



State of New Mexico
OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

March 13, 2006

SAO Ref. No. 385

William C. Sisneros, Executive Director
New Mexico Finance Authority
207 Shelby Street
Santa Fe, NM 87505

SUBJECT: Audit Report—New Mexico Finance Authority—2004-2005 Fiscal Year—Prepared by
Meyners & Company, LLC

Your agency audit report was received by the Office of the State Auditor (Office) on January 10, 2006. 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.

As per your written request, this office is waiving the ten (10) day waiting period and is making the report public record immediately. The audit report will 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.J.(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 pages 90 - 98. **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
Meyners & Company, LLC

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NEW MEXICO
FINANCE AUTHORITY
Financial Statements
for the Year Ended
June 30, 2005,
and Independent
Auditors' Report

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Year Ended June 30, 2005

Governing Board

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

Executive Director

William C. Sisneros

Chief Operations Officer

Jerome Trojan

Chief Financial Officer

Joseph Gosline



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INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

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

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

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

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

Mayne + Company, LLC

December 9, 2005

NEW MEXICO FINANCE AUTHORITY

Management's Discussion and Analysis

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

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

Financial Highlights

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

Authority Highlights

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

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

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

Authority Highlights - continued

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

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

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

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

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

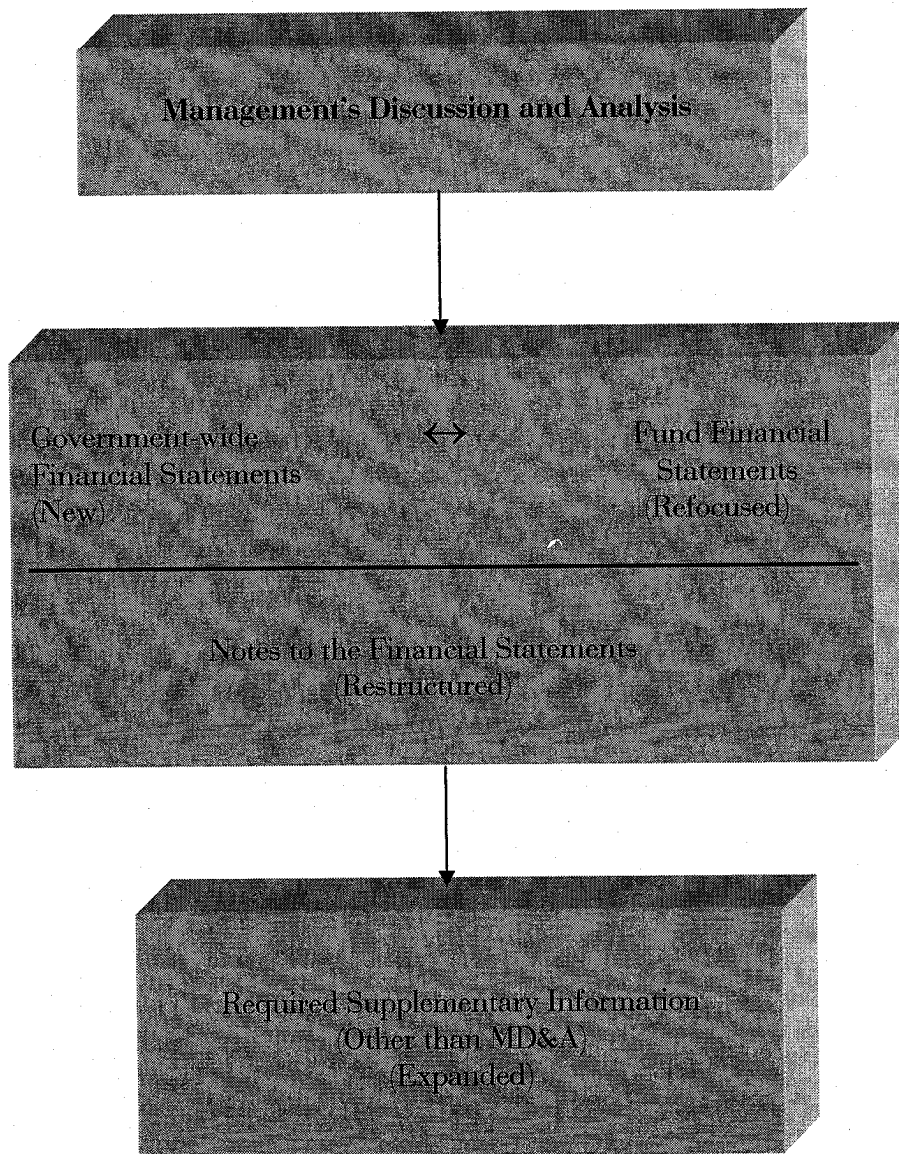
NEW MEXICO FINANCE AUTHORITY

Management's Discussion and Analysis

Using This Annual Report

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

Using This Annual Report - continued



Management's Discussion and Analysis

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

Government-Wide Financial Statements - continued

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

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

Fund Financial Statements

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

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

Fund Financial Statements - continued**Governmental Fund Types:**

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

- **Special Revenue Funds** - The Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Authority's funds classified as Special Revenue funds are the UNM Cancer Center Bond Fund, the Water/Wastewater Grant Fund, the Water Planning Fund, the Emergency Drought Relief Fund, the Water Projects Fund (accounted for within the Water Trust Fund) and the Economic Development Fund.
- **Debt Service Funds** - The Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs. The funds classified as Debt Service funds are the UNM Health Sciences Fund, the Metro Court Financing Fund, the Workers Compensation Building Financing Fund, the State Capitol Improvement Financing Fund and the Equipment Certificate of Participation (COP) Funds.

Proprietary Fund Types:

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

Notes to the Financial Statements

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

Budgetary Comparisons

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

Required Supplementary Information (Other than MD&A)

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

NEW MEXICO FINANCE AUTHORITY

Management's Discussion and Analysis

Financial Analysis Of The Authority As A Whole

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

Table A-1
The Authority's Net Assets

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

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

NEW MEXICO FINANCE AUTHORITY

Management's Discussion and Analysis

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

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

Governmental-Type Activities

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

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

Business Type Activities

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

Capital Assets and Debt Administration

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

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

Long-Term Debt

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

Bond Ratings

The Authority's insured bond ratings are as follows:

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

The Authority's uninsured bond ratings are:

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

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

Economic Factors and Next Year's Budgets and Rates

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

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

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

Contacting the Authority's Financial Management

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

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

FINANCIAL STATEMENTS

NEW MEXICO FINANCE AUTHORITY

Statement of Net Assets

AS OF JUNE 30, 2005

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

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY

Statement of Activities

YEAR ENDED JUNE 30, 2005

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

AS OF JUNE 30, 2005

Major Funds

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

NEW MEXICO FINANCE AUTHORITY

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

YEAR ENDED JUNE 30, 2005

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$ 71,557,338
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

The cost of capital assets is:	147,875
Accumulated depreciation is:	<u>(29,067)</u>
Total capital assets	118,808

Bond issuance costs are included in the current period and, therefore, not capitalized as assets in the funds	3,032,008
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Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term and other liabilities at year end consist of:

Bonds payable, net of premium of \$2,163,465	(134,928,465)
Accrued interest payable	<u>(757,854)</u>
Total long-term and other liabilities	<u>(135,686,319)</u>

Net assets of governmental activities (Statement of Net Assets)	\$ <u>(60,978,165)</u>
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Statement of Revenues, Expenses and Changes
in Fund Balances - Governmental Funds

