	18,368,369	34,868,155
Investment earnings	2,067,377	1,181,249	3,248,626
Other revenue	965,068	-	965,068
<b>Total general revenues</b>	<u>19,532,231</u>	<u>19,549,618</u>	<u>39,081,849</u>
Transfers	<u>(999,821)</u>	<u>999,821</u>	<u>-</u>
<b>Change in net assets</b>	<u>(49,390,464)</u>	<u>20,207,348</u>	<u>(29,183,116)</u>
Net assets - beginning	29,053,630	119,787,955	148,841,585
Transfer net assets	502,451	(502,451)	-
Restatement	(1,554,477)	-	(1,554,477)
Net assets - beginning, as adjusted	<u>28,001,604</u>	<u>119,285,504</u>	<u>147,287,108</u>
<b>Net assets - ending</b>	<u>\$ (21,388,860)</u>	<u>139,492,852</u>	<u>118,103,992</u>

*See Notes to Financial Statements.*

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

	Federal Highway Forest Road Financing Fund	Highway 44 Financing Fund	Metro Court Financing Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	-	2,195,870
Tax revenue receivable	-	-	452,613
Other assets	-	-	-
Due from other funds	-	-	-
Due from other state agencies	-	-	-
Loans receivable	-	-	-
			<u>2,648,483</u>
Restricted Assets			
Cash and cash equivalents held for others by trustee			
Debt service	-	-	4,136,966
Bond reserve	-	-	70,128
Expense fund	-	-	-
Program - Grant proceeds for other state agency	-	-	-
Program - Bond proceeds	-	-	-
<b>Total restricted assets</b>			<u>4,207,094</u>
<b>Total assets</b>	<u>\$ -</u>	<u>-</u>	<u>6,855,577</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable and accrued liabilities	\$ -	-	-
Debt service payable	-	-	111,140
Notes payable	-	-	-
Funds held for others	-	-	-
Due to other state agencies	-	-	-
Due to other funds	-	-	-
<b>Total liabilities</b>			<u>111,140</u>
Fund balances - reserved for			
Debt service	-	-	6,744,437
Special revenue funds	-	-	-
<b>Total fund balances</b>			<u>6,744,437</u>
<b>Total liabilities and fund balances</b>	<u>\$ -</u>	<u>-</u>	<u>6,855,577</u>

See Notes to Financial Statements.

State Building Program Cigarette Tax	State Building Purchase Fund	UNM Health Sciences	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
3,201,122	16,286,452	73,569	17,069,269	39,940,824	3,291,994	82,059,100
99,258	500,000	-	-	-	306,724	1,358,595
70,112	-	-	-	-	-	70,112
70,968	-	-	-	-	-	70,968
-	-	-	-	-	-	-
-	-	-	-	-	500,000	500,000
<u>3,441,460</u>	<u>16,786,452</u>	<u>73,569</u>	<u>17,069,269</u>	<u>39,940,824</u>	<u>4,098,718</u>	<u>84,058,775</u>
-	-	-	-	-	57,977	4,194,943
441,799	-	-	-	-	172,377	684,304
-	-	-	-	-	-	-
100,550	-	32,241,774	-	-	59,423	32,401,747
902,322	-	-	-	-	361,900	1,264,222
<u>1,444,671</u>	<u>-</u>	<u>32,241,774</u>	<u>-</u>	<u>-</u>	<u>651,677</u>	<u>38,545,216</u>
<u>4,886,131</u>	<u>16,786,452</u>	<u>32,315,343</u>	<u>17,069,269</u>	<u>39,940,824</u>	<u>4,750,395</u>	<u>122,603,991</u>
-	-	241,602	4,682	10,262	216,739	473,285
-	321,568	1,515,457	-	-	23,388	1,971,553
2,000,000	-	-	-	-	-	2,000,000
-	-	-	-	-	59,409	59,409
-	-	-	-	-	-	-
-	-	-	67,960	-	3,008	70,968
<u>2,000,000</u>	<u>321,568</u>	<u>1,757,059</u>	<u>72,642</u>	<u>10,262</u>	<u>302,544</u>	<u>4,575,215</u>
-	16,464,884	30,558,284	-	-	1,766,064	55,533,669
2,886,131	-	-	16,996,627	39,930,562	2,681,787	62,495,107
<u>2,886,131</u>	<u>16,464,884</u>	<u>30,558,284</u>	<u>16,996,627</u>	<u>39,930,562</u>	<u>4,447,851</u>	<u>118,028,776</u>
<u>4,886,131</u>	<u>16,786,452</u>	<u>32,315,343</u>	<u>17,069,269</u>	<u>39,940,824</u>	<u>4,750,395</u>	<u>122,603,991</u>



**NEW MEXICO FINANCE AUTHORITY  
RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004**

Total fund balances - governmental funds		\$ 118,028,776
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets	\$ 43,763	
Accumulated depreciation	<u>(20,753)</u>	23,010
Bond deferred issuance costs		4,942,712
Accrued interest payable		(853,685)
Bond payable		(139,178,000)
Bond premium and discount, net		<u>(4,351,673)</u>
Net assets of governmental activities		<u>\$ (21,388,860)</u>

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

	Federal Highway Forest Road Financing Fund	Highway 44 Financing Fund	Metro Court Financing Fund
Revenues			
Tax revenue	\$ -	-	5,968,450
Grant revenue	-	-	-
Interest on loans	184,343	2,121,856	-
Interest on investments	-	-	332,125
Other revenue	-	-	-
<b>Total revenues</b>	<u>184,343</u>	<u>2,121,856</u>	<u>6,300,575</u>
Expenditures			
Administrative fee	-	-	140,225
Professional services	-	-	9,020
Salaries and fringe benefits	-	-	-
In-state travel	-	-	-
Maintenance and repairs	-	-	-
Operating costs	-	-	-
Grant expense	-	-	-
<b>Total current expenditures</b>	<u>-</u>	<u>-</u>	<u>149,245</u>
Debt service			
Principal payments	17,830,000	90,335,000	1,405,000
Interest expense	380,788	2,121,856	2,768,771
Bond issuance costs	-	-	-
<b>Total debt service expenditures</b>	<u>18,210,788</u>	<u>92,456,856</u>	<u>4,173,771</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(18,026,445)</u>	<u>(90,335,000)</u>	<u>1,977,559</u>
Other Financing Sources (Uses)			
Bond proceeds	-	-	-
Bond premium	-	-	(504,827)
Transfers (to) from other funds	-	-	(19,902,751)
Transfers to other state agencies	-	-	(20,407,578)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(20,407,578)</u>
<b>Net change in fund balance</b>	<u>(18,026,445)</u>	<u>(90,335,000)</u>	<u>(18,430,019)</u>
Fund balances - beginning	18,026,445	90,335,000	25,174,456
Transfer in State Building Purchase Fund	-	-	-
Reclassification for change in fund type	-	-	-
Restatement	-	-	-
Fund balances - beginning, as adjusted	<u>18,026,445</u>	<u>90,335,000</u>	<u>25,174,456</u>
<b>Fund balances - ending</b>	<u>\$ -</u>	<u>-</u>	<u>6,744,437</u>

See Notes to Financial Statements.

