

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

ANNUAL FINANCIAL REPORT

JUNE 30, 2003

(With Independent Auditors' Report Thereon)

INTRODUCTORY SECTION

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**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

Official Roster
June 30, 2003

Office of the State Treasurer

Robert E. Vigil, CPA	State Treasurer
Richard Barela	Deputy State Treasurer
Ann M. Gallegos	Asst. Deputy State Treasurer

State Treasurer's Investment Committee

Robert E. Vigil, CPA	Chairman
Ann M. Gallegos	Vice-chairman
George Everage	Member
Manny Ortiz	Member
Mark Valdes	State Board of Finance Member

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
 ANNUAL FINANCIAL REPORT
 Year ended June 30, 2003

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Honorable Bill Richardson, Governor
State Board of Finance
Honorable Robert Vigil, CPA, State Treasurer
Honorable Domingo P. Martinez, CGFM, State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico, Office of the State Treasurer (State Treasurer) as of and for the year ended June 30, 2003, which collectively comprise the State Treasurer's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State Treasurer's management. Our responsibility is to express an opinion 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 opinion.

As discussed in Note 1, the financial statements of the Office of the State Treasurer, are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of New Mexico that is attributable to the transactions of the State Treasurer.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico, Office of the State Treasurer as of June 30, 2003, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

GARY BENDER, CPA ■ E. DEAN FRIESEN, CPA, CVA ■ DAVID M. FRITSCHY, CPA ■ REESE GATELEY, CPA
R.A. "BOBBI" HAYES, CPA ■ MARION L. LEDFORD, CPA ■ S. JOHN MANGANARO, CPA ■ RAY ROBERTS, CPA, CVA

P. O. DRAWER JJ ■ CARLSBAD, NM 88221
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The *Management's Discussion and Analysis* on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted 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 performed for the purpose of forming an opinion on the financial statements that collectively comprise the State Treasurer's basic financial statements. The Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information, as listed in the table of contents 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2003 on our consideration of the State of New Mexico, Office of the State Treasurer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Accounting & Consulting
Group, LLP*
Accounting & Consulting Group, LLP
Certified Public Accountants

November 20, 2003
Carlsbad, New Mexico

Management's Discussion and Analysis

As management of the OFFICE OF THE STATE TREASURER, we offer readers of the OFFICE OF THE STATE TREASURER'S financial statements this narrative overview and analysis of the financial activities of the OFFICE OF THE STATE TREASURER for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the financial statements of the OFFICE OF THE STATE TREASURER and additional information provided.

Financial Highlights

- The assets administered by the OFFICE OF THE STATE TREASURER in the Investment Trust Fund increased by \$64,168,062. The majority of this increase is due to the average yield on the investment portfolio of 1.82%.
- As of the close of the current fiscal year, the OFFICE OF THE STATE TREASURER'S governmental funds reported combined ending fund balances of \$171,159,050, a decrease of \$4,946,537 in comparison with the prior year.
- The OFFICE OF THE STATE TREASURER'S total debt increased by \$143,525,436 (23.1 percent), during the current fiscal year. The key factor in this increase was issuance of new debt obligations to meet the needs of the State and Local agencies served by the OFFICE OF THE STATE TREASURER.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the OFFICE OF THE STATE TREASURER'S basic financial statements. The OFFICE OF THE STATE TREASURER'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 are designed to provide readers with a broad overview of the OFFICE OF THE STATE TREASURER'S finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the OFFICE OF THE STATE TREASURER'S assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the OFFICE OF THE STATE TREASURER is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found at exhibits A-1 and A-2 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The OFFICE OF THE STATE TREASURER, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the OFFICE OF THE STATE TREASURER can be divided into two categories: governmental funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The OFFICE OF THE STATE TREASURER maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the general fund, the NM Business Development Corporation fund, the Bond Issuance fund, General Obligation Bond funds, and Severance Tax Bond funds all of which are considered to be major funds. The General Obligation and Severance Tax Bond funds combine into a single, aggregated presentation the activity of each individual bond issue. Individual bond transaction data of these governmental funds is provided in the form of combining statements elsewhere in this report.

The OFFICE OF THE STATE TREASURER adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found at exhibits B-1 through C-1 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the OFFICE OF THE STATE TREASURER'S own programs.

Fiduciary funds provide the same type of information as the government-wide financial statements, only in more detail. The fiduciary fund financial statements provide separate information for the Short-Term Investment Pool, Consolidated Investment Pool, and State Funds Investment Pool.

The OFFICE OF THE STATE TREASURER'S fiduciary funds account for cash, securities, and other investments identified and held in custody on behalf of local and state government agencies and are separately identified by the types of state and local agencies for which the funds are held. The Short-term Investment Pool accounts for the Local Government Investment Pool (LGIP), the Consolidated Investment Pool accounts for funds held in custody for both state and local government agencies, and the State Funds Investment Pool accounts for funds identified and held in custody on behalf of state agencies.

The basic fiduciary fund financial statements can be found at exhibits D-1 and D-2 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-52 of this report.

Other information. The combining statements referred to earlier in connection with the General Obligation and Severance Tax Bond funds are presented immediately following the notes to the financial statements. Combining statements, schedules of capital assets, and schedules of long-term debt can be found on pages 55-81 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the OFFICE OF THE STATE TREASURER, liabilities exceeded assets by \$589,843,621 at the close of the most recent fiscal year.

By far the largest portion of the OFFICE OF THE STATE TREASURER'S deficit net assets reflect amounts expected to be provided to satisfy its general and severance tax bond obligations. It is the responsibility of the OFFICE OF THE STATE TREASURER to record and administer debt on behalf of the agencies and departments of the State of New Mexico. The proceeds of bond issues authorized by the State Board of Finance are transferred to various State agencies in the form of grants. The Office anticipates the future tax revenues generated will be adequate to service the debt obligations. The transfer of the funds to the various agencies causes the Office to record deficit net assets.

An additional portion of the OFFICE OF THE STATE TREASURER'S net assets \$8,602,019 represents resources that are subject to external restrictions on how they may be used.

Governmental activities. Governmental activities decreased the OFFICE OF THE STATE TREASURER'S net assets in the governmental financial statements by \$147,348,568. Key elements of this decrease are as follows:

Comparison of Key Elements
(in thousands)

	2003	2002
<u>Assets:</u>		
Cash, cash equivalents, and repurchase agreements	\$ 150,551,828	\$ 149,607,707
Due from other agencies	21,407,334	22,225,084
Accrued interest receivable	947,559	3,953,997
Investment in NM Business Development Corp.	1,665,175	1,401,263
Deferred charges, net	3,000,996	1,863,331
Capital assets, net	168,647	182,907
Total assets	\$ 177,741,539	\$ 179,234,289
<u>Liabilities and net assets:</u>		
Accounts payable and other	\$ 3,412,846	\$ 1,082,464
Bonds payable, amounts due in one year	105,540,000	103,928,000
Bonds payable, amounts due beyond one year	658,632,314	516,718,878
Total liabilities	767,585,160	621,729,342
Net assets:		
Invested in capital assets	168,647	182,907
Restricted	8,602,019	12,887,497
Unrestricted	(598,614,287)	(455,565,457)
Total liabilities and net assets	\$ 177,741,539	\$ 179,234,289
	2003	2002
<u>Revenues</u>		
Federal funds	\$ 31,905	\$ 26,140
State appropriation	3,134,200	3,377,600
Special appropriation	-	54,754
Interest income	17,383,883	16,648,761
Miscellaneous	291,618	30,000
Total revenues	20,841,606	20,137,255
<u>Expenses</u>		
Current:		
Personnel services and employee benefits	2,300,001	2,184,050
Operating costs	814,064	654,006
Contractual services	78,350	203,935
Other administrative expenditures	10,424	52,604
Debt service:		
Interest on long-term debt	132,255,324	20,545,076
Other charges	3,082,672	1,294,070
Nonoperating revenue and (expense)	(29,649,339)	(9,086,548)
Total expenses	168,190,174	34,020,289
Change in net assets	(147,348,568)	(13,883,034)
Net assets - beginning, as restated	(442,495,053)	(428,612,019)
Net assets - ending	\$ (589,843,621)	\$ (442,495,053)

Financial Analysis of the Government's Funds

As noted earlier, the OFFICE OF THE STATE TREASURER uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the OFFICE OF THE STATE TREASURER'S governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the OFFICE OF THE STATE TREASURER'S financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the OFFICE OF THE STATE TREASURER'S governmental funds reported combined ending fund balances of \$171,159,050, a decrease of \$4,946,537 in comparison with the prior year. Approximately 99.09 percent of this total amount, \$169,609,565 is unreserved, designated for subsequent year's expenditures that is an internal designation of unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to encumbrances and the New Mexico Business Development Corporation, \$1,665,175. The remainder, less than 1%, reported as undesignated, is subject to reversion to the State Permanent Fund.

The fund balance of the OFFICE OF THE STATE TREASURER'S general fund increased by \$9,301 during the current fiscal year.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget are briefly summarized as follows:

- \$195,500 in decreases for personnel services and employee benefits due to several positions remaining open.
- \$160,000 in increases for operating costs for maintenance, repair and replacement of computer software and equipment.

Capital Asset and Debt Administration

Capital assets. The OFFICE OF THE STATE TREASURER'S investment in capital assets for its governmental activities as of June 30, 2003, amounts to \$168,647 (net of accumulated depreciation). This investment in capital assets includes office and computer equipment.

Additional information on the OFFICE OF THE STATE TREASURER'S capital assets can be found in Note 4 on page 41 of this report.

Long-term debt. At the end of the current fiscal year, the OFFICE OF THE STATE TREASURER had total bonded debt outstanding of \$764,105,000 all of which is secured by pledged tax revenues.