YEAR ENDED JUNE 30, 2005

Major Funds

	Metro Court Financing Fund	State Building Program Cigarette Tax Fund	State Office Building Financing Fund	UNM Health Sciences Fund	Water Project Fund	Water and Wastewater Project Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Grant revenue	-	-	-	-	430,272	-	713,056	1,143,328
Interest on loans	-	-	-	-	-	-	-	-
Interest on investments	71,427	113,922	333,719	1,049,967	350,989	738,338	89,294	2,752,656
Other revenue	-	-	-	-	-	-	10,032	10,032
TOTAL REVENUES	71,427	113,922	333,719	1,049,967	781,261	738,338	812,332	3,906,016
EXPENDITURES:								
Current:								
Administrative fee	138,469	-	47,153	137,759	-	-	18,350	341,731
Professional services	6,915	12,315	1,428	19,774	72,056	170,269	237,035	519,792
Salaries and fringe benefits	-	-	-	-	92,755	70,308	64,914	227,972
In state travel	-	-	-	-	6,865	3,765	2,073	12,703
Out-of-state travel	-	-	-	-	804	1,195	4,277	6,276
Maintenance and repairs	-	-	-	-	1,539	1,419	1,990	4,948
Operating costs	-	-	-	-	24,653	20,928	28,114	73,695
Grant expenses	-	-	-	-	1,538,946	10,999,193	561,732	13,099,871
Capital outlay	-	-	-	-	26,351	25,840	67,018	119,209
Debt service - principal	8,360,000	600,000	1,265,000	4,760,000	-	-	1,258,296	14,985,000
Debt service - interest	2,774,066	62,310	1,542,536	1,438,648	-	-	772,615	7,076,406
Bond issuance costs	-	-	-	453,461	-	-	-	453,461
TOTAL EXPENDITURES	11,279,450	675,125	2,856,167	6,314,642	1,763,969	11,292,912	3,016,414	37,638,679
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(11,208,023)	(556,203)	(2,522,448)	(5,764,675)	(982,708)	(10,554,574)	(2,204,082)	(33,792,663)
OTHER FINANCING SOURCES (USES):								
Bond proceeds	-	-	-	10,000,000	-	-	-	10,000,000
State General Fund appropriations	6,495,663	1,242,405	6,000,000	10,271,553	-	-	2,170,381	26,180,002
Transfers (to) from other funds	2,317,181	(666,461)	-	(43,734,149)	(57,870)	(49,355)	45,305	1,588,800
Transfer to other state agencies	(1,728,888)	(94,150)	(4,666,706)	-	-	-	(738,571)	(50,962,464)
NET OTHER FINANCING SOURCES (USES)	7,083,956	481,794	1,333,294	(23,462,596)	(57,870)	(49,355)	1,477,115	(13,193,662)
NET CHANGE IN FUND BALANCES	(4,124,067)	(74,409)	(1,189,154)	(29,227,271)	(1,040,578)	(10,603,929)	(726,917)	(46,986,325)
FUND BALANCES, June 30, 2004	6,744,437	2,886,131	16,464,884	30,558,294	16,996,627	39,930,562	9,947,738	117,528,663
PRIOR PERIOD ADJUSTMENT							1,015,000	1,015,000
FUND BALANCES, June 30, 2004, as restated	6,744,437	2,886,131	16,464,884	30,558,294	16,996,627	39,930,562	4,962,738	118,543,663
FUND BALANCES, June 30, 2005	2,620,370	2,811,722	15,275,730	1,331,013	15,956,049	29,326,633	4,235,821	71,557,338

NEW MEXICO FINANCE AUTHORITY

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

YEAR ENDED JUNE 30, 2005

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ (46,986,325)

Amounts reported for governmental activities in the Statement of Activities are different because:

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The decrease in the liabilities for the fiscal year was:

Bond proceeds provided current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Bond obligations were increased during the current fiscal year by: (10,000,000)