	State Building Program Cigarette Tax	State Building Purchase Fund	UNM Health Sciences	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
\$	1,214,527	6,000,000	-	-	-	3,316,809	16,499,786
	-	-	-	-	-	1,255,000	1,255,000
	-	-	-	-	-	-	2,306,199
	115,977	438,344	39,716	268,330	774,364	98,521	2,067,377
	-	-	-	-	-	-	-
	1,330,504	6,438,344	39,716	268,330	774,364	4,670,330	22,128,362
	-	48,975	-	-	-	38,592	227,792
	5,590	29,491	168,500	38,992	62,486	69,403	383,482
	-	-	-	90,449	74,421	53,410	218,280
	-	-	-	8,182	2,601	1,559	12,342
	-	-	-	1,640	1,351	686	3,677
	-	-	-	30,226	29,787	18,094	78,107
	-	-	-	840,449	11,089,404	219,873	12,149,726
	5,590	78,466	168,500	1,009,938	11,260,050	401,617	13,073,406
	600,000	1,215,000	-	-	-	1,179,000	112,564,000
	93,300	1,442,600	-	-	-	857,079	7,664,394
	-	22,238	-	-	-	-	22,238
	693,300	2,679,838	-	-	-	2,036,079	120,250,632
	631,614	3,680,040	(128,784)	(741,608)	(10,485,686)	2,232,634	(111,195,676)
	-	-	39,035,000	-	-	-	39,035,000
	-	-	965,068	-	-	-	965,068
	(543,514)	-	-	40,873	8,826	(1,179)	(999,821)
	(94,150)	(20,219,812)	(9,313,000)	-	-	(1,588,475)	(51,118,188)
	(637,664)	(20,219,812)	30,687,068	40,873	8,826	(1,589,654)	(12,117,941)
	(6,050)	(16,539,772)	30,558,284	(700,735)	(10,476,860)	642,980	(123,313,617)
	2,892,181	-	-	17,697,362	50,407,422	5,359,348	209,892,214
	-	502,451	-	-	-	-	502,451
	-	32,502,205	-	-	-	-	32,502,205
	-	-	-	-	-	(1,554,477)	(1,554,477)
	2,892,181	33,004,656	-	17,697,362	50,407,422	3,804,871	241,342,393
\$	2,886,131	16,464,884	30,558,284	16,996,627	39,930,562	4,447,851	118,028,776

**NEW MEXICO FINANCE AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004**

Net change in fund balances - governmental funds		(123,313,617)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Issuance of bonds		(39,035,000)
Bond debt service principal payments		112,564,000
Depreciation expense	(20,753)	
Capital outlay	43,763	
Excess of capital outlay over depreciation expense		23,010
Change from prior year in:		
Amortization of bond issuance costs		1,476,633
Amortization of net bond premium		(2,462,183)
Interest expense on long-term debt is recognized when paid under the modified accrual basis of accounting		1,356,693
Change in net assets of governmental activities		<u>\$ (49,390,464)</u>

NEW MEXICO FINANCE AUTHORITY  
STATEMENT OF NET ASSETS  
ENTERPRISE FUNDS  
JUNE 30, 2004

	Operating Fund	Public Project Revolving Funds	Drinking Water Revolving Loan Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 231,116	42,929,616	2,158,360
Receivables			
Taxes	-	1,951,709	-
Interest	-	2,926,916	109,674
Grant and other	251,110	684,782	2,093,081
Due from other state agency	-	-	-
Due from other funds	-	-	-
<b>Total current assets</b>	<u>482,226</u>	<u>48,493,023</u>	<u>4,361,115</u>
Loans, net of allowance	-	287,162,350	19,551,047
Securities	-	13,783,817	-
Restricted assets - cash and cash equivalents	-	86,994,499	8,952,084
Capital assets			
Depreciable property and equipment, net	22,365	15,729	7,929
Deferred issuance costs, net	-	3,864,579	-
Other assets	7,610	-	-
<b>Total assets</b>	<u>\$ 512,201</u>	<u>440,313,997</u>	<u>32,872,175</u>
<b>LIABILITIES</b>			
Accounts payable and other liabilities	\$ 39,594	431,854	179,281
Accrued payroll, fringe benefits and compensated absences	123,256	7,085	10,184
Accrued interest payable	-	815,253	-
Debt service payable	-	20,225,325	1,440,251
Funds held for others	-	55,176,496	7,281,360
Due to other state agencies	184,708	-	364,614
Due to other funds	-	-	-
Bonds payable, current	-	18,696,000	-
<b>Total current liabilities</b>	<u>347,558</u>	<u>95,352,013</u>	<u>9,275,690</u>
Bonds payable, long-term	-	236,833,363	-
<b>Total liabilities</b>	<u>347,558</u>	<u>332,185,376</u>	<u>9,275,690</u>
<b>NET ASSETS</b>			
Invested in capital assets	22,365	15,729	7,929
Restricted for:			
Debt service	142,278	36,078,349	23,588,556
Program funds	-	71,255,152	-
Unrestricted	-	779,391	-
<b>Total net assets</b>	<u>164,643</u>	<u>108,128,621</u>	<u>23,596,485</u>
<b>Total liabilities and net assets</b>	<u>\$ 512,201</u>	<u>440,313,997</u>	<u>32,872,175</u>

See Notes to Financial Statements.

GRIP			
Administrative Fund	Primary Care Capital Fund		Totals
\$ -	-		45,319,092
-	-		1,951,709
-	-		3,036,590
600	-		3,029,573
308,194	-		308,194
-	-		-
<u>308,794</u>	<u>-</u>		<u>53,645,158</u>
-	5,664,211		312,377,608
-	-		13,783,817
-	2,230,797		98,177,380
-	-		-
-	-		46,023
-	-		3,864,579
-	-		7,610
<u>\$ 308,794</u>	<u>7,895,008</u>		<u>481,902,175</u>
\$ -	-		650,729
126,462	-		266,987
-	-		815,253
-	13,487		21,679,063
-	460,750		62,918,606
-	-		549,322
-	-		-
-	-		18,696,000
<u>126,462</u>	<u>474,237</u>		<u>105,575,960</u>
-	-		236,833,363
<u>126,462</u>	<u>474,237</u>		<u>342,409,323</u>
-	-		46,023
-	5,209,613		65,018,796
-	2,211,158		73,466,310
182,332	-		961,723
<u>182,332</u>	<u>7,420,771</u>		<u>139,492,852</u>
<u>\$ 308,794</u>	<u>7,895,008</u>		<u>481,902,175</u>

NEW MEXICO FINANCE AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
ENTERPRISE FUNDS  
YEAR ENDED JUNE 30, 2004

	Operating Fund	Public Project Revolving Funds	Drinking Water Revolving Loan Fund
Interest earnings			
Interest on loans	\$ -	11,195,162	476,795
Interest on investments	3,688	793,237	231,387
<b>Total interest earnings</b>	<u>3,688</u>	<u>11,988,399</u>	<u>708,182</u>
Interest expense			
Debt service - interest expense	-	8,972,738	-
<b>Net interest earnings</b>	<u>3,688</u>	<u>3,015,661</u>	<u>708,182</u>
Provision for loan losses	-	-	-
<b>Net interest earnings after provision for loan losses</b>	<u>3,688</u>	<u>3,015,661</u>	<u>708,182</u>
Non-interest earnings			
Tax revenue	-	18,368,369	-
Federal grant revenue	-	-	2,588,550
Revolving loans grant revenue	-	-	1,779,798
Administrative fees	823,047	-	-
<b>Total non-interest earnings</b>	<u>823,047</u>	<u>18,368,369</u>	<u>4,368,348</u>
Non-interest expense			
Grant expense	-	3,054,734	-
Bond issuance costs	44,532	(157,884)	-
Administrative fee	-	-	34,345
Professional services	57,776	640,674	42,257
Salaries and fringe benefits	905,957	350,398	104,028
Technical set-aside expense	-	-	203,563
In-state travel	25,709	115	2,940
Out of state travel	9,544	400	2,121
Maintenance and repairs	11,062	6,121	1,881
Supplies	20,873	2,157	1,510
Operating costs	103,577	66,567	21,682
Depreciation	15,344	8,763	4,859
<b>Total non-interest expense</b>	<u>1,194,374</u>	<u>3,972,045</u>	<u>419,186</u>
<b>Total non-interest earnings (expense) before transfers</b>	<u>(371,327)</u>	<u>14,396,324</u>	<u>3,949,162</u>
Transfers			
Transfers in (out)	543,514	456,307	-
Transfers from (to) other state agencies	-	-	(2,345,384)
Transfers from (to) other governmental entities	-	(986,499)	-
<b>Total transfers</b>	<u>543,514</u>	<u>(530,192)</u>	<u>(2,345,384)</u>
<b>Change in net assets</b>	<u>175,875</u>	<u>16,881,793</u>	<u>2,311,960</u>
Total net assets - beginning, after transfer of State Building Purchase Fund to Governmental Fund	(11,232)	91,246,828	21,284,525
<b>Total net assets - ending</b>	<u>\$ 164,643</u>	<u>108,128,621</u>	<u>23,596,485</u>

See Notes to Financial Statements.