	Total	
	2003	2002
General obligation bonds	\$ 290,700,000	\$ 204,267,000
Severance tax bonds	473,405,000	416,311,000
	<u>\$ 764,105,000</u>	<u>\$ 620,578,000</u>

Additional information on the OFFICE OF THE STATE TREASURER’S long-term debt can be found in Note 5 on pages 41-44 of this report.

Economic Factors and Next Year’s Budgets and Rates

- Inflationary trends in the region compare favorably to national indices. Costs associated with the general fund are expected to remain stable.
- During fiscal year end June 30, 2003, several personnel positions remained open, causing the budget to be underspent. The June 30, 2004 budget anticipates filling those positions.

These factors were considered in preparing the OFFICE OF THE STATE TREASURER’S budget for the 2004 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the OFFICE OF THE STATE TREASURER’S finances for those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Robert Vigil, State Treasurer (elect), OFFICE OF THE STATE TREASURER, PO Box 608, Santa Fe, NM 87504-0608.

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
STATEMENT OF NET ASSETS
June 30, 2003

Exhibit A-1

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 113,726
Repurchase agreements	150,438,102
Due from other agencies	21,407,334
Accrued interest receivable	947,559
Investment in New Mexico Business Development Corporation	1,665,175
Deferred charges, net of accumulated amortization (\$1,429,943)	3,000,996
Capital assets (net of accumulated depreciation):	
Equipment	168,647
Total assets	<u><u>\$ 177,741,539</u></u>
LIABILITIES AND NET ASSETS	
Accounts payable and other current liabilities	\$ 229,416
Due to Severance Tax Permanent Fund	405,889
Noncurrent liabilities:	
Due within one year	105,582,000
Due in more than one year	658,590,314
Accrued arbitrage interest payable	2,777,541
Total liabilities	<u>767,585,160</u>
Invested in capital assets, net of related debt	168,647
Restricted for:	
Debt service-arbitrage	6,936,844
New Mexico Development Corporation	1,665,175
Unrestricted	<u>(598,614,287)</u>
Total net assets	<u>(589,843,621)</u>
Total liabilities and net assets	<u><u>\$ 177,741,539</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2003

Exhibit A-2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenue and Changes in Net Assets</u>
Primary government:		Operating Grants and Contributions	Primary Governmental Activities
Governmental activities:			
Personnel services and employee benefits	\$ 2,300,001	\$ 31,905	\$ (2,268,096)
Operating costs	814,064	-	(814,064)
Contractual services	78,350	-	(78,350)
Other administrative costs	10,424	-	(10,424)
Other charges	3,082,672	-	(3,082,672)
Interest on long-term debt	132,255,324	-	(132,255,324)
Total governmental activities	<u>138,540,835</u>	<u>31,905</u>	<u>(138,508,930)</u>
General Revenues:			
State general fund appropriations			3,134,200
State property tax levy			36,028,316
Severance taxes			242,110,486
Other taxes			732,270
Capital projects reversions in			2,548,522
Severance tax permanent fund - reversions out			(1,032,283)
Miscellaneous			291,618
Unrestricted investment earnings			17,383,883
Transfers to other agencies			(310,036,650)
Total general revenues and transfers			<u>(8,839,638)</u>
Change in net assets			(147,348,568)
Net assets - beginning, as previously stated			(441,979,354)
Reduction resulting from the recognition of reversions due to the state general fund not previously reported			(515,699)
Net assets - beginning of year, as restated			<u>(442,495,053)</u>
Net assets - ending			<u>\$ (589,843,621)</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

	General	NM Business Development Corp. Fund
ASSETS		
<i>Cash and Investments:</i>		
Cash and cash equivalents	\$ 113,726	\$ -
Repurchase agreements	-	-
Total Cash and Investments	113,726	-
<i>Restricted Assets:</i>		
Investment in New Mexico Business Development Corporation	-	1,665,175
<i>Other Assets:</i>		
Due from other agencies	-	-
Accrued interest receivable	-	-
Total Assets	\$ 113,726	\$ 1,665,175
LIABILITIES AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts payable and accrued expenses	\$ 222,662	\$ -
Due to State General Fund	6,754	-
Due to Severance Tax Permanent Fund	-	-
Accrued arbitrage interest payable	-	-
Total liabilities	229,416	-
<i>Fund balances:</i>		
Reserved for:		
Encumbrances	58,844	-
New Mexico Business Development Corporation	-	1,665,175
Unreserved:		
Designated for subsequent year's expenditures, reported in:		
Debt service	-	-
Arbitrage	-	-
Undesignated, reported in:		
General fund	(174,534)	-
Total fund balances	(115,690)	1,665,175
Total liabilities and fund balances	\$ 113,726	\$ 1,665,175

The accompanying notes are an integral part of these financial statements.

Bond Issuance Fund	General Obligation Bond Funds	Severance Tax Bond Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 113,726
-	56,630,825	93,807,277	150,438,102
-	<u>56,630,825</u>	<u>93,807,277</u>	<u>150,551,828</u>
-	-	-	1,665,175
-	303,060	21,104,274	21,407,334
-	923,996	23,563	947,559
<u>\$ -</u>	<u>\$ 57,857,881</u>	<u>\$ 114,935,114</u>	<u>\$ 174,571,896</u>
\$ -	-	-	222,662
-	-	-	6,754
-	-	405,889	405,889
-	-	<u>2,777,541</u>	<u>2,777,541</u>
-	-	<u>3,183,430</u>	<u>3,412,846</u>
-	-	-	58,844
-	-	-	1,665,175
-	54,676,190	107,996,531	162,672,721
-	3,181,691	3,755,153	6,936,844
-	-	-	(174,534)
-	<u>57,857,881</u>	<u>111,751,684</u>	<u>171,159,050</u>
<u>\$ -</u>	<u>\$ 57,857,881</u>	<u>\$ 114,935,114</u>	<u>\$ 174,571,896</u>

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
GOVERNMENTAL FUNDS

Exhibit B-1
(Page 2 of 2)

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2003

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

Fund balances - total governmental funds	\$ 171,159,050
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	168,647
Deferred charges for bond issuance costs are recorded as expenditures in the governmental funds, but their effect on net assets is recorded in the government-wide statements when the bonds are issued.	3,000,996
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(764,172,314)</u>
Net assets of governmental activities	<u><u>\$ (589,843,621)</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2003

	General	NM Business Development Corp. Fund
<i>Revenues:</i>		
Federal funds	\$ 31,905	\$ -
State general fund appropriations	3,134,200	-
Interest income	-	12,375
Interest income - debt service	-	-
Interest income - arbitrage	-	-
Miscellaneous	-	267,934
<i>Total revenues</i>	<u>3,166,105</u>	<u>280,309</u>
<i>Expenditures:</i>		
Current:		
Personnel services and employee benefits	2,301,565	-
Operating costs	734,845	-
Contractual services	72,377	5,973
Other administrative expenditures	-	10,424
Capital outlay	64,946	-
Debt service:		
Principal and interest on long-term debt	-	-
Other charges	-	-
<i>Total expenditures</i>	<u>3,173,733</u>	<u>16,397</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>(7,628)</u>	<u>263,912</u>
<i>Other financing sources (uses):</i>		
Operating transfers in (out)		
Reversions	(6,754)	-
State property tax levy	-	-
Severance taxes	-	-
Bond proceeds	-	-
Other taxes	-	-
Capital projects - reversions in	-	-
Other	23,683	-
Severance tax permanent fund - reversions out	-	-
Transfer to other state agency	-	-
<i>Total other financing sources (uses)</i>	<u>16,929</u>	<u>-</u>
<i>Net change in fund balances</i>	9,301	263,912
<i>Fund balances - beginning of year, as previously stated</i>	390,708	1,401,263
<i>Decrease resulting from the recognition of reversions due to the state general fund, not previously recognized</i>	(515,699)	-
<i>Fund balances - beginning of year, as restated</i>	<u>(124,991)</u>	<u>1,401,263</u>
<i>Fund balances - end of year</i>	<u>\$ (115,690)</u>	<u>\$ 1,665,175</u>

The accompanying notes are an integral part of these financial statements.

Bond Issuance Fund	General Obligation Bond Funds	Severance Tax Bond Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 31,905
-	-	-	3,134,200
-	-	-	12,375
-	3,086,736	13,726,330	16,813,066
-	290,773	267,669	558,442
-	-	-	267,934
-	3,377,509	13,993,999	20,817,922
-	-	-	2,301,565
-	-	-	734,845
-	-	-	78,350
-	-	-	10,424
-	-	-	64,946
-	50,359,266	248,884,058	299,243,324
-	534,813	4,652,459	5,187,272
-	50,894,079	253,536,517	307,620,726
-	(47,516,570)	(239,542,518)	(286,802,804)
-	-	-	(6,754)
-	36,028,317	-	36,028,317
-	-	242,110,486	242,110,486
310,036,650	1,167,857	284,169	311,488,676
-	732,270	-	732,270
-	-	2,548,522	2,548,522
-	-	-	23,683
-	-	(1,032,283)	(1,032,283)
(310,036,650)	-	-	(310,036,650)
-	37,928,444	243,910,894	281,856,267
-	(9,588,126)	4,368,376	(4,946,537)
-	67,446,007	107,383,308	176,621,286
-	-	-	(515,699)
-	67,446,007	107,383,308	176,105,587
\$ -	\$ 57,857,881	\$ 111,751,684	\$ 171,159,050

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**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

Exhibit B-2
(Page 2 of 2)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2003

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

Net change in fund balances - total governmental funds	\$	(4,946,537)
--------------------------------------------------------	----	-------------

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. This is the amount by which capital outlays exceeded depreciation in the current period.		(14,260)
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	----------

Governmental funds report payments of compensated absences as expenditures. However, changes in the accrued balances of compensated absences are reported in the statement of activities.		1,564
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The following amounts are the effect of these differences in the treatment of long-term debt and related items.