Governmental Funds report principal payments on debt service as expenditures. However, in the Statement of Activities these payments are reported as a reduction of the liability.

In the current period, these amounts were:

Principal payments	14,985,000
Other reductions (prepayments, etc.)	412,999

Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors: accrued interest on bonds and notes payable. The decrease in the liability for the fiscal year was: 95,831

NEW MEXICO FINANCE AUTHORITY

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



YEAR ENDED JUNE 30, 2005

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

NEW MEXICO FINANCE AUTHORITY

Statement of Net Assets - Enterprise Funds

AS OF JUNE 30, 2005

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	CRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
ASSETS:								
Current:								
Cash and cash equivalents	\$ 106,734	68,618,377	6,279,814	1,467,353	-	59,487	-	76,532,265
Receivables:								
Tax revenue	-	4,793,654	3,460	-	23,104	-	-	4,820,218
Interest	-	3,580,267	127,308	-	-	-	-	3,707,575
Grant and other	139,005	130,412	2,521,460	-	-	-	-	2,790,877
Due from other state agencies	-	24,069	-	72,917	-	-	-	96,986
Due from other funds	785,078	1,275,482	-	-	-	-	-	2,060,560
Administrative fees receivable	-	276,038	15,052	-	-	-	-	291,097
Total current assets	1,030,817	78,698,799	8,947,101	1,540,270	23,104	59,487	-	90,299,578
Loans receivable, net of allowance	-	435,730,919	16,812,533	-	5,353,237	460,865	-	458,357,554
Securities	-	12,761,663	-	-	-	-	-	12,761,663
Restricted assets - cash and cash equivalents	-	97,435,630	9,350,941	-	2,266,477	9,034	-	109,062,082
Escrow	-	47,544,110	-	-	-	-	-	47,544,110
Capital assets:								
Depreciable property and equipment, net	43,655	36,132	27,339	33,592	-	-	-	140,718
Deferred issuance costs, net	15,180	6,314,710	-	-	-	-	-	6,314,710
Other assets	-	-	-	-	-	-	-	15,180
TOTAL ASSETS	\$ 1,089,652	678,521,963	35,137,914	1,573,862	7,642,818	522,386	-	724,495,595
LIABILITIES:								
Accounts payable and other liabilities	38,744	799,574	156,614	342	-	-	4,527	999,801
Accrued payroll, fringe benefits and compensated absences	158,331	12,246	3,410	3,168	-	-	-	177,155
Accrued interest payable	-	1,565,982	-	-	-	-	-	1,565,982
Debt service payable	-	36,970,234	1,417,156	-	60,854	-	-	38,387,990
Funds held for others	-	58,297,200	1,433,504	-	-	7,923	-	59,799,481
Due to other state agencies	-	-	579,416	-	-	-	-	579,416
Due to other funds	-	238,986	46,284	30,692	-	-	3,752	319,714
Bonds payable, current	-	459,805,324	-	-	-	-	-	459,805,324
Bonds payable, long-term	197,075	557,689,546	3,636,384	34,202	60,854	7,923	8,279	561,634,263
TOTAL LIABILITIES	43,656	36,132	27,339	33,592	-	-	-	140,719
NET ASSETS:								
Invested in capital assets	-	-	-	-	-	-	-	-
Restricted for:								
Debt service	-	120,796,285	31,474,191	1,506,068	7,581,964	521,463	(8,279)	160,365,624
Program funds	848,921	-	-	-	-	-	-	2,354,989
Unrestricted	892,577	120,832,417	31,501,530	1,539,660	7,581,964	521,463	(8,279)	162,861,332
TOTAL NET ASSETS	\$ 1,089,652	678,521,963	35,137,914	1,573,862	7,642,818	522,386	-	724,495,595