GRIP		
Administrative Fund	Primary Care Capital Fund	Totals
\$ -	-	11,671,957
-	152,937	1,181,249
-	152,937	12,853,206
-	-	8,972,738
-	152,937	3,880,468
-	-	-
-	152,937	3,880,468
-	-	18,368,369
-	-	2,588,550
-	-	1,779,798
308,194	-	1,131,241
308,194	-	23,867,958
-	-	3,054,734
-	-	(113,352)
-	-	34,345
4,781	-	745,488
80,740	-	1,441,123
-	-	203,563
3,534	-	32,298
20,172	-	32,237
1,367	-	20,431
210	-	24,750
15,058	-	206,884
-	-	28,966
125,862	-	5,711,467
182,332	-	18,156,491
-	-	999,821
-	-	(2,345,384)
-	-	(986,499)
-	-	(2,332,062)
182,332	152,937	19,704,897
-	7,267,834	119,787,955
\$ 182,332	7,420,771	139,492,852

NEW MEXICO FINANCE AUTHORITY  
 COMBINED STATEMENT OF CASH FLOWS -  
 ENTERPRISE FUNDS  
 YEAR ENDED JUNE 30, 2004

	Operating Fund	Public Project Revolving Funds	Drinking Water Revolving Loan Fund
<b>Cash Flows From Operating Activities</b>			
Cash paid for employee services	\$ (859,997)	(349,382)	(102,499)
Cash paid to vendors for services	(276,541)	(577,779)	(288,764)
Bond issuance costs paid	-	(1,659,798)	-
Interest expense paid	-	(8,902,444)	-
Grants awarded	-	(3,054,734)	-
Tax revenue	-	17,356,789	-
Cash received from federal government for revolving loans	-	-	1,779,798
Interest income received	3,688	10,547,334	686,662
Administrative fees received	584,327	-	-
<b>Net cash (used) provided by operating activities</b>	<b>(548,523)</b>	<b>13,359,986</b>	<b>2,075,197</b>
<b>Cash Flows From Non-Capital Financing Activities</b>			
Operating transfers	543,514	456,307	-
Cash paid to subrecipients for services	-	-	(2,345,384)
Federal grant revenue received	-	-	2,791,652
Cash provided (used) by funds held for others	(1,864,171)	36,469,625	(2,174,795)
<b>Net cash provided (used) by non capital financing activities</b>	<b>(1,320,657)</b>	<b>36,925,932</b>	<b>(1,728,527)</b>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Securities	-	825,820	-
Loans funded	-	152,043,707	(1,779,798)
Loan payments received	-	(248,873,116)	751,056
Bonds issued	-	91,645,000	-
Payment of bonds	-	(18,447,780)	-
Fixed asset purchases	(21,061)	(16,468)	(7,404)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(21,061)</b>	<b>(22,822,837)</b>	<b>(1,036,146)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,890,241)</b>	<b>27,463,081</b>	<b>(689,476)</b>
Cash and restricted cash and cash equivalents - beginning of year	2,121,357	102,461,034	11,799,920
<b>Cash and restricted cash and cash equivalents - end of year</b>	<b>\$ 231,116</b>	<b>129,924,115</b>	<b>11,110,444</b>
<b>Reconciliation of operating income (loss) to net cash used by operating activities - operating income</b>			
Adjustments to operating income	\$ 175,875	16,881,793	2,311,960
Depreciation and amortization	15,344	(149,121)	4,859
Bad debt expense	-	-	-
Net transfers	(543,514)	(456,307)	-
(Increase) decrease in prepaids and receivables	(238,720)	(2,452,645)	(775,231)
Increase (decrease) in payables and other accrued liabilities	42,492	(463,734)	533,609
<b>Net cash (used) provided by operating activities</b>	<b>\$ (548,523)</b>	<b>13,359,986</b>	<b>2,075,197</b>

GRIP		
Administrative Fund	Primary Care Fund	Totals
\$ -	-	(1,311,878)
-	-	(1,143,084)
-	-	(1,659,798)
-	-	(8,902,444)
-	-	(3,054,734)
-	-	17,356,789
-	-	1,779,798
-	152,937	11,390,621
-	-	584,327
-	152,937	15,039,597
-	-	999,821
-	-	(2,345,384)
-	-	2,791,652
-	441,083	32,871,742
-	441,083	34,317,831
-	-	825,820
-	(1,000,000)	149,263,909
-	253,093	(247,868,967)
-	-	91,645,000
-	-	(18,447,780)
-	-	(44,933)
-	(746,907)	(24,626,951)
-	(152,887)	24,730,477
-	2,383,684	118,765,995
\$ -	2,230,797	143,496,472
\$ -	152,937	19,522,565
-	-	(128,918)
-	-	-
-	-	(999,821)
-	-	(3,466,596)
-	-	112,367
\$ -	152,937	15,039,597

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

**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, 2004**

**NOTE 1. ORGANIZATION (CONTINUED)**

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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

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

**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, 2004**

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

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

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

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



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

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

Any unexpended or unencumbered balance remaining at the end of the fiscal year shall not revert to the State's general fund. There was no sale of bonds made for this program for the year ended June 30, 2004.

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

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

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

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

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

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

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

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

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

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

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

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

*Debt Service Fund - Highway 44 Financing Fund.* Series 1998A Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 1998A Bonds were issued by the Authority to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico Highway and Transportation Department (NMSHTD), and are payable solely from the Authority's rights to payments under a Loan Agreement between the NMFA and NMSHTD. \$100,230,000 of Federal Highway Grant Anticipation Revenue Bonds was issued on September 1, 1998. The Obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a revenue pledge, which consists of certain revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law. The bond was defeased on May 20, 2004 and the fund was closed out.

*Debt Service Fund - Forest Highway Forest Road Financing Fund.* Series 2001 Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 et seq., NMSA 1978, as amended, and the Indenture. The Series 2001 Bonds were issued to finance the cost of an infrastructure project, which includes the design, reconstruction, expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21) to the extent for funding as part of the Federal Lands Highway Program and the New Mexico Statewide Transportation Improvement Program by the New Mexico State Highway and Transportation Department (NMSHTD). The Series 2001 Bonds are payable Solely from certain of the Authority's rights to payments under a Loan Agreement (Series 2001 Loan Agreement) between the NMFA and NMSHTD. The obligations of NMSHTD under the Series 2001 Loan Agreement are payable solely from and secured by a pledge of the "Pledge Revenues," which consist of certain revenues received by or on behalf of NMSHTD pursuant to Chapters 1 and 20 of Title 12, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law. The bond was defeased on May 20, 2004 and the fund was closed out.

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

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

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

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

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

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

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

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

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

*Debt Service Fund - Insurance Department Financing Fund.* The 1996 New Mexico Legislature authorized the Authority to issue revenue bonds in an amount not to exceed \$1 million for the purpose of financing information and communication equipment, including computer hardware and software, for the New Mexico Department of Insurance. The Legislature imposed a three dollar (\$3.00) surcharge on the annual continuation of appointment fees on approximately 60,000 insurance agents subject to the fees to provide security for the bonds. On April 18, 1996, the New Mexico Insurance Department requested the Authority to issue \$525,000 of the authorized bonds for acquiring information and communication equipment. The

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

bonds were privately placed in a transaction that closed on May 23, 1996, and the proceeds were transferred to the New Mexico Department of Insurance. The pledged revenues are paid to the Authority. Pledged revenue in excess of debt service and related expenditures may be appropriated by the Legislature to the Department of Insurance for the acquisition of information and communication equipment.