Bond Proceeds		(311,488,676)
Principal payments on long-term debt		166,988,000
Bond issuance costs		2,494,815
Amortization of bond issuance costs		(383,474)
Change in net assets of governmental activities	\$	<u>(147,348,568)</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET (NON-GAAP)
BASIS AND ACTUAL - GENERAL FUND
Year Ended June 30, 2003

	Budgeted Amounts			
	Original	Final		
<i>Revenues:</i>				
State General Fund appropriation	\$ 3,134,200		\$ 3,134,200	
Other Grants	35,500		35,500	
<i>Total revenues</i>	<u>\$ 3,169,700</u>		<u>\$ 3,169,700</u>	
	Budgeted Amounts		Expenditures	Outstanding Encumbrances
	Original	Final		
<i>Expenditures:</i>				
Current:				
Personnel services and benefits	\$ 2,503,200	\$ 2,307,700	\$ 2,291,586	\$ -
Contractual services	73,800	109,300	62,043	47,257
Operating costs	592,700	752,700	680,964	11,587
<i>Total expenditures</i>	<u>3,169,700</u>	<u>3,169,700</u>	<u>3,034,593</u>	<u>58,844</u>
<i>Other financing uses</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total expenditures and other financing uses</i>	<u>\$ 3,169,700</u>	<u>\$ 3,169,700</u>	<u>\$ 3,034,593</u>	<u>\$ 58,844</u>

The accompanying notes are an integral part of these financial statements.

<u>Actual Amounts</u>	<u>Variance with Final Budget- Favorable (Unfavorable)</u>
\$ 3,134,200	\$ -
<u>31,905</u>	<u>(3,595)</u>
<u>\$ 3,166,105</u>	<u>\$ (3,595)</u>

<u>Total Actual Amounts</u>	<u>Variance with Final Budget- Favorable (Unfavorable)</u>
\$ 2,291,586	\$ 16,114
109,300	-
<u>692,551</u>	<u>60,149</u>
<u>3,093,437</u>	<u>76,263</u>
<u>-</u>	<u>-</u>
<u>\$ 3,093,437</u>	<u>\$ 76,263</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2003

Exhibit D-1

ASSETS	<u>Investment Trust Fund</u>
<i>Cash and Investments:</i>	
Cash and cash equivalents	\$ -
Certificates of deposit	195,550,000
U.S. Government securities	101,278,201
Corporate Bonds	10,015,600
Repurchase agreements	<u>3,213,838,660</u>
<i>Total Cash and Investments</i>	3,520,682,461
<i>Other Assets:</i>	
Accrued interest receivable	<u>1,055,995</u>
<i>Total Assets</i>	<u><u>\$ 3,521,738,456</u></u>
LIABILITIES AND FUND EQUITY	
<i>Liabilities:</i>	
Accounts payable	<u>\$ 20,679,078</u>
<i>Fund equity:</i>	
Fund balances, unreserved:	
Net assets held in trust	<u>3,501,059,378</u>
<i>Total fund equity and net assets held in trust</i>	<u>3,501,059,378</u>
<i>Total liabilities and fund equity and net assets held in trust</i>	<u><u>\$ 3,521,738,456</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
June 30, 2003

Exhibit D-2

	<u>Investment Trust Fund</u>
Investment Income	\$ 70,390,169
Expenses - Management Fees	<u>(396,673)</u>
Net Investment Income	69,993,496
Net proceeds of deposits (withdrawals)	(26,504,512)
Net Assets, held in trust for pool participants, June 30, 2002	<u>3,457,570,394</u>
Net Assets, held in trust for pool participants, June 30, 2003	<u><u>\$ 3,501,059,378</u></u>

The accompanying notes are an integral part of these financial statements.

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements
June 30, 2003

NOTE 1. Summary of Significant Accounting Policies

The Office of the State Treasurer (State Treasurer) has existed continuously since 1851 (Laws 1851-1852). The Legislative Assembly of the Territory of New Mexico passed an act to establish and regulate the Treasury Department of the Territory of New Mexico. This act established the office of territorial Treasurer and designed the duties of Treasurer.

The Office of the State Treasurer is established by the New Mexico Constitution, Article V, Section 1, which provides in part:

The executive department shall consist of a governor, lieutenant governor, secretary of state, state auditor, state treasurer, attorney general, and commissioner of public lands, who shall, unless otherwise provided in the constitution of New Mexico, be elected for the term of four years beginning on the first day of January next after their election. The governor and lieutenant governor shall be elected jointly by the casting by each voter of a single vote applicable to both offices.

Statutory powers and duties of the State Treasurer are contained in numerous articles of the New Mexico Statutes Annotated. Principal statutory provisions related to the New Mexico State Treasurer's Investment Fund are listed below:

- (1) Sections 8-6-1 through 8-6-7 NMSA 1978 (1983 Repl.), as amended. Section 8-6-3 NMSA 1978 (1983 Repl.) provides that the State Treasurer shall receive and keep all monies of the state, except when otherwise provided, shall disburse the public money upon lawful warrants and shall keep a just, true and comprehensive account of all monies received and disbursed.
- (2) Section 6-1-13 NMSA 1978 (1978 Repl.) provides that the State Treasurer shall authorize all state agency deposit accounts and shall establish conditions and reports appropriate to the accounts.
- (3) Section 6-8-2 NMSA 1978 (1988 Repl.) provides that the State Treasurer shall be a member of the State Investment Council. Section 6-8-6 NMSA 1978 (1988 Repl.) states that the State Treasurer shall maintain custody of the state permanent fund.
- (4) Sections 6-10-11 (G), (H), and (I) NMSA 1978 (1988 Supp.) empower the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in demand deposits and not immediately needed for the operation of state government in certain specified securities or investments.
- (5) Section 12-6-4 NMSA 1978 provides that the cost of the annual audit of the State Treasurer shall be borne by special appropriations to the State Board of Finance. The cost of the audit and other expenses paid in behalf to the New Mexico State Treasurer's Investment Fund not material to the combined financial statements are not reflected in the accompanying financial statements.
- (6) Section 6-124-2 NMSA 1978 is to ensure an orderly and uninterrupted flow of money to the general fund by anticipating the receipt of taxes and other state revenue.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2003

NOTE 1. Summary of Significant Accounting Policies (continued)

- (7) Section 61-10-10.1 Short-term investment fund created; distribution of earnings; report of investment.
- a. There is created in the state treasury the "short-term investment fund". The fund shall consist of all deposits from governmental entities and Indian tribes or pueblos that are placed in the custody of the State Treasurer for short-term investment purposes pursuant to this section. The State Treasurer shall maintain a separate account for each governmental entity and Indian tribe or pueblo having deposits in the fund.
- b. If any local public body is unable to receive payment on public money at the rate of interest as set forth in Section 6-10-36 NMSA 1978 from financial institutions within the geographic boundaries of the governmental unit, then a local public finance official having money of that local public body in his custody required for expenditure within thirty days or less may, with the consent of the appropriate local board of finance, if any, remit some or all of such money to the state treasurer, bank, savings and loan association or credit union for deposit for the purpose of short-term investment as allowed by this section.
- c. Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to this section, the local public body finance official shall notify and make sure funds are made available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the State Treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.
- d. The local public body finance official shall specify the length of time each deposit shall be in the short-term investment fund, but in any event the deposit shall not be made for more than thirty days. The State Treasurer through the use of the state fiscal agent shall separately track each such deposit and shall make such information available to the public upon written request.
- e. The State Treasurer shall invest the fund as provided for state funds under Section 6-10-10 NMSA 1978 and may elect to have the short-term investment fund consolidated for investment purposes with the state funds under the control of the State Treasurer; provided that accurate and detailed accounting records are maintained for the account of each participating entity and Indian tribe or pueblo and that a proportionate amount of interest earned is credited to each of the separate government accounts. The fund shall be invested to achieve its objective, which is to realize the maximum return consistent with safe and prudent management.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements
June 30, 2003

NOTE 1. Summary of Significant Accounting Policies (continued)

f. At the end of each month, all interest earned from investment of the short-term investment fund shall be distributed by the State Treasurer to the contributing entities and Indian tribes or pueblos in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts in the fund were invested. No fees or transfer expenses shall be charged to the participating entities and Indian tribes or pueblos for investment in the short-term investment fund.

The Office of the State Treasurer maintains accounting records for the collection of monies from various sources to be used for the debt service and interest payments on general obligation and severance tax bonds. The proceeds from the sale of these general obligation and severance tax bonds are maintained in funds at the Department of Finance and Administration (DFA) and are not part of this audit. Those funds are included in the DFA's financial statements.

Certain investments owned and administered by the Department of Highway and Transportation are purchased through the State Treasurer's Office. The fair value and other gratuitous information related to these investments are not included in the financial statements of the Investment Trust Fund.

The State Treasurer's Office operates several investment pools which collectively represent the cash and investments held at the State Treasurer's Office. These pools represent amounts being held and invested for state agencies and for local governments. They have been identified as 1) state funds investment pool, 2) short-term investment pool, and 3) consolidated investment pool.

Oversight by the State Board of Finance

The State Board of Finance (Board), by statute is comprised of the State of New Mexico governor, lieutenant governor, state treasurer and four members from the general public, and each is a voting member of the Board.

The Board has the responsibility for the issuance of the general obligation and severance tax bonds and for the investment and distribution of the proceeds from such bonds. In that regard, the Board approves the issuance of all such bonds, and provides information for bond prospectuses in order to ensure compliance with financial disclosure requirements and to present information concerning bond issues in a meaningful and informative format. Bonds issued by the Board and the corresponding debt service funds are accounted for by the Office of the State Treasurer and are included in the accompanying financial statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2003

NOTE 1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity

The Office of the State Treasurer is a department of the State of New Mexico. The financial statements and notes to the financial statements include all funds for which the State Treasurer is responsible. These financial statements only present activity related to the Treasurers Office. The State Treasurer receives funding from state and federal sources and must comply with the requirements of these funding source entities. However, the State Treasurer is not included in any other governmental "reporting entity" as defined by GASB pronouncements, since the State Treasurer is elected by the public and have decision making authority, the power to designate management, the ability to significantly influence operations and have primary financial accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14, which are included in the State Treasurer's reporting entity.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the nonfiduciary activities of the government. 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.