See Notes to Financial Statements.

NEW MEXICO FINANCE AUTHORITY

State of Revenues, Expenses and Changes
in Fund Net Assets - Enterprise Funds

YEAR ENDED JUNE 30, 2005

	Operating Fund	Public Protect Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	CRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
INTEREST EARNINGS:								
Interest on loans	37,129	16,047,183	388,795	8,623	161,193	18,656	-	16,454,634
Interest on investments		1,669,370	243,409			999		2,120,723
TOTAL INTEREST EARNINGS	37,129	17,716,553	632,204	8,623	161,193	19,655	-	18,575,357
INTEREST EXPENSE:								
Debt service - interest expense		16,715,207						16,715,207
NET INTEREST EARNINGS	37,129	1,001,346	632,204	8,623	161,193	19,655	-	1,860,150
NON-INTEREST EARNINGS:								
Tax revenue		20,998,900						20,998,900
Federal grant revenue			2,980,048					2,980,048
Revolving loans grant revenue	1,344,184	275,978	87,008	1,636,202		1,695		3,345,067
Administrative fees	1,344,184	21,274,878	3,067,056	1,636,202		1,695		27,324,015
TOTAL NON-INTEREST EARNINGS	1,344,184	21,274,878	3,067,056	1,636,202		1,695		27,324,015
NON-INTEREST EXPENSE:								
Grant expense		1,468,698						1,468,698
Bond issuance costs		288,374						288,374
Administrative fee	192,978		181,725	95,063	1,913		8,238	479,917
Professional services	963,338	482,469	134,170	144,552				1,724,529
Loan interest expense		187	1,588					1,888
Salaries and fringe benefits	11,490	14,712	3,049	4,839			(13)	34,077
Technical set-aside expense	15,946	10,449	6,898	7,166				40,459
In-state travel	9,952	5,040	4,323	1,887				21,202
Out of state travel	30,921	50	5,608	3,065				39,644
Maintenance and repairs	151,646	983,643	65,744	25,309			54	1,226,486
Supplies	19,869	13,106	7,253	5,526				45,754
Operating costs								
Depreciation	1,396,140	3,266,728	410,358	287,497	1,913		8,279	5,370,915
TOTAL NON-INTEREST EXPENSE	1,396,140	3,266,728	410,358	287,497	1,913		8,279	5,370,915
TOTAL NON-INTEREST EARNINGS (EXPENSE) BEFORE TRANSFERS	(14,827)	19,009,496	3,288,902	1,857,328	159,280	21,350	(8,279)	23,813,250
TRANSFERS:								
Transfers in (out)	742,761	(9,519,577)	7,186,103		1,913			(1,588,800)
Transfer from (to) other state agencies			(2,569,960)					(2,569,960)
TOTAL TRANSFERS	742,761	(9,519,577)	4,616,143		1,913			(4,158,760)
CHANGE IN NET ASSETS	727,934	9,489,919	7,905,045	1,857,328	161,193	21,350	(8,279)	19,654,490
TOTAL NET ASSETS, June 30, 2004	164,643	108,128,621	23,596,485	182,332	7,420,771	500,113	-	139,992,965
Restatement of net assets		3,213,877						3,213,877
TOTAL NET ASSETS, June 30, 2004, as restated	164,643	111,342,498	23,596,485	182,332	7,420,771	500,113	-	143,206,842
TOTAL NET ASSETS, June 30, 2005	892,577	120,839,417	31,501,530	1,539,660	7,581,964	521,463	(8,279)	162,861,332