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

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

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

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

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

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

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY  
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June 30, 2004**

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

stream to the issuance of bonds and granting, or lending, the bond proceeds. All projects to be financed must be approved by the Legislature.

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

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

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

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



NEW MEXICO FINANCE AUTHORITY  
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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

The Authority's only fiduciary fund is an agency fund. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Authority's agency fund is used to account for cash at trustee related to certain bond issues that the Authority completed on behalf of the New Mexico Department of Transportation. See note 16 for further detail.

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

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

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

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

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

**NEW MEXICO FINANCE AUTHORITY  
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June 30, 2004**

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

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

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient. The Authority was unable to reasonably estimate the amount of revenue earned but not yet received by the Taxation and Revenue Department by the June 30 year-end. As a result, the amount is not included as revenue in the financial statements.

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

Interest is credited to the various programs based on the programs average monthly balance. Average monthly interest rates are also used in determining the interest to be credited to the various programs. In general, state 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

**NEW MEXICO FINANCE AUTHORITY**  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

otherwise provided by the trust indenture or bond resolution, if funds are pledged for or secure payment of bonds issued by the Authority.

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

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

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

*Capital Assets.* Property, furniture and equipment purchased or acquired at a value of \$1,000 or greater are capitalized. Property, furniture and equipment are stated at cost less accumulated depreciation. Furniture and equipment purchases with useful lives over one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets which range from 3 to 7 years. Computer software is included in furniture and equipment. In addition, furniture and equipment with lives of one year or less, and maintenance and repairs, which do not extend the useful lives of premises and equipment, are charged to expense as incurred. The Authority does not have any internally developed software.

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

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

NEW MEXICO FINANCE AUTHORITY  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

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

*Budgets and Budgetary Accounting.* The Authority prepares a budget for the operations fund and for the DWRLF. 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.

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

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

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

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

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

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

Unrestricted assets represent liquid assets.

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

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

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

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

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

Cash and cash equivalents	Book Balance	Bank Balance
Government – Wide Statement of Net Assets		
State Treasurer Local Government Investment Pool	\$ 140,587,116	140,382,546
Money market accounts invested in American Performance U.S. Treasury Fund	116,824,105	116,824,105
Repurchase agreements	6,548,450	6,548,450
Wells Fargo operating accounts	<u>231,116</u>	<u>237,341</u>
	<u>\$264,100,788</u>	<u>263,992,442</u>
Agency Fund		
State Treasurer Local Government Investment Pool	\$ 92,017,680	92,017,680
Money market accounts invested in Citigroup U.S. Treasury Fund	587,324,025	587,324,025
State Treasurer Repurchase Agreement	<u>\$100,187,128</u>	<u>100,187,128</u>
	<u>\$779,528,833</u>	<u>779,528,833</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	\$	237,341		237,341	231,116

The New Mexico State Treasurer's Office is responsible to ensure that all accounts held by any bank for all State governmental entities have collateral at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the

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

categories of risk involved, and the market value of purchased investments, which may differ from the cash deposited by the Authority.

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

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

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

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

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

**NOTE 4. LOANS RECEIVABLE**

Loan receivable balances consist of the following at June 30, 2004:

Entity	Loan Balance
Proprietary funds	
Public Project Revolving Loan Fund	\$ 288,021,506
Allowance for loan losses	<u>(859,156)</u>
	287,162,350
Primary Care Capital Fund	5,664,211
Drinking Water State Revolving Loan Fund	<u>19,551,047</u>
	<u>312,377,608</u>
Debt service funds	
Behavioral Health Clinic Fund	500,000
	<u>\$ 312,877,608</u>

*Public Project Revolving Loan Fund*

The Public Project Revolving Fund loans receivable balance at June 30, 2004, is \$288,021,506 and consists of loans made to various entities.

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

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	\$ 80,731,423	40,223,321	120,954,744
July 1, 2009 to June 30, 2014	95,792,349	36,963,985	132,756,334
July 1, 2014 to maturity	<u>111,497,734</u>	<u>28,400,322</u>	<u>139,898,056</u>
	<u>\$ 288,021,506</u>	<u>105,587,628</u>	<u>393,609,134</u>

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

Balance, beginning of year	\$ 859,156
Provision for loan losses	<u>-</u>
Balance, end of year	<u>\$ 859,156</u>

Management considers non-accrual loans to be impaired. As of June 30, 2004 there were no non-accrual loans. Based on management's analysis, there were no other impaired loans as of June 30, 2004.



**NEW MEXICO FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4. LOANS RECEIVABLE (CONTINUED)**

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

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	\$ 2,326,937	721,212	3,048,149
July 1, 2009 to June 30, 2014	2,620,233	407,470	3,027,703
July 1, 2014 to maturity	717,041	18,910	735,951
	<u>\$ 5,664,211</u>	<u>1,147,592</u>	<u>6,811,803</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.

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

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	\$ 5,449,706	2,608,743	8,058,449
July 1, 2009 to June 30, 2014	5,861,851	1,591,140	7,452,991
July 1, 2014 to maturity	8,239,490	984,553	9,224,043
	<u>\$ 19,551,047</u>	<u>5,184,436</u>	<u>24,735,483</u>

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

*Behavioral Health Clinic Fund.* The Behavioral Health Clinic loan has an interest rate of 3%. The following is a summary of future loan principal and interest to be collected based on the loan repayment schedule after year end:

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	\$ 162,545	64,384	226,929
July 1, 2009 to June 30, 2014	176,326	36,989	213,315
July 1, 2014 to maturity	161,129	9,555	170,684
	<u>\$ 500,000</u>	<u>110,928</u>	<u>610,928</u>

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

**NEW MEXICO FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5. SECURITIES**

At June 30, 2004, securities for the Public Project Revolving Fund (PPRF) consisted of \$12,639,137 Department of Energy, Minerals, and Natural Resources Bonds (Series 1995A, 1995B, 1996A, 1996B, 1997A, 1997B, 1998A, and 1998B), \$15,186 of Jemez Springs Bonds, and \$1,129,494 of Interstate Stream Commission Bonds (Series 1998). The Department of Energy, Minerals, and Natural Resource Bonds have interest rates ranging from 3% to 5.95% with final maturity on June 1, 2017. The Jemez Springs Bonds have interest rates ranging from 4.20% to 5.45% with a final maturity on May 1, 2012. The New Mexico Interstate Stream Commission Bonds have interest rates ranging from 5.92% to 6.19% with final maturity on May 1, 2008. The securities are carried at cost which approximates market value.

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

	Principal	Interest	Total
July 1, 2004 to June 30, 2009	\$ 5,080,921	3,027,052	8,107,973
July 1, 2009 to June 30, 2014	5,293,634	1,731,744	7,025,378
July 1, 2014 to maturity	3,409,262	357,300	3,766,562
	<u>\$ 13,783,817</u>	<u>5,116,096</u>	<u>18,899,913</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, 2004 consist of the following:

	Due To	Due From
Governmental Funds		
Water Trust Board	\$ -	67,960
Emergency Drought Relief	-	3,008
	-	<u>70,968</u>
Enterprise Fund		
Operating Fund	<u>70,968</u>	-
	<u>\$ 70,968</u>	<u>70,968</u>

The transfers between funds for the year ended June 30, 2004 include a transfer from the Cigarette Tax Fund to the Operating Fund to fund the operations of the Authority in the amount of \$2,471,914.

**NEW MEXICO FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7. DUE TO /DUE FROM OTHER STATE AGENCIES**

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

The Drinking Water Revolving Loan Fund owed \$364,614 to Environment Department for technical set-asides.