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

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

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are billed.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements
June 30, 2003

NOTE 1. Summary of Significant Accounting Policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *New Mexico Business Development Corporation Fund* was established to account for the State's investment in the New Mexico Business Development Corporation Bank. The authority for the creation of the fund was Sections 53-7-18 through 53-7-46 NMSA 1978.

The *Bond Issuance Fund* was established to account for the issuance and related issuance costs of severance tax and general obligation bond issues. The corresponding debt is accounted for in the *General Obligation Bond Funds* and the *Severance Tax Bond Funds*.

The *General Obligation Bond Funds* are to account for payment of principal and interest on general obligation bonds. Financing sources are provided through the collection of property tax levies.

The *Severance Tax Bond Funds* are to account for tax receipts levied upon natural resource products, severed and saved from the lands of the State of New Mexico and to account for payment of principal and interest on severance tax bonds.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2003

NOTE 1. Summary of Significant Accounting Policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

Additionally, the government reports the following fiduciary fund types:

The *Short-Term Investment Pool* accounts for cash, securities and other investments identified and held in custody only for the Local Government Investment Pool (LGIP).

The *Consolidated Investment Pool* accounts for cash, short-term securities and other investments held in custody for both state and local government agencies.

The *State Funds Investment Pool* accounts for cash, securities and other investments, identified and held in custody only for state agencies.

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments: The State Treasurer's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the State Treasurer to invest in, subject to various restrictions, U.S. government obligations, commercial paper, corporate bonds, asset backed obligations, repurchase agreements, certificates of deposit, securities lending transactions, variable rate notes, tax-exempt securities, and money market mutual funds.

Receivables and Payables: Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2003

NOTE 1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Assets or Equity (continued)

Receivables and Payables (continued): Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are not recorded as revenue until received.

Capital Assets: Capital assets, which include equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Equipment of the State Treasurer is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office equipment	5
Computer equipment	5

Compensated Absences: Employees are entitled to accumulate annual leave at the rate based on appointment date and length of continuous services. A maximum of 240 hours of such accumulated annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

Employees are entitled to accumulate sick leave at the rate of 3.69 hours per pay period. There is no limit to the amount of sick leave which an employee may accumulate. State agencies are allowed to pay fifty (50) percent of each employee's hourly rate for accumulated sick leave over 600 hours up to 120 hours. Payment may be made only once per fiscal year at an employee specified pay period in either January or July.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2003

NOTE 1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Assets or Equity (continued)

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Charges: Costs relating to obtaining General Obligation Severance Tax bonds are capitalized and amortized over the term of the related debt using the straight-line method in the government-wide financial statements. Accumulated amortization at June 30, 2003, and June 30, 2002, was \$1,429,943 and \$1,046,469, respectively. Amortization of deferred financing costs charged to operations was \$383,474 for 2003 and \$282,693 for 2002. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations.

Fiduciary Net Assets: The combining statement of changes in fiduciary net assets reports the deposits and withdrawals made by the participants in the Investment Trust Funds as "net deposits and withdrawals". These amounts are reported as net, rather than gross, due to the volume of transactions completed during a fiscal period.

Fund Equity: In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements
June 30, 2003

NOTE 2. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

The State Treasurer follows these procedures in establishing the budgetary data reflected in the financial statements:

1. By September 1st, the State Treasurer prepares a budget appropriation request by category to be presented to the next legislature.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the category level of the State Treasurer as a whole and changes are approved by the DFA.
7. Formal budgetary integration is employed as a management control device during the year for the General Fund.
8. The budget for the General Fund is adopted on a cash encumbrances basis. Current year encumbrances are included as expenditures and payment of prior year encumbrances is excluded from expenditures. There is no recognition of changes in prepaid expenses, accounts payable and property, plant and equipment. Budgetary comparisons presented for the General Fund in the report are on the non-GAAP budgetary basis, which does not conform to accounting principles generally accepted in the United States of America because encumbrances are treated as expenditures; increases to expenditures to be funded from fund balances do not cause a corresponding increase in revenues; and this procedure conforms to DFA and State requirements.
9. The State Treasurer's budget for the fiscal year ending June 30, 2003 was amended in a legally permissible manner by reallocating line item category totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.

The New Mexico Business Development Corporation Special Revenue Fund and the Bond Issuance Fund are not budgeted. Debt Service funds are budgeted over the life of their respective bond issues and not on an annual basis.

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

Notes to Financial Statements
June 30, 2003

NOTE 2. Stewardship, Compliance and Accountability (continued)

Budgets and Budgetary Accounting (continued)

The following is a reconciliation between the Non-GAAP budgetary (cash) basis amounts and the governmental fund financial statements by fund type.

	General Fund
Excess (deficiency) of revenues over expenditures	\$ (7,628)
Adjustments:	
Accounts payable	98,476
Accrued expenses	9,979
Outstanding encumbrances	(28,159)
Excess (deficiency) of revenues over expenditures (Budget Basis)	\$ 72,668

NOTE 3. Deposits and Investments

Fiscal Agent Bank: The State Board of Finance and Wells Fargo Bank in Albuquerque (Bank) entered into an agreement whereby the Bank would provide banking services as Fiscal Agent for the State of New Mexico through August 12, 2003.

Correspondent Bank: The State Board of Finance and Bankers Trust Company of California (BTC) entered into an agreement whereby BTC would provide banking services as Correspondent Bank for the State of New Mexico through August 12, 2003.

The following funds are included in cash and investments of the Office of the State Treasurer:

Account Description	CAS Fund #	Amount
General	182	\$ <u>113,726</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2003

NOTE 3. Deposits and Investments (continued)

Account Description	CFRAS Fund #	Amount
Debt Service Funds:		
General Obligation and Revenue Bonds:		
1997 General Obligation Debt Service	183	\$ 6,011,942
1997 General Obligation Debt Service – Rebate Excess Earnings	959	4,034
1999 General Obligation Debt Service	640	12,467,597
1999 General Obligation Debt Service – Rebate Excess Earnings	409	2,539,496
2000 Enhanced 911 Revenue	018	692,222
2000 Enhanced 911 Revenue – Rebate Excess Earnings	488	85,287
2001 General Obligation Debt Service	414	20,119,457
2001-A General Obligation Debt Service	487	9,379,770
2001-A General Obligation Debt Service – Rebate Excess Earnings	415	542,938
2001-B General Obligation Debt Service -- Refunding	482	2,806,951
2001-A General Obligation Debt Service – Rebate Excess Earnings	712	2,719
2003 General Obligation Debt Service	031	685,796
2003-B General Obligation Debt Service -- Refunding	418	1,219,381
2003 General Obligation Debt Service – Cost of Issuance	032	63,369
2003-B General Obligation Debt Service – Cost of Issuance	416	9,866
		<u>56,630,825</u>
Severance Tax Bonds		
Severance Tax Bonding Fund	410	3,104,457
1998-A Series Debt Service	425	10,904,427
1998-A Series Rebate	486	32,238
1998-B Series Debt Service	411	13,931,022
1998-B Series Rebate	426	3,563,892
1999-A Supplemental Severance Tax Debt Service	184	1,960,186
1999-A Supplemental Severance Tax Debt Service – Rebate Excess Earnings	185	226,561
1999-B Series Debt Service	186	5,017,353
1999-B Severance Tax Debt Service – Rebate Excess Earnings	461	1,182,048
2000 Severance Tax Debt Service	389	12,671,086
2000 Severance Tax Debt Service – Rebate Excess Earnings	391	1,236,519
2000-C Series Debt Service	405	1,915,723
2000-C Series Rebate	406	291,059
2001-A Severance Tax Debt Service	408	15,796,483
2002-A Severance Tax Debt Service	095	8,006,148
2002-A Series Debt Service	699	8,320,980
2002-B Supplemental Series – Debt Service	390	5,421,137
2003-A Series – Debt Service	884	225,958
		<u>93,807,277</u>
Total Debt Service		150,438,102
Investment Trust Fund	N/A	<u>3,213,838,660</u>
Total Repurchase Agreements		<u>\$ 3,364,276,762</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2003

NOTE 3. Deposits and Investments (continued)

Investment Trust Fund

Cash on deposit represents the demand deposit account with the fiscal agent bank. Current year transactions reflect all banking activity for the fiscal year as well as the activity of investments purchased and disposed of during the fiscal year.

The State Treasurer does not hold cash in the office vault. All amounts deposited with the State Treasurer are subsequently redeposited in the fiscal agent account or invested in certificates of deposit, treasury securities or overnight repurchase agreements.

The State Treasurer invests all public monies held in excess of the minimum compensating balance maintained with the fiscal agent bank in accordance with an investment policy approved by the State Board of Finance.

The Treasurer's Investment Trust Fund has implemented GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments". This statement requires that certain investments as defined in GASB Statement No. 31 to be valued at fair value. Fair value is based on quoted market prices as of the valuation date. The change in fair value is recognized as a component of investment income in the current year.

The State Treasurer invests excess cash balances on behalf of certain earmarked funds of state agencies identified by state statute and local governments. Interest earnings are distributed based on average outstanding cash balances for local governments and the state agencies where interest is allowed to be earned. All other interest earnings are transferred to the State General Fund.

The Treasurer's Investment Trust Fund does not participate in securities lending transactions.