NEW MEXICO FINANCE AUTHORITY

Combined Statement of Cash Flows - Enterprise Funds

YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

	Operating Fund	Public Project Revolving Funds	New Mexico Drinking Water Revolving Loan Fund	GRIP Administrative Fund	Primary Care Capital Fund	Behavioral Health Capital Fund	Child Care Revolving Loan Fund	Total
Cash paid for employee services	(928,263)	(482,469)	(140,944)	(267,846)	-	-	-	(1,819,522)
Cash paid to vendors for services	(606,117)	(2,130,774)	(30,516)	(106,385)	(1,913)	-	-	(2,875,705)
Bond issuance costs	-	(288,374)	-	-	-	-	-	(288,374)
Interest expense paid	-	(15,964,478)	-	-	-	-	-	(15,964,478)
Grants awarded	-	(482,469)	2,554,902	-	-	-	-	2,072,433
Tax revenue	-	18,156,955	-	-	-	-	-	18,156,955
Cash received from federal government for revolving loans	37,129	17,063,202	632,204	8,623	138,089	19,655	-	17,898,902
Administrative fees received	671,211	-	47,622	1,872,079	-	1,695	-	2,592,607
	(826,040)	15,871,593	3,063,268	1,506,471	136,176	21,350	-	19,772,818

NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Operating transfers, net	742,818	(9,519,577)	4,616,143	-	1,913	-	-	(4,158,703)
Cash paid to subrecipients for services	-	3,120,704	-	-	(399,896)	(51,486)	-	3,120,704
Cash provided (used) by funds held for others	-	-	(5,847,856)	-	-	-	-	(6,299,238)

NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Securities	-	(1,022,154)	-	-	-	-	-	(1,022,154)
Escrow	-	(47,544,110)	-	-	-	-	-	(47,544,110)
Loans funded	-	(181,046,966)	-	-	-	-	-	(181,046,966)
Loan payments received	-	32,478,397	2,738,514	-	310,974	39,135	-	35,567,020
Bonds issued	-	227,945,000	-	-	-	-	-	227,945,000
Payment of bonds	-	(20,862,967)	(23,095)	-	(13,487)	(23,388)	-	(20,922,937)
Debt service	-	16,744,909	-	-	-	-	-	16,744,909
Fixed asset purchases	(41,160)	(34,437)	(26,663)	(39,118)	-	-	-	(141,378)
	(41,160)	26,657,672	2,688,756	(39,118)	287,487	15,747	-	29,579,384
	(124,382)	36,130,392	4,520,311	1,467,353	35,680	(14,389)	-	42,014,965

NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	231,116	129,924,115	11,110,444	-	2,230,797	82,910	-	143,579,382
	106,734	166,054,507	15,630,755	1,467,353	2,266,477	68,521	-	185,524,347

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES - OPERATING INCOME

Adjustments to operating income:	727,935	9,489,919	7,905,045	1,357,328	161,193	21,350	(8,279)	19,654,491
Depreciation and amortization	19,869	13,106	7,253	5,526	-	-	-	45,754
Bad debt expense	(742,818)	9,519,577	(4,616,143)	-	(1,913)	-	-	4,158,703
Net transfers	(680,543)	(4,513,515)	(464,532)	235,877	(23,104)	-	-	(5,445,817)
(Increase) decrease in prepaids and receivables	(150,483)	1,362,506	231,645	(92,260)	-	-	8,279	1,359,687
Increase (decrease) in payables and other accrued liabilities	(826,040)	15,871,593	3,063,268	1,506,471	136,176	21,350	-	19,772,818

NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES

NEW MEXICO FINANCE AUTHORITY

Statement of Agency Fund Assets and Liabilities

AS OF JUNE 30, 2005

Agency
Funds

ASSETS:

Cash at Trustee:

Program funds

Expense funds

Bond reserve funds

\$ 619,764,448

1,539,634

41,644,551

TOTAL ASSETS

\$ 662,948,633

LIABILITIES:

Accounts payable

Debt service payable

Funds held for the New Mexico

Department of Transportation

\$ 1,319,225

41,864,960

619,764,448

TOTAL LIABILITIES

\$ 662,948,633

NATURE OF ORGANIZATION

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

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

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

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

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

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

NATURE OF ORGANIZATION - continued

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Basic Financial Statements**