The following Enterprise Fund had amounts owed to the fund from other state agencies at June 30, as follows:

The GRIP Administrative Fund had \$308,194 owed to the fund from the New Mexico Department of Transportation for administrative fees on the New Mexico Department of Transportation (NMDOT) Series 2004A, B, and C bond issues completed by the Authority on behalf of the NMDOT.

**NOTE 8. TRANSFERS TO OTHER STATE AGENCIES**

The following debt service funds transferred these amounts to other state agencies for the year ended June 30, 2004:

The Worker Compensation Financing Fund transferred \$778,335 in order to rebate excess debt service funds back to the entity.

The Insurance Department Financing Fund transferred \$758,095 in order to rebate excess debt service funds back to the entity.

The Administrative Fee Revenue Program Fund (TRIMS Project) transferred \$20,008 in order to rebate excess debt service funds back to the entity. The bond issue related to this fund was paid off in fiscal year 2003.

The Metro Court Financing Fund transferred \$1,500,000 in order to rebate excess debt service funds back to the Bernalillo County Metro Court. Additionally, \$18,402,751 was transferred to the Metro Court Administrator for the construction and equipping of the new Bernalillo County Metropolitan Court Building and Metropolitan Court Parking Facility.

The State Building Purchase Fund transferred \$16,126,214 in program fund requests to various entities and a \$4,187,748 reversion to New Mexico State University.

The UNM Health Sciences Fund transferred \$9,313,000 in program fund requests to the entity.

The Court Automation Financing Fund transferred \$32,037 in order to rebate excess debt service funds back to the entity.

**NEW MEXICO FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8. TRANSFERS TO OTHER STATE AGENCIES (CONTINUED)**

The following enterprise fund transferred these amounts to other state agencies for the year ended June 30, 2004:

The Drinking Water Revolving Loan Fund transferred \$2,345,384 to the Environment Department for technical assistance performed in the Drinking Water Revolving Loan Fund.

**NOTE 9. CAPITAL ASSETS**

The capital asset activity for the year is as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Enterprise Funds				
Depreciable assets				
Furniture, fixtures and equip- ment at historical cost	\$ 255,789	44,933	-	300,722
Net fixed				
Accumulated depreciation:				
Furniture, fixtures and equip- ment	(225,733)	(28,966)	-	254,699
Capital assets, net	<u>\$ 30,056</u>	<u>15,967</u>	-	<u>46,023</u>

Depreciation expense was \$15,344 in the Operating Fund, \$8,763 in the PPRF Funds and \$4,859 in the Drinking Water Revolving Loan Fund for the year ended June 30, 2004.

**Governmental Funds**

Depreciable assets

Furniture, fixtures and equip- ment at historical cost	\$ -	36,424	-	36,424
Net fixed				

Accumulated depreciation:

Furniture, fixtures and equip- ment	-	(13,414)	-	(13,414)
Capital assets, net	<u>\$ -</u>	<u>23,010</u>	-	<u>23,010</u>

Depreciation expense was \$6,196 in the Water/Wastewater Grant Fund, \$4,984 in the Water Trust Fund, \$876 in the Emergency Drought Relief Fund, and 1,358 in the Water Planning Grant Fund for the year ended June 30, 2004.

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

**NOTE 10. BONDS PAYABLE**

Bonds outstanding as of June 30, 2004, for the Authority's enterprise funds consist of:

*Public Project Revolving Funds (PPRF).*

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

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

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

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

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

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

**NOTE 10. BONDS PAYABLE (CONTINUED)**

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

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

*PPRF Series 2004A.* On January 28, 2004, the Authority issued \$43,400,000 of Public Projects Revolving Fund series 2004A Revenue bonds. The series 2004A were issued to (i) reimburse the Public Projects Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of financing public projects, and (ii) finance the costs of issuance of the Series 2004A bonds.

*PPRF Series 2004B.* On June 9, 2004, the Authority issued \$49,540,000 of Public Projects Revolving Fund series 2004B Revenue bonds. The series 2004B were issued to (i) reimburse the Public Project Revolving Fund for loans made by the NMFA to certain governmental entities for the purpose of financing public projects, and (ii) finance the costs of issuance of the Series 2004B bonds.

Bonds outstanding as of June 30, 2004, to be paid out of the Authority's debt service funds consist of the following:

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

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

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

**NOTE 10. BONDS PAYABLE (CONTINUED)**

*Insurance Department Financing Fund.* On May 23, 1996, the Authority issued \$525,000 of New Mexico Finance Authority Insurance Department Surcharge Revenue Bonds, which was refunded on December 1, 1998 and reissued at \$400,000, to finance information and communication equipment for the New Mexico Department of Insurance. A \$3 surcharge on insurance agent's annual fee is the only pledged revenue source for the repayment of the bonds and is paid to the Authority. The bond was paid off during 2003 and the fund closed out in 2004.

*Administrative Fee Revenue Program Fund (TRIMS Project) Series 1997A and 1999A.* On September 11, 1997 and September 20, 1999, the Authority issued \$17,440,660 and \$16,269,140 of New Mexico Finance Authority (TRIMS Project) revenue bonds, respectively. The bonds were issued to finance an information management system to assist in tax collections to be used by the New Mexico Taxation and Revenue Department (NMTRD). The principal and interest on the bonds are payable solely from and secured solely by the pledged revenues, which include revenues from administrative fees payable to and withheld by NMTRD from collections of municipal and country local option gross receipts taxes, and administrative fees from collections of solid waste assessment fees, boat excise tax and registration fees, tax intercept payments and water conservation fees, as well as proceeds of bonds and investment earnings on the proceeds and revenues. The bond was paid off during 2003 and the fund closed out in 2004.

*Highway 44 Financing Fund.* On September 1, 1998, the Authority issued \$100,230,000 of Federal Highway Grant Anticipation Revenue Bonds. The bonds were issued to finance the cost of an infrastructure project, which includes the acquisition, construction, expansion and improvement of approximately 123 miles of New Mexico Highway 44 from two lanes to four lanes by the New Mexico State Highway and Transportation Department (NMSHTD), and are payable solely from the Authority's rights to payments under a Loan Agreement between the Authority and NMSHTD. The obligations of NMSHTD under the Loan Agreement are payable solely from and secured by a pledge, which consist of revenues received by or on behalf of NMSHTD pursuant to Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law. This bond was defeased on May 20, 2004 and the fund was closed out in 2004.

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

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

**NOTE 10. BONDS PAYABLE (CONTINUED)**

*Federal Highway Forest Road Financing Fund.* On February 1, 2001, the Authority issued \$18,535,000 of New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds, Series 2001. The Bonds were issued for the purpose of financing the cost of an infrastructure project, which includes the design, reconstruction, expansion and improvement of all or parts of U.S. Highway 70 (Forest Highway 34), U.S. Highway 64 (Forest Highway 9), New Mexico Highway 126 (Forest Highway 12) and New Mexico Highway 12 (Forest Highway 21). This bond was defeased on May 20, 2004 and the fund was closed out in 2004.

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

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



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

**NOTE 10. BONDS PAYABLE (CONTINUED)**

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

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

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

Bonds outstanding are direct obligations of the Authority for which its full faith and credit are pledged and are payable from pledged tax revenues of various entities. Total interest expense incurred on bonds in the enterprise funds, debt service funds, and special revenue funds were \$8,972,738, \$7,571,074 and \$93,300, respectively, for the year ended June 30, 2004.