The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$100,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institutions operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50% of the average investment balance. At June 30, 2003 collateral pledged to public money deposits was as follows:

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2003

NOTE 3. Deposits and Investments (continued)

	Fiscal Agent Account	Certificates Of Deposit	Total
Cash in bank	\$ 128,658,578	\$ 195,550,000	\$ 324,208,578
Less FDIC insurance coverage	<u>(100,000)</u>	<u>(2,800,000)</u>	<u>(2,900,000)</u>
Total unsecured public funds	\$ <u>128,558,578</u>	\$ <u>192,750,000</u>	\$ <u>321,308,578</u>
Collateral requirement (50% of uninsured public funds)	\$ 64,279,289	\$ 96,375,000	\$ 160,654,289
Collateral pledged:			
US Government securities	<u>(75,860,855)</u>	<u>(120,383,099)</u>	<u>(196,243,954)</u>
(Over) Under Collateralized	\$ <u>(11,581,566)</u>	\$ <u>(24,008,099)</u>	\$ <u>(35,589,665)</u>

The statutes of the State of New Mexico place certain restrictions on the investments of public money by the State Treasurer in order to minimize risk. Permissible investments include U.S. Treasury securities and certificates of deposit at financial institutions insured by an agency of the federal government and corporate bonds that meet the investment policy criteria. In order to meet short-term investment objectives, state laws permit investment in repurchase agreements. These contracts must be fully secured by obligations of the United States or other securities backed by the United States, having a market value of at least 102% of the amount of the contract.

In accordance with GASB Statement No. 3, investments must be categorized to give an indication of the level of risk assumed by the State at year-end. **Category 1** includes investments that are insured or registered or for which the securities are held by the State Treasurer or agent in the Office's name. **Category 2** includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Office's name. **Category 3** includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Office's name. All of the investments at June 30, 2003 are Category 2 investments.

At June 30, 2003, investments in repurchase agreements were \$3,364,276,762. Collateral required by State statute at June 30, 2003 was \$3,431,562,297. The investments in repurchase agreements were collateralized by U.S. Treasury notes and bills valued at \$3,342,105,251 held at Deutsche Bank National Trust Company in California, in the Office's name. Fair value for the securities below was obtained from Deutsche Bank National Trust Company and reflects quoted market prices as of June 30, 2003.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements
June 30, 2003

NOTE 3. Deposits and Investments (continued)

Investments administered by the State Treasurer at June 30, 2003 include the following:

Description	Amortized Cost Carrying Amount	Fair Value
US Government securities	\$ 99,967,188	\$ 101,278,201
Corporate bonds	10,007,498	10,015,600
Repurchase agreements	3,213,838,660	3,213,838,660
	<u>\$ 3,323,813,346</u>	<u>\$ 3,325,132,461</u>

Funds whose investments are debt related record no investment earnings. These earnings are recorded in the appropriate debt service funds.

The State Treasurer also administers an investment of \$1,665,175 in New Mexico Business Development Corporation bonds on behalf of the State of New Mexico. The original bond investment of \$2,528,332 was called in October 1991 (See Note 11). This investment is reflected in the New Mexico Business Development Corporation Special Revenue Fund.

Certain investments owned and administered by the Department of Highway and Transportation are purchased through the State Treasurer's Office. At June 30, 2003 the amount not included in the Investment Trust Fund for the Department of Highway and Transportation was \$48,500,000.

The book value and other gratuitous information related to the custodial investments are not included in the financial statements of the Office of the State Treasurer.

Local Government Investment Pool: Cities, counties, and other non-state agencies invest monies in the State Treasurer external investment pool (Local Government Investment Pool). The investments are recorded at fair value based on quoted market prices as of the valuation date in the financial statements, however, the individual participant balances remain at their carrying cost. At June 30, 2003 the carrying cost and the fair value were the same in the Local Government Investment Pool.

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

The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested.

Participation in the local government investment pool is voluntary.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2003

NOTE 4. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, being depreciated				
Equipment	\$ 270,782	\$ 64,946	(44,364)	\$ 291,364
Total capital assets being depreciated	<u>270,782</u>	<u>64,946</u>	<u>(44,364)</u>	<u>291,364</u>
Less accumulated depreciation for:				
Equipment	(87,875)	(79,206)	44,364	(122,717)
Total accumulated depreciation	<u>(87,875)</u>	<u>(79,206)</u>	<u>44,364</u>	<u>(122,717)</u>
Total capital assets being depreciated, net	<u>\$ 182,907</u>	<u>\$ (14,260)</u>	<u>\$ -</u>	<u>\$ 168,647</u>

Depreciation expense was charged to functions/programs of the Office as follows:

Governmental activities:	
General government	\$ <u>79,206</u>
Total depreciation expense – governmental activities	\$ <u>79,206</u>

NOTE 5. Long-term Debt

General Obligation Bonds:

General obligation bonds are issued to provide funds for capital expenditures for construction, acquisition, or improvement of the projects specified in the Acts authorized by the Legislature of the State of New Mexico. Funds are provided through the collection of property tax levies.

The following General Obligation Bonds were issued during the fiscal year ended June 30, 2003:

General Obligation Bonds Series 2003

On February 11, 2003 the State Board of Finance issued bonds with a principal amount of \$130,900,000 to finance certain capital expenditures for senior citizen, public education, library and water projects. Interest rates range from 3.00% to 5.00% with principal payments due through 2013.

STATE OF NEW MEXICO
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Notes to Financial Statements
June 30, 2003

NOTE 5. Long-term Debt (continued)

General Obligation Bonds Refunding Series 2003B

On March 11, 2003 the State Board of Finance issued General Obligation Bonds Refunding Series 2003B with a principal amount of \$44,955,000. The refunding debt was used to refund in advance of their stated maturity dates the September 1, 2005-2006 maturities of the General Obligation Bond Series 1999 Bonds in the principal amount of \$39,775,000 and the September 1, 2003 maturity of the General Obligation Bond Series 1997 Bonds in the principal amount of \$7,525,000. Interest rates range from 2.00% to 5.00% with principal payments due through 2008.

The annual requirements to amortize the combined General Obligation Bond issues outstanding as of June 30, 2003, including interest payments are as follows (See details on Schedule 6):

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Total</u>
2004	\$ 54,476,182
2005	53,781,453
2006	43,574,251
2007	43,626,464
2008	35,007,676
2009-2013	<u>116,066,202</u>
Total	<u>\$ 346,532,228</u>

Severance Tax Bonds:

Severance tax bonds are for State agencies, local governments and public and higher education including a broad range of state and local capital needs. Funds are provided through tax receipts levied upon natural resource products, severed and saved from the lands of the State of New Mexico.

The following Severance Tax Bonds were issued during the fiscal year ended June 30, 2003:

Severance Tax Bonds Supplemental Series 2002B

On October 8, 2002 the State Board of Finance issued bonds with a principal amount of \$45,000,000 to finance public education facilities projects. Interest rates range from 2.50% to 4.00% with principle payments due through 2012.

Severance Tax Bonds Series 2003A Refunding

On June 10, 2003 the State Board of Finance issued bonds with a principal amount of \$89,660,000 to finance public capital projects authorized by the State Legislature, as well as to provide for the redemption of Severance Tax Bonds, Series 1998A and Series 1998B that mature on July 1, 2004. Interest rates range from 2.5% to 5.00% with principal payments due through 2013.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2003

NOTE 5. Long-term Debt (continued)

The annual requirements to amortize the combined Severance Tax Bond issues outstanding as of June 30, 2003, including interest payments are as follows (See details on Schedule 6):

Fiscal Year Ending June 30,	Total
2004	\$ 86,869,075
2005	84,205,031
2006	76,976,577
2007	68,107,061
2008	58,284,876
2009-2013	185,582,818
Total	\$ 560,025,438

Advance and current refundings:

The State of Board of Finance defeased certain general obligation and severance tax bonds by placing the proceeds of new bonds in an irrevocable trust to provide for the refunded portion of all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Office's financial statements.

The following advance and current refundings occurred during the year ended June 30, 2003:

On March 11, 2003 the State Board of Finance issued General Obligation Bonds Refunding Series 2003B with a principal amount of \$44,955,000. The refunding debt was used to refund in advance of their stated maturity dates the September 1, 2005-2006 maturities of the General Obligation Bond Series 1999 Bonds in the principal amount of \$39,775,000 and the September 1, 2003 maturity of the General Obligation Bond Series 1997 Bonds in the principal amount of \$7,525,000. The difference in cash flows required between the prior debt service requirements and new refunding debt service requirements resulted in cash flow savings of \$1,691,938. The economic gain, or present value savings, was \$1,561,907.

On June 10, 2003 the State Board of Finance issued bonds with a principal amount of \$89,660,000 to finance public capital projects authorized by the State Legislature, as well as to provide for the redemption of Severance Tax Bonds, Series 1998A and Series 1998B that mature on July 1, 2004. The difference in cash flows required between the prior debt service requirements and new refunding debt service requirements resulted in cash flow savings of \$555,506. The economic gain, or present value savings, was \$550,754.