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

◆ Government-wide and Fund Financial Statements

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

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

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

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued***

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

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

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

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

◆ ***Basis of Presentation - Fund Accounting***

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Basis of Presentation - Fund Accounting - continued**

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

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

The Authority reports the following major governmental funds:

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

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

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

Special Revenue Funds - continued

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

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

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

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

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

Special Revenue Funds - continued

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

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

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

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

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

Debt Service Funds - continued

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Basis of Presentation - Fund Accounting - continued*****Debt Service Funds - continued***

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Basis of Presentation - Fund Accounting - continued*****Debt Service Funds - continued***

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Basis of Presentation - Fund Accounting - continued**

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Basis of Presentation - Fund Accounting - continued*****Enterprise Funds - continued***

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Basis of Presentation - Fund Accounting - continued*****Enterprise Funds - continued***

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Measurement Focus and Basis of Accounting**

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Measurement Focus and Basis of Accounting - continued**

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

◆ Cash and Cash Equivalents

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

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

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

◆ Securities

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Loans**

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

◆ Allowance for Loan Losses

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

◆ Restricted Assets

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

◆ Budgets and Budgetary Accounting

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Capital Assets**

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

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

◆ Income Taxes

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

◆ Compensated Absences

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

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

◆ Cash Flows

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Bond Discounts, Premiums and Issuance Costs**

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

◆ Fund Equity

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

◆ Net Assets

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

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

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

Unrestricted assets represent liquid assets.

◆ Use of Estimates

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

◆ **Interfund and Interagency Transactions**

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

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

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

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

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

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

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

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

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

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

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

3. LOANS RECEIVABLE - BUSINESS TYPE ACTIVITIES

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

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

◆ **Public Project Revolving Loan Fund**

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

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

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

◆ **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.

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

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

◆ **Primary Care Capital Fund - continued**

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

◆ **Drinking Water State Revolving Loan Fund**

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

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

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

◆ **Behavioral Health Capital Fund**

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

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

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

4. SECURITIES

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

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

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

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government securities which are backed by the full faith and credit of the U.S.

Government. Negotiable securities of the State of New Mexico or any county, municipality or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10F NMSA 1978, 6-10-10 NMSA 1978.

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

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

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

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

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

NEW MEXICO FINANCE AUTHORITY

Notes to Financial Statements - continued

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

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

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

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

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

6. TRANSFERS TO OTHER STATE AGENCIES

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

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

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

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

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

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

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

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

7. CAPITAL ASSETS

A summary of changes in capital assets follows:

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

7. *CAPITAL ASSETS - continued*

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

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

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

7. **CAPITAL ASSETS - continued**

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

8. **BONDS PAYABLE**

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

Public Project Revolving Funds (PPRF)

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

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

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

8. BONDS PAYABLE - continued***Public Project Revolving Funds (PPRF) - continued***

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

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

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

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

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

8. BONDS PAYABLE - continued***Public Project Revolving Funds (PPRF) - continued***

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

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

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

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

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

8. BONDS PAYABLE - continued

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

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

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

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

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

8. BONDS PAYABLE - continued

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

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

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

8. BONDS PAYABLE - continued

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

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

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

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

NEW MEXICO FINANCE AUTHORITY

Notes to Financial Statements - continued

8. **BONDS PAYABLE - continued**

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

	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>
Enterprise Funds:			
PPRF 1997A	\$ 5,870,000	4.25 - 5.00	6/1/2017
PPRF 1999A, B, C and D	14,370,000	3.30 - 6.30	6/1/2018
PPRF 2000A	2,215,000	4.10 - 5.30	6/1/2009
PPRF 2000B and C	12,985,000	4.35 - 5.60	6/1/2030
PPRF 2002A	33,080,000	2.00 - 5.00	6/1/2026
PPRF 2003A	34,590,000	2.00 - 4.75	6/1/2032
PPRF 2003B	25,570,000	2.00 - 5.00	6/1/2021
PPRF 2004A	39,975,000	1.125 - 5.00	6/1/2031
PPRF 2004B	47,575,000	3.00 - 5.125	6/1/2033
PPRF 2004C	165,280,000	2.50 - 5.00	6/1/2024
PPRF 2005C and D	<u>56,510,000</u>	3.05 - 5.00	Various
	438,020,000		
Bond premium and discount, net on enterprise funds	<u>21,785,324</u>		
Total	\$ <u>459,805,324</u>		
	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>
To be paid out of Debt Service funds:			
UNM Health Sciences	\$ 34,275,000	2.00 - 5.00	6/30/2019
UNM Health Sciences 2004B	10,000,000	2.10 - 5.50	6/30/2019
Workers' Compensation Financing Fund	3,135,000	5.00 - 5.60	3/1/2017
Metro Court	46,325,000	5.50 - 5.80	2025
State Capitol Improvement Financing Fund	6,990,000	7.00	3/15/2015
State Building Purchase Fund	30,170,000	4.00 - 5.00	6/1/2021
COP-Equipment Loan Fund Series 94A	-	4.55 - 6.45	11/1/2006
COP-Equipment Loan Fund Series 95A, 95B	631,000	4.05 - 5.40	10/1/2016
COP-Equipment Loan Fund Series 96A	110,000	3.85 - 5.20	4/1/2016
COP-Equipment Loan Fund Series 96B	529,000	4.50 - 5.70	4/1/2012
Cigarette Tax Revenue Bond	<u>600,000</u>	3.95 - 5.25	6/1/2006
	132,765,000		