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

**NOTE 10. BONDS PAYABLE (CONTINUED)**

Bonds payable and related premium/discount balances consist of the following at June 30, 2004:

	Amount	Interest Rate	Final Maturity
Enterprise funds			
PPRF 1997A	\$ 6,270,000	4.25-4.90	June 1, 2017
PPRF 1999A, B, C and D	16,215,000	3.30-6.30	June 1, 2018
PPRF 2000A	2,755,000	4.10-5.30	June 1, 2009
PPRF 2000B and C	16,474,838	4.75-5.50	June 1, 2030
PPRF 2002A	40,750,000	2.00-5.00	June 1, 2026
PPRF 2003A	36,312,000	2.00-4.75	June 1, 2032
PPRF 2003B	41,540,000	2.00-4.00	June 1, 2021
PPRF 2004A	42,105,000	2.25-5.85	June 1, 2022
PPRF 2004B	49,540,000	3.00-5.13	June 1, 2022
Bond premium and discount, net on enterprise funds	<u>3,567,525</u>		
	<u>255,529,363</u>		
To be paid out of Debt Service funds			
Special Cigarette Tax Revenue Bond	1,200,000	4.80-5.25%	June 1, 2006
Workers Compensation Financing Fund	3,310,000	5.00-5.60	Sept. 1, 2016
State Capitol Improvement Financing Fund	7,455,000	7.00	March 15, 2015
UNM Health Sciences	39,035,000	5.00-5.60	Sept. 1, 2016
Equipment Loan Fund	2,058,000	4.50-6.30	Various
Metro Court	54,685,000	4.00-5.00	June 1, 2021
State Building Purchase Fund	<u>31,435,000</u>	1.65-6.25	June 15, 2025
	139,178,000		
Bond premium and discount, net on debt service funds	<u>4,351,673</u>		
	<u>143,529,673</u>		
Total	<u>\$ 399,059,036</u>		

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

**NOTE 10. BONDS PAYABLE (CONTINUED)**

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

	Principal	Interest	Total
2005	\$ 32,418,931	17,128,892	49,547,823
2006	26,372,715	16,339,533	42,712,248
2007	25,939,154	15,423,274	41,362,428
2008	24,642,553	14,391,486	39,034,039
2009-2013	117,511,193	57,786,033	175,297,226
2014-2018	95,151,718	32,654,555	127,806,273
2019-2023	56,554,640	13,271,415	69,826,055
2024-2028	18,101,402	2,599,364	20,700,766
2029-2032	2,325,924	397,494	2,723,418
2033	40,806	2,050	42,856
	<u>\$ 399,059,036</u>	<u>169,994,096</u>	<u>569,053,132</u>

The bonds payable and the related premium/discount activity for the year are as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Enterprise Funds	\$ 215,224,046	94,843,764	(54,538,447)	<b>255,529,363</b>
Debt Service Funds	<u>182,144,321</u>	<u>41,084,291</u>	<u>(79,698,939)</u>	<b>143,529,673</b>
	<u>\$ 397,368,367</u>	<u>135,928,055</u>	<u>(134,237,386)</u>	<b>399,059,036</b>

The following bonds (more fully disclosed in note 16) were issued by the Authority in an agency capacity and are not included in the Authority's financial statements:

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

*State Transportation Series 2004B Refunding Revenue Bonds.* On May 20, 2004, the Authority issued \$237,950,000 of State Transportation series 2004B Refunding Revenue bonds. The series 2004B were issued to provide funds to refund and restructure certain outstanding bonds of the NMFA and the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is carried on the books of the New Mexico Department of Transportation and

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

**NOTE 10. BONDS PAYABLE (CONTINUED)**

are not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

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

**NOTE 11. OPERATING LEASES**

The Authority is committed under various lease agreements for office space, copying equipment and a vehicle. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2004 amounted to approximately \$132,000. Future minimum lease payments for these leases are as follows:

Year Ending June 30	
2005	\$ 132,196
2006	<u>7,525</u>
	<u>\$ 152,422</u>

**NOTE 12. RETIREMENT PLAN**

The Authority had established its own retirement plan since it cannot participate through the Public Employees Retirement Act (PERA) multiple employer public retirement system. The Authority also does not participate in the Retiree Health Care Act. This retirement plan was organized under Section 408(k) of the Internal Revenue Code. The retirement plan is not subject to the general claims of the creditors of the Authority. Each eligible employee participating in the plan must contribute 3% of their compensation. The Authority makes a contribution of 15% of their compensation. Employees can make a voluntary contribution of up to 4% of their compensation. The Authority also makes a 50% matching contribution on voluntary contributions. Employee contributions are 100% vested and the Authority contributions will vest 100% to the employee after five years. The contributions are invested in various mutual funds. The Authority's contributions for this retirement plan were \$99,057, \$104,809, and \$91,277, for the years

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

**NOTE 12. RETIREMENT PLAN (CONTINUED)**

ended June 30, 2004, 2003, and 2002, respectively. Substantially all full time employees participate in this plan.

Presented below is the June 30, 2004 Statement of Fiduciary Net Assets and Statements of Change in Net Assets:

**Statement of Fiduciary Net Assets**

**ASSETS**

Cash	\$ 46,674
Self directed accounts (cash and investments)	466,591
Participant loan receivable	<u>17,013</u>
<b>Total assets</b>	<b><u>\$ 530,278</u></b>

**NET ASSETS**

Pension plan participants' benefits	<u>\$ 530,278</u>
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**Statement of Changes in Net Assets:**

**ADDITIONS**

Investment earnings	\$ 2,589
Employer contributions	99,057
Employee contributions	<u>37,136</u>

<b>Total additions</b>	138,781
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**DEDUCTIONS**

Distributions to participants	74,347
Investment expenses	<u>5,413</u>

<b>Total deductions</b>	79,760
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<b>Change in net assets</b>	59,021
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Net assets – beginning	<u>471,257</u>
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<b>Net assets – ending</b>	<b><u>\$ 530,278</u></b>
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**NEW MEXICO FINANCE AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2004**

**NOTE 13. CONTINGENCIES**

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

The Authority is not subject to any legal proceedings, claims or liabilities at June 30, 2004.

**NOTE 14. COMPENSATED ABSENCES**

During the year ended June 30, 2004, the following changes occurred in the compensated absences liabilities:

Balance July 1, 2003	Increase	Decrease	Balance June 30, 2004
\$ 102,368	112,300	62,010	152,658

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

**NOTE 15. RESTATEMENT/RECLASSIFICATION**

A prior period restatement of \$1,554,477 was recorded to correct an overstatement of tax revenue in the Equipment Loan Fund in the 2003 financial statements.

The State Building Fund Program was reclassified from an Enterprise Fund to a Debt Service Fund as a result of a change in facts and circumstances in 2004. This resulted in a reclassification of equity of \$502,451 due to the differing accounting treatment applicable to the two funds types with respect to the costs of issuance, interest payable and bond premium associated with the bond. In addition, the reclassification resulted in an additional \$32,502,205 added to fund balance as the bond payable was no longer recorded in the fund financial statements.

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

**NOTE 16. AGENCY TRANSACTIONS**

**BOND ISSUES**

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

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

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

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

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

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

**NOTE 16. AGENCY TRANSACTIONS (CONTINUED)**

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

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

For the year ended June 30, 2004, the Authority has recorded \$308,794 in administrative fees related to the three bonds in the GRIP Administrative Fund (Proprietary Fund).

At June 30, 2004, the Authority has \$779,528,833 in cash at trustee related to these three bonds offset by accounts payable, debt service payable and funds held for the New Mexico Department of Transportation. The Authority has recorded these amounts in an agency fund.

**REFUNDING**

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

**INTEREST RATE SWAPS**

*Objective of the interest rate swaps.* As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2004, the Authority, on behalf of NMDOT, entered into interest rate swap agreements in connection with its \$200 million 2004 Series C variable interest rate on the bonds. The intention of the swap was to effectively change the variable rate revenue on the bonds to a synthetic fixed rate.



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

**NOTE 16. AGENCY TRANSACTIONS (CONTINUED)**

The Authority, on behalf of the NMDOT, entered into forward-starting interest rate exchange agreements totaling \$220,000,000. These agreements were entered into for the purpose of hedging the exposure of the NMDOT against interest rate fluctuations arising from the variable rates borne by variable rate bonds to be issued in the future.