STATE OF NEW MEXICO
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Notes to Financial Statements
June 30, 2003

NOTE 5. Long-term Debt (continued)

As of June 30, 2003, the amount of defeased debt still outstanding, but removed from the government-wide statement of net assets was:

Severance Tax Bonds, Refunding Series 2001A:

Severance Tax Bond Series 1998B	\$ 62,215,000
Severance Tax Bond Series 1999B	\$ 23,445,000

General Obligation Bonds, Refunding Series 2001B:

General Obligation Bond Series 1997	\$ 25,025,000
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General Obligation Bonds, Refunding Series 2003B:

General Obligation Bond Series 1999	\$ 39,775,000
General Obligation Bond Series 1997	\$ 7,525,000

Severance Tax Bonds, Refunding Series 2003A:

Severance Tax Bond Series 1998A	\$ 13,790,000
Severance Tax Bond Series 1998B	\$ 1,970,000

Changes in Long-term liabilities:

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable					
General obligation bonds	\$ 204,267,000	\$ 175,855,000	\$ 89,422,000	\$ 290,700,000	\$ 54,476,182
Severance tax bonds	<u>416,311,000</u>	<u>134,660,000</u>	<u>77,566,000</u>	<u>473,405,000</u>	<u>86,869,075</u>
Total bonds payable	620,578,000	310,515,000	166,988,000	764,105,000	141,345,257
Compensated absences	<u>68,878</u>	<u>107,041</u>	<u>108,605</u>	<u>67,314</u>	<u>42,000</u>
Totals	<u>\$ 620,646,878</u>	<u>\$ 310,622,041</u>	<u>\$ 167,096,605</u>	<u>\$ 764,172,314</u>	<u>\$ 141,387,257</u>
				Less amounts representing interest	<u>35,805,257</u>
				Principal due within one year	<u>\$ 105,582,000</u>

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

Notes to Financial Statements
June 30, 2003

NOTE 6. Condensed Financial Statements

Condensed financial statements of the Investment Trust Fund, inclusive of external and internal participants for the fiscal year ended June 30, 2003, are as follows:

State Treasurer's Investment Trust Fund
Balance Sheet
June 30, 2003

Assets

Cash and Cash Equivalents	\$	-
Investments		3,520,682,461
Interest Receivable		<u>1,055,995</u>
Total Assets	\$	<u><u>3,521,738,456</u></u>

Liabilities and Net Assets:

Security transaction payable	\$	20,679,078
External Participant account balances		1,177,443,747
Other Internal Participant account balances		
Primary Government		2,322,296,517
Undistributed Reserves and Unrealized Gains (Losses)		<u>1,319,114</u>
Total Net Assets	\$	<u><u>3,521,738,456</u></u>

Investment Income – At June 30, 2003 the Office's investment income earnings were as follows:

Local Government Investment Pool	\$	19,265,013
Consolidated Investment Pool		15,988,776
Short-term Investment Pool		33,817,266
Unrealized Gain		<u>1,319,114</u>
	\$	<u><u>70,390,169</u></u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements
June 30, 2003

NOTE 7. Appropriations and Other Revenue

The Office received the following appropriations and other revenue for the year ended June 30, 2003:

<u>General Fund</u>	
General appropriation, (General Appropriation Act)	\$ <u>3,134,200</u>

NOTE 8. Collateral in Trust

The State Treasurer holds a variety of different types of collateral, government guaranteed loans and mortgages, certificates of deposit, surety bonds, etc., for certain state agencies, which are not included in the financial statements.

NOTE 9. Due to Severance Tax Permanent Fund and Reversions

The State Treasurer is required by statute (Section 7-27-8 NMSA 1978, 1986 Repl.) to transfer to the Severance Tax Permanent Fund, all monies in the Severance Tax Bonding Fund, except the amount necessary to meet principal and interest payments on bonds payable of the next two ensuing semi-annual payment dates. A balance of \$405,889 remains in the Severance Tax Bonding Fund payable to the Severance Tax Permanent Fund that was transferred in July 2003.

NOTE 10. Arbitrage on Tax Exempt Bonds

Prior to the Tax Reform Act (TRA) of 1986, state and local governments had up to three years to use the proceeds from tax exempt bonds issued by them before arbitrage on such proceeds had to be paid to the Treasury Department. Arbitrage, as defined, is the excess interest earned by a state or local government on proceeds from the sale of its bonds over interest paid to bond holders.

TRA 1986 required rebate of such arbitrage to the Treasury Department on governmental bonds issued after August 31, 1986, and on private activity bonds issued after December 31, 1984, when the proceeds were held for six months or longer. These rebates must be calculated annually and paid at the end of every fifth year until the bonds are retired.

The Revenue Reconciliation Act of 1989 amended the six-month rule. For bonds issued after December 19, 1989 the rebate requirement does not apply if, both, all of the gross proceeds of the issue, other than the reserve fund, are spent within the six-month period following the date of issue, and the rebate requirement is satisfied for the reserve fund after the six month period. The term gross proceeds for purposes of the rule include both the sale proceeds received from the bond purchase on the issue date and investment earnings on such proceeds during the six-month period. Gross proceeds deposited in a reserve fund or bona fide debt service fund, however, are not subject to the expenditure requirement.

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

Notes to Financial Statements
June 30, 2003

NOTE 10. Arbitrage on Tax Exempt Bonds (continued)

The following is a schedule of bond issues, along with the bond year ends and arbitrage rebate due dates. The State Treasurer's Office has had the first arbitrage computation for the bonds, completed as indicated:

	Bond Year End of First Rebate Computation	First Arbitrage Rebate Due Date	First Computation of Arbitrage Completed
General Obligation Capital Projects Bonds Series 1999	July 2004	August 2004	X
General Obligation Bonds Series 2001	July 2005	August 2005	
General Obligation Bonds Refunding Series 2001A	July 2005	August 2005	
General Obligation Bonds Refunding Series 2001B			
General Obligation Bonds Series 2003			
General Obligation Bonds Refunding Series 2003B			
Severance Tax Refunding Bonds Series 1998-A	July 2003	August 2003	X
Severance Tax Bonds Series 1998-B	July 2003	August 2003	X
Severance Tax Bonds Series 1999-B	July 2004	August 2004	X
Severance Tax Bonds Series 1999-A Supplemental	July 2004	August 2004	
Severance Tax Bonds Series 2000	July 2005	August 2005	
Severance Tax Bonds 2000C Supplemental	July 2005	August 2005	
Severance Tax Bonds Refunding Series 2001A			
Severance Tax Bonds Series 2002A Supplemental			
Severance Tax Bonds Series 2002B Supplemental			
Severance Tax Bonds Series 2003A			
Enhanced 911 Revenue Bonds Series 2000	July 2005	August 2005	

Interest earnings on invested bond proceeds through June 30, 2003 did not exceed the interest costs of the bonds. Such amounts would have been included as a reservation of fund balance in the accompanying financial statements. Amounts due the Internal Revenue Service which are known and measurable are recorded as a liability – accrued arbitrage interest payable in the accompanying financial statements.

NOTE 11. New Mexico Business Development Corporation (BDC)

In 1991, the State Treasurer called in the original investment of \$2,528,332 in bonds, issued by the BDC to protect the state's share of BDC's assets. This action forced a liquidation of BDC and the remaining assets of BDC were turned over to a trustee, Wells Fargo Bank (formerly Norwest Bank), on behalf of the State Treasurer on October 1, 1991, pursuant to the terms of the "Realization of Assets Agreement." Payment of interest on the remaining outstanding debt ceased as of the call date. Accordingly, no interest income is being accrued in the accompanying financial statements. There are outstanding accounts receivable for BDC, however, since the collectibility is not known, the accounts receivable or corresponding bad debt has not been recognized. The balance at June 30, 2003 is the fair market value at that date.

**STATE OF NEW MEXICO
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Notes to Financial Statements
June 30, 2003

NOTE 12. Transfers

Bond Proceeds – The Bond Issuance Fund transferred the net proceeds of the General Obligation and Revenue Bonds and Severance Tax Bonds to the Department of Finance and Administration (DFA).

The proceeds were distributed as follows and the proceeds are accounted for in DFA's June 30, 2003 financial statements:

	<u>CFRAS Number</u>	<u>Amount</u>
Severance Tax Bonds – Series 2002 B Supplemental	390	\$ 44,500,000
Severance Tax Bonds – Series 2003 A	884	89,660,000
General Obligation Bonds – Series 2003	031	130,000,000
General Obligation Bonds – Series 2003 B Refunding	418	<u>44,955,000</u>
Total		<u>\$ 309,115,000</u>

Interfund Transfers:

	<u>Fund</u>	<u>Transfer From</u>	<u>Transfer To</u>
Debt Service:			
Severance Tax Bonding Fund	410	\$ 75,027,681	\$ -
Severance Tax Bond – 1993B Debt Service	571	54,092	-
Severance Tax Bond – 1994B Debt Service	418	-	-
Severance Tax Bond – 1995A Debt Service	963	17,827	-
Severance Tax Bond – 1995B Debt Service	419	774,732	-
Severance Tax Bond – 1997A Debt Service	031	-	-
Severance Tax Bond – 1998A Debt Service	425	-	10,645,000
Severance Tax Bond – 1998B Debt Service	411	-	11,450,000
Severance Tax Bond – 1999A Debt Service	184	-	2,100,000
Severance Tax Bond – 1999B Debt Service	186	-	3,145,000
Severance Tax Bond – 2000 Debt Service	389	-	11,000,000
Severance Tax Bond – 2000C Debt Service	405	-	1,500,000
Severance Tax Bond – 1995B Rebate	420	563	-
Severance Tax Bond – 2002A Debt Service	095	-	6,300,000
Severance Tax Bond – 2001A Debt Service	408	-	17,800,000
Severance Tax Bond – 2002A Debt Service	699	-	8,300,000
Severance Tax Bond – 2002B Supplemental Debt Service	390	-	4,800,000
Severance Tax Bond – 1993B Debt Service Rebate	570	1,154,895	-
Severance Tax Bond – 1995A Debt Service Rebate	964	<u>10,210</u>	-
Total		<u>\$ 77,040,000</u>	<u>\$ 77,040,000</u>

STATE OF NEW MEXICO
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Notes to Financial Statements
June 30, 2003

NOTE 13. Employee Retirement Plan – State of New Mexico

Plan Description

Substantially all of the Office's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy

Plan members are required to contribute 7.42% of their gross salary. The Office is required to contribute 16.59% depending upon the division of the gross covered salary. The contribution requirements of plan members and the Office are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Office's contributions to PERA for the years ending June 30, 2003, 2002, and 2001, were \$386,643, \$390,803, and \$409,282, respectively, equal to the amount of the required contributions for each year.

NOTE 14. Post Employment Benefits – Retiree Health Care Act Contributions

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers are institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority and state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

Eligible retirees are: (1) Retirees who made contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf unless that person retires on or before July 1, 1995, in which event the time period for contributions shall become the period of time between July 1, 1990 and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990.

**STATE OF NEW MEXICO
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Notes to Financial Statements
June 30, 2003

NOTE 14. Post Employment Benefits – Retiree Health Care Act Contributions (continued)

Each participating employer makes contributions to the fund in the amount of one percent of each participating employee’s annual salary. Each participating employee contributes to the fund an employee contribution equal to one-half of one percent of the employee’s annual salary. Each participating retiree pays a monthly premium for the basic single plan and possibly an additional participation fee.