NEW MEXICO FINANCE AUTHORITY

Notes to Financial Statements - continued

8. **BONDS PAYABLE - continued**

	<u>Amount</u>
Bond premium and discount, net on Debt Service Funds	<u>2,163,465</u>
Total	\$ <u>134,928,465</u>

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

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

The bonds payable activity for the year is as follows:

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

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

8. BONDS PAYABLE - continued

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

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

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

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

9. OPERATING LEASE COMMITMENT

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

9. **OPERATING LEASE COMMITMENT - continued**

Future minimum lease payments for these leases are as follows:

Years ending June 30:

2006	\$	275,748
2007		275,748
2008		273,832
2009		270,000
2010		202,500
2011 and thereafter		<u> -</u>
	\$	<u>1,292,828</u>

10. **RETIREMENT PLAN**

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

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

NEW MEXICO FINANCE AUTHORITY

Notes to Financial Statements - continued

10. *RETIREMENT PLAN - continued*

Statement of Fiduciary Net Assets

Assets:

Cash	\$	20,331
Self-directed accounts (cash and investments)		835,716
Participant loan receivable		<u>33,914</u>

Total assets	\$	<u>889,961</u>
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Net assets:

Pension plan participants' benefits	\$	<u>889,961</u>
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Statement of Changes in Net Assets

Additions:

Investment earnings	\$	57,412
Employer contributions		204,975
Employee contributions		<u>61,693</u>

Total additions		<u>324,080</u>
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Deductions:

Distributions to participants		60,442
Investment expenses		<u>7,168</u>

Total deductions		67,610
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Change in net assets		256,459
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Net assets - beginning		<u>633,492</u>
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Net assets - ending	\$	<u>889,961</u>
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10. RETIREMENT PLAN - continued

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

11. COMPENSATED ABSENCES

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

	<u>Balance, July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2005</u>
\$	152,658	75,676	96,056	132,278

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

12. AGENCY TRANSACTIONS

Bond Issues

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

12. AGENCY TRANSACTIONS - continued

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

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

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

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

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

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

12. AGENCY TRANSACTIONS - continued

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

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

Refunding

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

Interest Rate Swaps**State Transportation Revenue Bonds, Series 2006**

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

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

12. AGENCY TRANSACTIONS - continued**State Transportation Revenue Bonds, Series 2006 - continued**

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

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

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

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

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

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

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

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

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

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

13. SUBSEQUENT EVENTS

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

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

13. SUBSEQUENT EVENTS - continued

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

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

14. RECLASSIFICATION OF BEHAVIORAL HEALTH CAPITAL FUND

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

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

14. RECLASSIFICATION OF BEHAVIORAL HEALTH CAPITAL FUND - continued

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

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

15. DEFICIT FUND / NET ASSETS

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

16. PRIOR PERIOD RESTATEMENTS

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

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

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

SUPPLEMENTARY INFORMATION

NEW MEXICO FINANCE AUTHORITY

Combining Balance Sheet -
Other Governmental Funds

AS OF JUNE 30, 2005

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

NEW MEXICO FINANCE AUTHORITY

Combining Balance Sheet -
Other Governmental Funds - continued

AS OF JUNE 30, 2005

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

NEW MEXICO FINANCE AUTHORITY

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Other Governmental Funds

YEAR ENDED JUNE 30, 2005

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

See Independent Auditors' Report.