Under the Forward Starting Swap Agreements, the Authority, on behalf of NMDOT, will be the fixed rate payor, paying the relevant Forward-Starting Counterparty a fixed rate of 4.732% per annum on the relevant notional amount beginning on December 15, 2006, and the Forward-Starting counterparty's amount beginning on December 15, 2006. There can be no assurance that the variable rate bond will be issued in the future, that such bonds will be in a principal amount equal to the aggregate notional amount of the Forward-Starting Swap Agreements or that the actual rate payable on such bonds will be the same as that payable by the relevant Forward-Starting Counterparty on the Forward-Starting Swap Agreements. If the actual rate payable on such bonds is less than that payable by the relevant Forward-Starting Counterparty, the NMDOT will need to use more Pledged Revenues to make the relevant payment than it would had it not entered into the relevant Forward-Starting Swap Agreement. The stated termination date under each Forward-Starting Swap Agreements will decline over the terms of the Forward-Starting Swap Agreements through December 14, 2026.

*Terms.* The Bonds and the \$200 million swap agreements mature on June 15, 2024, and the swaps' notional amount of \$200 million matches the \$200 million variable-rate bonds. The swaps were entered at the same time the bonds were issued. Starting in fiscal year 2023, the notional value of the swaps and the principal amount of the associated debt will decline. Under the swap, the Authority, on behalf of the NMDOT, pays the counterparties a fixed payment of 3.934% and receives a variable payment computed as 68% of the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable-rate coupons are based on The Bond Market Association Municipal Swap Index (BMA).

*Fair value.* Because interest rates have declined since execution of the swaps, the swaps including the Forward-Starting interest rate swap agreements had a negative fair value of approximately \$12,786,000 as of June 30, 2004. The swaps' negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds creating a lower synthetic interest rate. Because the interest rate on the NMDOT's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

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

**NOTE 16. AGENCY TRANSACTIONS (CONTINUED)**

*Credit risk.* As of June 30, 2004, the Authority, on behalf of the NMDOT, was not exposed to credit risk because the swaps have a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Authority, on behalf of the NMDOT, would be exposed to credit risk in the amount of the derivatives' fair value. The swap counterparties were rated not less than Aa3 from Moody's investor Service and not less than AA-from Standard & Poor's (S&P) as of June 30, 2004. To mitigate the potential for credit risk, if the counterparty's credit quality falls below BBB-from S&P or Baa3 from Moody's Investor Services, the fair value of the swaps will be fully collateralized by the counterparties with US government securities. Collateral would be posted with a third-party custodian.

*Basis risk.* The swaps exposes the Authority, on behalf of the NMDOT, to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.934% and the synthetic rate as of June 30, 2004 of 4.2252%. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2004, the BMA rate was 1.05%, whereas 68% of LIBOR was 1.6%.

*Termination risk.* The Authority, on behalf of the NMDOT, or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may be terminated by the Authority, on behalf of the NMDOT if the counterparty's credit quality rating falls below "BBB-1" from S&P or "Baa3" as issued by Moody's Investors Service. If the swaps are terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swaps have a negative fair value, the Authority, on behalf of the NMDOT, would be liable to the counterparties for a payment equal to the swaps' fair value.

*Swap payments and associated debt.* Using rates as of June 30, 2004, debt service requirements of the variable-rate debt and net swap payments, *assuming current interest rates at June 30, 2004 remain the same* for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

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

**NOTE 17. SUBSEQUENT EVENTS**

After June 30, 2004, the Authority issued the following PPRF Direct Loans, Federal Drinking Water Loans, Water Wastewater Grants, Planning Fund Grants, and Primary Care Loans:

	Closing Date	Amount
<b>PPRF Cash Loans</b>		
City of Albuquerque Equipment Acquisition Project	7/13/04	\$ 5,800,000
Dexter Consolidated School District Building Project	7/23/04	520,000
Village of Angel Fire Road Improvement Project	8/6/04	1,105,557
Town of Bernalillo Wastewater Project	8/6/04	555,556
Farmington Municipal School District Building Project	8/13/04	4,500,000
Village of Grady Equipment Acquisition Project	8/20/04	222,223
Town of Carrizozo Equipment Acquisition Project	8/20/04	30,000
City of Rio Rancho Equipment Acquisition Project	8/20/04	215,556
Des Moines Municipal School District No. 22 Infrastructure Project	8/20/04	175,000
City of Santa Rosa Equipment Acquisition Project (Interim)	8/20/04	119,880
Cuba Independent School District Building Project	8/27/04	450,000
Guadalupe County Equipment Acquisition Project	8/27/04	444,445
Guadalupe County Building Project	8/27/04	458,132
Colfax County - Philmont Fire District No. 1 Equipment Acquisition Project	8/27/04	311,112
Colfax County - French Tract District No. 5 Equipment Acquisition Project	8/27/04	166,667
Mosquero Municipal School District No. 5 Building Project	8/27/04	260,000
Village of Logan Equipment Acquisition Project (Interim)	8/27/04	70,000
East Rio Arriba SWCD Equipment Acquisition Project (Interim)	8/27/04	9,748
City of Albuquerque Building Project	9/9/04	5,700,000
Valencia County - Tome Adelino FD Equipment Acquisition Project	9/17/04	130,000
City of Raton Equipment Acquisition Project	9/17/04	73,000
Springer Municipal School District No. 24 Education Technology Project	9/17/04	250,000
Valencia County - El Cerro VFD Equipment Acquisition Project	9/17/04	194,445
Jicarilla Apache Utility Authority Water Project	9/20/04	11,415,429
City of Truth or Consequences Electric Project	9/20/04	1,625,693
City of Santa Fe Infrastructure Project	9/24/04	5,107,652
City of Santa Fe	9/24/04	579,000
City of Aztec Building Project	9/24/04	1,679,942
New Mexico State Fair/Expo New Mexico Infrastructure Project	9/30/04	5,555,556
Miners' Colfax Medical Center Building Project	10/8/04	10,822,812
City of Las Cruces Infrastructure Project	10/8/04	418,724
Albuquerque Bernalillo County WUA Water Project	10/13/04	108,415,000
Otero County Vehicle Acquisition Project	10/15/04	52,000
Carrizozo Municipal School District No. 7 Building Renovations	10/29/04	150,000
Hatch Valley Public Schools Building Renovations	10/29/04	450,000
		<u>\$ 168,033,129</u>
<b>Emergency Drought Relief</b>		
Blanco MDWC and MSWA Emergency Water Project	8/20/04	\$ 255,000
		<u>\$ 255,000</u>

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

**NOTE 17. SUBSEQUENT EVENTS (CONTINUED)**

	Closing Date	Amount
<b>Federal Drinking Water</b>		
Roosevelt County Water Cooperative, Inc. Water Project	9/17/04	\$ 297,710
City of Santa Fe Buckman Supplemental Wells #10-13	9/24/04	7,070,000
Albuquerque Bernalillo County WUA Water Project	10/13/04	10,000,000
<b>Total Federal Drinking Water</b>		<u>\$ 17,367,710</u>
<b>Planning Grants</b>		
White Cliffs MDWCA	7/16/04	\$ 25,000
Coyote Creek MDWUA	7/23/04	25,000
Ensenada Mutual Domestic Water Association	7/30/04	11,250
Town of Elida	8/20/04	25,000
<b>Total Planning Grants</b>		<u>\$ 86,250</u>
<b>Water Wastewater Grants</b>		
Village of Grady Water Project	7/23/04	\$ 47,250
Dona Ana MDWCA Wastewater Project	7/23/04	400,000
Village of Floyd Water Storage Tank	8/20/04	172,770
City of Sunland Park Emergency Water Project	8/20/04	400,000
Gonzales Ranch MDWCA Water Project	8/27/04	428,490
Chamberino MDWC Water Project	10/22/04	21,563
<b>Total Water Wastewater Grants</b>		<u>\$ 1,470,073</u>
<b>Water Project Fund/Water Trust Board</b>		
Taos Valley Regional Water San Juan/Chama Diversion Project	7/23/04	\$ 1,700,000
Edgewood SWCD Watershed Restoration and Management	7/1/04	160,000
Santo Domingo Pueblo	7/22/04	1,148,000
Santo Domingo Pueblo	7/22/04	2,587,000
Middle Rio Grand Endangered Species Program	8/6/04	1,500,000
Ute Creek Soil and Water	9/3/04	328,279
<b>Total Water Project Fund/Water Trust Board</b>		<u>\$ 7,423,279</u>
<b>Cigarette Tax Revenue Bonds Series 2004B</b>		
	9/22/04	\$ 10,000,000
<b>Total Cigarette Tax Revenue Bonds Series 2004B</b>		<u>\$ 10,000,000</u>
<b>PPRF Revenue Bonds Series 2004C</b>		
	10/13/04	\$ 168,890,000
<b>Total PPRF Revenue Bonds Series 2004C</b>		<u>\$ 168,890,000</u>