Contributions from participating employers and employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer’s operation or participation in the Retiree Health Care Act. The employer, employee and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree) and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 810 West San Mateo, Suite D, Santa Fe, New Mexico 87505.

For the fiscal year ended June 30, 2003, the Office remitted \$21,043 in employer contributions and \$10,522 in employee contributions to the Retiree Health Care Authority.

NOTE 15. Outstanding Encumbrances

The following is a reconciliation of outstanding encumbrances per the Department of Finance and Administration (DFA) Report to the reserve for encumbrances and accounts payable as shown in the financial statements at June 30, 2003:

DFA Report	General Fund
Unadjusted Encumbrances Balance as follows:	
Contractual services	\$ 47,257
Operating costs	11,587
	58,844
Adjustments for amounts included in Accounts Payable	-
Reserve for Encumbrances	\$ <u>58,844</u>

NOTE 16. Risk Management

The Department is exposed to various risks of loss for which the Department carries insurance (auto; employee fidelity bond; general liability; civil rights and foreign jurisdiction; money and securities; property; and workers’ compensation) with the State of New Mexico Risk Management Division.

STATE OF NEW MEXICO
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Notes to Financial Statements
June 30, 2003

NOTE 16. Risk Management (continued)

Public employee fidelity bonding coverage is self-insured by the State of New Mexico. The current policy year is July 1, 2002 to June 30, 2003. The limit of coverage is \$5,000,000 with \$1,000 deductible per occurrence. All Office employees are covered by this bond.

NOTE 17. Reversion to the State General Fund

Under State statute 6-5-10 NMSA, 1978, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30, as adjusted, shall revert to the general fund within forty-five days of release of the audit report for that fiscal year.

Amounts expected to revert to the state general fund as of June 30, 2003 are \$6,754, all of which relate to the fiscal year ended June 30, 2003.

For the fiscal year ended June 30, 2003 reversions are comprised of:

	Appropriation	Reversion
Reversion to State General Fund FY 02	\$ 3,377,600	\$ 515,699
Reversion to State General Fund FY 03	3,134,200	<u>6,754</u>
		<u>\$ 522,453</u>

NOTE 18. Deficit Fund Balances and Excess of Expenditures Over Appropriations

Generally accepted accounting principles require disclosures as part of the Combined Statements of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds.
General fund \$115,690

- B. Excess of expenditures over appropriations. No funds over expended the appropriations for the year ended June 30, 2003.

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

NOTE 19. Subsequent Events

Subsequent to June 30, 2003, the State Board of Finance issued the following debt that will be accounted for in the government-wide statement of net assets and the Office's debt service funds:

Supplemental Severance Tax Bonds, Series 2003B. On November 1, 2003, the State Board of Finance issued \$10,000,000 in bonds to finance certain capital projects authorized by the State Legislature.

The State Treasurer planned to move to a new physical location during the fiscal year ended June 30, 2004, accordingly, the State Treasurer was budgeted to expend approximately one half of the fiscal year 2003's rent expense. The State Treasurer has not moved as anticipated and has expended all of its budgeted funds related to rent expense. The State Treasurer is currently in the process of obtaining emergency funding to cover its rent expense. If this funding is not obtained, there is a possibility the State Treasurer could be evicted from its current location, or pay the rent by exceeding its budget and violating state statutes.

SUPPLEMENTARY INFORMATION

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**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

Schedule 1

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY ASSET CLASS AND SOURCE
Year Ended June 30, 2003**

	<u>Balance June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2003</u>
<i>Governmental funds capital assets:</i>				
Equipment, furniture & fixtures	\$ 270,782	\$ 64,946	\$ 44,364	\$ 291,364
<i>Total governmental funds capital assets</i>	<u>\$ 270,782</u>	<u>\$ 64,946</u>	<u>\$ 44,364</u>	<u>\$ 291,364</u>
 <i>Investments in governmental funds capital assets by source:</i>				
General Fund revenues	\$ 270,782	\$ 64,946	\$ 44,364	\$ 291,364
<i>Total governmental funds capital assets</i>	<u>\$ 270,782</u>	<u>\$ 64,946</u>	<u>\$ 44,364</u>	<u>\$ 291,364</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
COMBINING BALANCE SHEET-GENERAL OBLIGATION AND REVENUE BONDS
GENERAL OBLIGATION BOND DEBT SERVICE FUNDS
June 30, 2003

	CAS Fund #	Assets			Total Assets
		Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	
1993 Series-Debt Service	483	\$ -	\$ -	\$ -	\$ -
1995 Series-Debt Service	960	-	-	482	482
1997 Series-Debt Service	183	6,011,942	-	200	6,012,142
1999 Series-Debt Service	640	12,467,597	93,645	425	12,561,667
2001 Series-Debt Service	414	20,119,457	9,395	264,972	20,393,824
2001-A Series-Refunding	487	9,379,770	89,100	286	9,469,156
2001-B Series-Refunding	482	2,806,951	78,189	86	2,885,226
2003 Series-Debt Service	031	685,796	24,245	650,262	1,360,303
2003B Series - Refunding	418	1,219,381	8,486	38	1,227,905
2000 Series-Enhanced 911 Revenue	018	692,222	-	28	692,250
<i>Total - Debt Service</i>		<u>53,383,116</u>	<u>303,060</u>	<u>916,779</u>	<u>54,602,955</u>
1993 Series-Rebate	484	-	-	-	-
1997 Series-Rebate	959	4,034	-	-	4,034
1999 Series-Rebate	409	2,539,496	-	87	2,539,583
2001 Series-Rebate	415	542,938	-	7,127	550,065
2001-A Series-Rebate	712	2,719	-	-	2,719
2000 Series-Enhanced 911-Rebate	488	85,287	-	3	85,290
<i>Total - Rebate Accounts</i>		<u>3,174,474</u>	<u>-</u>	<u>7,217</u>	<u>3,181,691</u>
2003 Series-Cost of Issuance	416	63,369	-	-	63,369
2003-B Ref.-Cost of Issuance	032	9,866	-	-	9,866
<i>Total - Cost of Issuance</i>		<u>73,235</u>	<u>-</u>	<u>-</u>	<u>73,235</u>
<i>Combined Total</i>		<u>\$ 56,630,825</u>	<u>\$ 303,060</u>	<u>\$ 923,996</u>	<u>\$ 57,857,881</u>

The accompanying notes are an integral part of these financial statements.

Liabilities		Fund Equity		
Accrued Arbitrage Interest Payable	Unreserved- Designated for Debt Service	Unreserved- Designated for Arbitrage	Total Fund Equity	Total Liabilities and Fund Equity
\$ -	\$ -	\$ -	\$ -	\$ -
-	482	-	482	482
-	6,012,142	-	6,012,142	6,012,142
-	12,561,667	-	12,561,667	12,561,667
-	20,393,824	-	20,393,824	20,393,824
-	9,469,156	-	9,469,156	9,469,156
-	2,885,226	-	2,885,226	2,885,226
-	1,360,303	-	1,360,303	1,360,303
-	1,227,905	-	1,227,905	1,227,905
-	692,250	-	692,250	692,250
-	54,602,955	-	54,602,955	54,602,955
-	-	-	-	-
-	-	4,034	4,034	4,034
-	-	2,539,583	2,539,583	2,539,583
-	-	550,065	550,065	550,065
-	-	2,719	2,719	2,719
-	-	85,290	85,290	85,290
-	-	3,181,691	3,181,691	3,181,691
-	63,369	-	63,369	63,369
-	9,866	-	9,866	9,866
-	73,235	-	73,235	73,235
\$ -	\$ 54,676,190	\$ 3,181,691	\$ 57,857,881	\$ 57,857,881

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL OBLIGATION BOND DEBT SERVICE FUNDS
June 30, 2003

	CAS Fund #	Revenues		Expenditures	
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures
1993 Series-Debt Service	483	\$ 33,885	\$ 12,988,316	\$ -	\$ 12,988,316
1995 Series-Debt Service	960	-	-	-	-
1997 Series-Debt Service	183	96,180	7,634,825	126,578	7,761,403
1999 Series-Debt Service	640	181,040	10,760,100	-	10,760,100
2001 Series-Debt Service	414	1,880,708	7,699,138	-	7,699,138
2001-A Series-Refunding	487	101,617	9,327,000	(880)	9,326,120
2001-B Series-Refunding	482	31,066	1,191,500	-	1,191,500
2003 Series-Debt Service	031	726,983	-	-	-
2003B Series - Refunding	418	417	-	-	-
2000 Series-Enhanced 911 Revenue	018	34,840	758,387	-	758,387
<i>Total - Debt Service</i>		<u>3,086,736</u>	<u>50,359,266</u>	<u>125,698</u>	<u>50,484,964</u>
1993 Series-Rebate	484	5,018	-	4,000	4,000
1997 Series-Rebate	959	58	-	-	-
1999 Series-Rebate	409	36,122	-	-	-
2001 Series-Rebate	415	234,418	-	-	-
2001-A Series-Rebate	712	39	-	-	-
2000 Series-Enhanced 911-Rebate	488	15,118	-	-	-
<i>Total - Rebate Accounts</i>		<u>290,773</u>	<u>-</u>	<u>4,000</u>	<u>4,000</u>
2003 Series-Cost of Issuance	416	-	-	284,460	284,460
2003-B Ref.-Cost of Issuance	032	-	-	120,655	120,655
<i>Total - Cost of Issuance</i>		<u>-</u>	<u>-</u>	<u>405,115</u>	<u>405,115</u>
<i>Combined Total</i>		<u>\$ 3,377,509</u>	<u>\$ 50,359,266</u>	<u>\$ 534,813</u>	<u>\$ 50,894,079</u>

The accompanying notes are an integral part of these financial statements.