NEW MEXICO FINANCE AUTHORITY

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Other Governmental Funds - continued

YEAR ENDED JUNE 30, 2005

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

SUPPLEMENTAL SCHEDULES

NEW MEXICO FINANCE AUTHORITY

Schedule 1 - Supplemental Schedule of Pledged Collateral

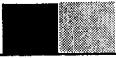
YEAR ENDED JUNE 30, 2005

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

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

NEW MEXICO FINANCE AUTHORITY

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



YEAR ENDED JUNE 30, 2005

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

SINGLE AUDIT

NEW MEXICO FINANCE AUTHORITY

Supplemental Schedule of Expenditures of Federal Awards

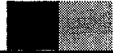
YEAR ENDED JUNE 30, 2005

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
Environmental Protection Agency: Capitalization Grants for Drinking Water State Revolving Funds	66.648	\$ <u>2,980,318</u>
Total EPA		\$ <u>2,980,318</u>
Funds passed through to sub-recipients		\$ <u>2,569,690</u>
Loans funded	Original Balance	Balance at June 30, 2005
Revolving loans		
Loans funded in previous years	\$ <u>21,162,361</u>	<u>16,812,533</u>
Total loans funded	\$ <u>21,162,361</u>	<u>16,812,533</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.

NEW MEXICO FINANCE AUTHORITY

Notes to the Supplemental Schedule of Expenditures of Federal Awards



GENERAL

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

BASIS OF ACCOUNTING

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

Reconciliation to Financial Statements (page 25)

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



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

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

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Mayneus + Company, LLC

December 9, 2005



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

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

Compliance

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

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

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

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

Internal Control Over Compliance

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

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

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

Mayners + Company, LLC

December 9, 2005

YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Finance Authority (Authority).
2. There were no instances of noncompliance material to the financial statements disclosed during the audit of the Authority.
3. Three reportable conditions were disclosed during the audit of the financial statements and are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.
4. There were no reportable conditions in the internal control over major programs disclosed by the Authority.
5. There were no audit findings that the auditor is required to report under 510(a) of Circular A-133.
6. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.
7. The program tested as a major program is:
Capitalization Grants for Drinking Water State Revolving Fund
CFDA Number 66.648
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT**05-01 OBTAINING SIGNED AUDIT CONTRACT PRIOR TO COMMENCEMENT OF WORK (Reportable Condition)**

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

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

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

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

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

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

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

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-02 REVIEWING UNUSUAL OR INFREQUENT JOURNAL ENTRIES - continued

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

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

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

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

Agency Response: The Authority agrees with the finding as reported above. Additional reconciliation procedures were put in place during FY 2005, which enabled Authority staff to identify necessary adjustments. Such procedures will be strengthened prior to the next audit. Complex transactions will be discussed with both our external and internal auditors to ensure proper accounting treatment.

05-03 DEVELOPING A FIXED ASSET DISPOSAL POLICY

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

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

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

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-03 DEVELOPING A FIXED ASSET DISPOSAL POLICY - continued

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

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

05-04 PERFORMING A PHYSICAL INVENTORY OF FIXED ASSETS

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

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

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

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

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

Agency Response: A new tagging system was implemented during FY 2006. The new tagging system is known as the Dymo Letra Tag.

05-05 SEGREGATING INTERFUND AND INTERAGENCY ACTIVITY

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-05 SEGREGATING INTERFUND AND INTERAGENCY ACTIVITY - continued

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

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

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

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

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

05-06 ACCOUNTING FOR LIABILITIES OF OFFERING COSTS

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

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

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

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-06 ACCOUNTING FOR LIABILITIES OF OFFERING COSTS - continued

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

Agency Response: Accounting staff will complete a review and reconciliation during FY 2006 to determine the correct disposition of any immaterial liabilities that exist and determine the proper accounting treatment of such liabilities.

05-07 CAPITALIZING BOND OFFERING COSTS

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

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

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

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

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

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-08 RECORDING UNEMPLOYMENT INSURANCE EXPENSE

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

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

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

Effect: Accrued liabilities and expenses could be overstated.

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

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

05-09 CLOSING INACTIVE TRUST ACCOUNTS

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

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

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-09 CLOSING INACTIVE TRUST ACCOUNTS - continued

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

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

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

05-10 CLEARING RECONCILING ITEMS

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

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

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

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

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

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-11 ANNUAL AFFIRMATION OF CODE OF CONDUCT

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

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

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

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

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

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

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

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

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

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

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-12 LATE FILING OF FY05 FINANCIAL STATEMENTS - continued

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

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

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

None

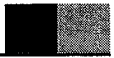
NEW MEXICO FINANCE AUTHORITY

Summary Schedule of Prior Year Audit Findings

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

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

Current Status - State Match Requirements: Resolved



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

NEW MEXICO FINANCE AUTHORITY

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

MEYNER + COMPANY, LLC

Reta Jones, Principal
Georgie Ortiz, Senior Audit Manager

PREPARATION OF FINANCIAL STATEMENTS

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