**NEW MEXICO FINANCE AUTHORITY  
AGENCY FUND  
YEAR ENDED JUNE 30, 2004**

**ASSETS**

Cash at Trustee	
Program funds	\$ 737,181,359
Expense funds	342,153
Bond reserve funds	<u>42,005,321</u>
<b>Total assets</b>	<b>\$ <u>779,528,833</u></b>

**LIABILITIES**

Accounts payable	\$ 283,048
Debt service payable	42,064,426
Funds held for the New Mexico Department of Transportation	<u>737,181,359</u>
<b>Total liabilities</b>	<b>\$ <u>779,528,833</u></b>

*See Notes to Financial Statements.*

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

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

See Notes to Financial Statements.

Emergency Drought Relief	Equipment Loan Fund	Insurance Department Financing Fund	State Capitol Improvement Financing Fund	Water Planning Grant	Workers' Compensation Financing Fund	Total Other Governmental Funds
494,515	\$ -	-	355,009	1,826,643	\$ 615,827	3,291,994
-	211,004	-	83,374	-	12,346	306,724
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	500,000
494,515	211,004	-	438,383	1,826,643	628,173	4,098,718
-	34,476	-	-	-	-	57,977
-	-	-	-	-	172,377	172,377
-	-	-	-	-	-	-
-	-	-	-	-	14	59,423
-	-	-	-	-	361,900	361,900
-	34,476	-	-	-	534,291	651,677
494,515	\$ 245,480	-	438,383	1,826,643	\$ 1,162,464	4,750,395
34,595	\$ -	-	80,263	5,631	-	216,739
-	-	-	-	-	-	23,388
-	-	-	-	-	-	-
-	-	-	-	-	-	59,409
-	-	-	-	-	-	-
3,008	-	-	-	-	-	3,008
-	-	-	-	-	-	-
37,603	-	-	80,263	5,631	-	302,544
-	245,480	-	358,120	-	1,162,464	1,766,064
456,912	-	-	-	1,821,012	-	2,681,787
456,912	245,480	-	358,120	1,821,012	1,162,464	4,447,851
494,515	\$ 245,480	-	438,383	1,826,643	1,162,464	4,750,395

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

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

See Notes to Financial Statements.



Emergency Drought Relief	Equipment Loan Fund	Insurance Department Financing Fund	State Capitol Improvement Financing Fund	Water Planning Grant	Workers' Compensation Financing Fund	Total Other Governmental Funds
\$ -	651,251	71,763	1,079,630	-	1,014,165	3,316,809
255,000	-	-	-	1,000,000	-	1,255,000
-	-	-	-	-	-	-
5,758	22,856	3,647	5,823	22,611	37,323	98,521
-	-	-	-	-	-	-
<u>260,758</u>	<u>674,107</u>	<u>75,410</u>	<u>1,085,453</u>	<u>1,022,611</u>	<u>1,051,488</u>	<u>4,670,330</u>
-	10,454	-	19,449	-	8,689	38,592
-	-	(9,047)	-	21,315	1,424	69,403
29,528	-	-	-	13,147	-	53,410
592	-	-	-	28	-	1,559
290	-	-	-	221	-	686
8,199	-	-	-	7,048	-	18,094
59,842	-	-	-	160,031	-	219,873
<u>98,451</u>	<u>10,454</u>	<u>(9,047)</u>	<u>19,449</u>	<u>201,790</u>	<u>10,113</u>	<u>401,617</u>
-	584,000	-	430,000	-	165,000	1,179,000
-	129,351	-	544,600	-	183,128	857,079
-	-	-	-	-	-	-
-	<u>713,351</u>	-	<u>974,600</u>	-	<u>348,128</u>	<u>2,036,079</u>
<u>162,307</u>	<u>(49,698)</u>	<u>84,457</u>	<u>91,404</u>	<u>820,821</u>	<u>693,247</u>	<u>2,232,634</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	(1,179)
-	-	(758,095)	-	-	(778,335)	(1,588,475)
-	-	(758,095)	-	-	(778,335)	(1,589,654)
<u>162,307</u>	<u>(49,698)</u>	<u>(673,638)</u>	<u>91,404</u>	<u>820,821</u>	<u>(85,088)</u>	<u>642,980</u>
294,605	1,849,655	673,638	266,716	1,000,191	1,247,552	5,359,348
-	(1,554,477)	-	-	-	-	(1,554,477)
<u>294,605</u>	<u>295,178</u>	<u>673,638</u>	<u>266,716</u>	<u>1,000,191</u>	<u>1,247,552</u>	<u>3,804,871</u>
\$ <u>456,912</u>	<u>245,480</u>	<u>-</u>	<u>358,120</u>	<u>1,821,012</u>	<u>1,162,464</u>	<u>4,447,851</u>

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

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

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

<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	66.648	<u>\$ 3,149,411</u>

**NOTE A. SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B. FUNDS PASSED THROUGH TO SUBRECIPIENTS**

Federal expenditures include funds passed through to subrecipients as follows:

CFDA Number	Subrecipient	Amount
66.648	New Mexico Environment Department	\$ 2,345,384

**NOTE C. LOANS FUNDED**

	Original Balance	Balance at June 30, 2004
Revolving Loans		
Loans funded in previous years	\$ 19,382,563	17,771,249
Loans funded in current year		
Northstar DWC & MSW Coop	<u>1,779,798</u>	<u>1,779,798</u>
<b>Total loans funded</b>	<u>\$ 21,162,361</u>	<u>19,551,047</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  
6100 UPTOWN BLVD NE SUITE 400  
ALBUQUERQUE, NM 87110

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

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

We have audited the financial statements of the New Mexico Finance Authority (Authority), as of and for the year ended June 30, 2004, and have issued our report thereon dated December 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance

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

with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Neff + Ricci LLP*

Albuquerque, New Mexico  
December 3, 2004

# NEFF + RICCI LLP

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

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

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

### Compliance

We have audited the compliance of the New Mexico Finance Authority (Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

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

In our opinion, the Authority complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 04-01.

Internal Control Over Compliance

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

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

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

*Neff + Ricci LLP*

Albuquerque, New Mexico  
December 3, 2004

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

<b>Comment</b>	<b>Current Status</b>
03-1 Information Systems Security Policy	Resolved
03-2 Information Systems Disaster Recovery Policy	Resolved



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

**A. SUMMARY OF AUDIT RESULTS**

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

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

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

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

**B. FINDINGS-FINANCIAL STATEMENT AUDIT**

None

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

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

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

**CONDITION**

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

**CRITERIA**

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

**CAUSE**

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

**EFFECT**

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

**RECOMMENDATION**

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

**MANAGEMENT RESPONSE**

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

**NEW MEXICO FINANCE AUTHORITY  
EXIT CONFERENCE  
June 30, 2004**

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

New Mexico Finance Authority Personnel

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

Neff + Ricci LLP Personnel

Scott Eliason, Senior Manager

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