Excess (Deficiency) of Revenues over Expenditures	Other Financing Sources (Uses)			
	State Property Tax Levy	Bond Proceeds	Interfund Transfers	Other Taxes
\$ (12,954,431)	\$ -	\$ -	\$ (2,923,959)	\$ -
-	-	-	-	-
(7,665,223)	2,594,505	-	734,242	-
(10,579,060)	7,461,564	-	1,459,811	-
(5,818,430)	17,741,801	-	1,100,622	-
(9,224,503)	5,138,909	-	729,906	-
(1,160,434)	1,920,236	-	-	-
726,983	24,245	609,076	-	-
417	1,147,057	80,431	-	-
-	-	-	-	-
(723,547)	-	-	-	732,270
<u>(47,398,228)</u>	<u>36,028,317</u>	<u>689,507</u>	<u>1,100,622</u>	<u>732,270</u>
1,018	-	-	(1,100,622)	-
58	-	-	-	-
36,122	-	-	-	-
234,418	-	-	-	-
39	-	-	-	-
<u>15,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>286,773</u>	<u>-</u>	<u>-</u>	<u>(1,100,622)</u>	<u>-</u>
(284,460)	-	347,829	-	-
(120,655)	-	130,521	-	-
<u>(405,115)</u>	<u>-</u>	<u>478,350</u>	<u>-</u>	<u>-</u>
<u>\$ (47,516,570)</u>	<u>\$ 36,028,317</u>	<u>\$ 1,167,857</u>	<u>\$ -</u>	<u>\$ 732,270</u>

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**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

Schedule 3
(Page 2 of 2)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AN CHANGES IN FUND BALANCES
GENERAL OBLIGATION BOND DEBT SERVICE FUNDS
June 30, 2003

		Excess (Deficiency) of Revenues and Other Financing Sources Over		
	CAS Fund #	Expenditures and Other Financing Uses	Fund Balances June 30, 2002	Fund Balances June 30, 2003
1993 Series-Debt Service	483	\$ (15,878,390)	\$ 15,878,390	\$ -
1995 Series-Debt Service	960	-	482	482
1997 Series-Debt Service	183	(4,336,476)	10,348,618	6,012,142
1999 Series-Debt Service	640	(1,657,685)	14,219,352	12,561,667
2001 Series-Debt Service	414	13,023,993	7,369,830	20,393,823
2001-A Series-Refunding	487	(3,355,688)	12,824,844	9,469,156
2001-B Series-Refunding	482	759,802	2,125,424	2,885,226
2003 Series-Debt Service	031	1,360,304	-	1,360,304
2003B Series - Refunding	418	1,227,905	-	1,227,905
2000 Series-Enhanced 911 Revenue	018	<u>8,723</u>	<u>683,527</u>	<u>692,250</u>
<i>Total - Debt Service</i>		<u>(8,847,512)</u>	<u>63,450,467</u>	<u>54,602,955</u>
1993 Series-Rebate	484	(1,099,604)	1,099,604	-
1997 Series-Rebate	959	58	3,976	4,034
1999 Series-Rebate	409	36,122	2,503,461	2,539,583
2001 Series-Rebate	415	234,418	315,647	550,065
2001-A Series-Rebate	712	39	2,680	2,719
2000 Series-Enhanced 911-Rebate	488	<u>15,118</u>	<u>70,172</u>	<u>85,290</u>
<i>Total - Rebate Accounts</i>		<u>(813,849)</u>	<u>3,995,540</u>	<u>3,181,691</u>
2003 Series-Cost of Issuance	416	63,369	-	63,369
2003-B Ref.-Cost of Issuance	032	9,866	-	9,866
		<u>73,235</u>	<u>-</u>	<u>73,235</u>
<i>Combined Total</i>		<u>\$ (9,588,126)</u>	<u>\$ 67,446,007</u>	<u>\$ 57,857,881</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
COMBINING BALANCE SHEET-SEVERANCE TAX BONDS
SEVERANCE TAX BOND DEBT SERVICE FUNDS
June 30, 2003

	Assets				Total Assets
	CAS Fund #	Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	
Severance Tax Bonding	410	\$ 3,104,457	\$ 21,104,274	\$ 36	\$ 24,208,767
1993-B Series-Debt Service	571	-	-	-	-
1994-B Series-Debt Service	418	-	-	3,615	3,615
1996A Series-Debt Service	392	-	-	5,949	5,949
1997A Series-Debt Service	031	-	-	1,051	1,051
1998-A Series-Debt Service	425	10,904,427	-	333	10,904,760
1998-B Series-Debt Service	411	13,931,022	-	663	13,931,685
1999-A Series-Debt Service	184	1,960,186	-	60	1,960,246
1999-B Series-Debt Service	186	5,017,353	-	469	5,017,822
2000 Series-Debt Service	389	12,671,086	-	367	12,671,453
2000-C Series-Debt Service	405	1,915,723	-	346	1,916,069
2001-A Series-Refunding	408	15,796,483	-	482	15,796,965
2002-A Series-Debt Service	699	8,320,980	-	224	8,321,204
2002-A Supp. Series - DS	095	8,006,148	-	223	8,006,371
2002-B Supp. Series - DS	390	5,421,137	-	141	5,421,278
2003-A Series-Debt Service	884	225,958	-	9,227	235,185
<i>Total - Debt Service</i>		<u>87,274,960</u>	<u>21,104,274</u>	<u>23,186</u>	<u>108,402,420</u>
1993-B Series-Rebate	570	-	-	-	-
1995 Series-Rebate	964	-	-	-	-
1995-B Series-Rebate	420	-	-	-	-
1996-A Series-Rebate	393	-	-	-	-
1998-A Series-Rebate	486	32,238	-	1	32,239
1998-B Series-Rebate	426	3,563,892	-	170	3,564,062
1999-A Series-Rebate	185	226,561	-	7	226,568
1999-B Series-Rebate	461	1,182,048	-	110	1,182,158
2000 Series Rebate	391	1,236,519	-	36	1,236,555
2000-C Series Rebate	406	291,059	-	53	291,112
2002-A Supp. - Rebate	388	-	-	-	-
2002-B Supp. - Rebate	392	-	-	-	-
2003-A Series - Rebate	873	-	-	-	-
<i>Total - Rebate Accounts</i>		<u>6,532,317</u>	<u>-</u>	<u>377</u>	<u>6,532,694</u>
<i>Combined Total</i>		<u>\$ 93,807,277</u>	<u>\$ 21,104,274</u>	<u>\$ 23,563</u>	<u>\$ 114,935,114</u>

The accompanying notes are an integral part of these financial statements.

Liabilities			Fund Equity	
Due To Severance Tax Permanent Fund	Accrued Arbitrage Interest Payable	Total Liabilities	Unreserved- Designated for Debt Service	Unreserved- Designated for Arbitrage
\$ 405,889	\$ -	\$ 405,889	\$ 23,802,878	\$ -
-	-	-	-	-
-	-	-	3,615	-
-	-	-	5,949	-
-	-	-	1,051	-
-	-	-	10,904,760	-
-	-	-	13,931,685	-
-	-	-	1,960,246	-
-	-	-	5,017,822	-
-	-	-	12,671,453	-
-	-	-	1,916,069	-
-	-	-	15,796,965	-
-	-	-	8,321,204	-
-	-	-	8,006,371	-
-	-	-	5,421,278	-
-	-	-	235,185	-
<u>405,889</u>	<u>-</u>	<u>405,889</u>	<u>107,996,531</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	6,291	6,291	-	25,948
-	2,771,250	2,771,250	-	792,812
-	-	-	-	226,568
-	-	-	-	1,182,158
-	-	-	-	1,236,555
-	-	-	-	291,112
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	2,777,541	2,777,541	-	3,755,153
<u>\$ 405,889</u>	<u>\$ 2,777,541</u>	<u>\$ 3,183,430</u>	<u>\$ 107,996,531</u>	<u>\$ 3,755,153</u>

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
COMBINING BALANCE SHEET-SEVERANCE TAX BONDS
SEVERANCE TAX BOND DEBT SERVICE FUNDS
June 30, 2003

Schedule 4
(Page 2 of 2)

	CAS Fund #	Total Fund Equity	Total Liabilities and Fund Equity
Severance Tax Bonding	410	\$ 23,802,878	\$ 24,208,767
1993-B Series-Debt Service	571	-	-
1994-B Series-Debt Service	418	3,615	3,615
1996A Series-Debt Service	392	5,949	5,949
1997A Series-Debt Service	031	1,051	1,051
1998-A Series-Debt Service	425	10,904,760	10,904,760
1998-B Series-Debt Service	411	13,931,685	13,931,685
1999-A Series -Debt Service	184	1,960,246	1,960,246
1999-B Series-Debt Service	186	5,017,822	5,017,822
2000 Series-Debt Service	389	12,671,453	12,671,453
2000-C Series-Debt Service	405	1,916,069	1,916,069
Series 2001-A Refunding	408	15,796,965	15,796,965
2002-A Series-Debt Service	699	8,321,204	8,321,204
2002-A Supp. Series - DS	095	8,006,371	8,006,371
2002-B Supp. Series - DS	390	5,421,278	5,421,278
2003-A Series-Debt Service	884	235,185	235,185
<i>Total - Debt Service</i>		<u>107,996,531</u>	<u>108,402,420</u>
1993-B Series-Rebate	570	-	-
1995 Series-Rebate	964	-	-
1995-B Series-Rebate	420	-	-
1996-A Series-Rebate	393	-	-
1998-A Series-Rebate	486	25,948	32,239
1998-B Series-Rebate	426	792,812	3,564,062
1999-A Series-Rebate	185	226,568	226,568
1999-B Series-Rebate	461	1,182,158	1,182,158
2000 Series Rebate	391	1,236,555	1,236,555
2000-C Series Rebate	406	291,112	291,112
2002-A Supp. - Rebate	388	-	-
2002-B Supp. - Rebate	392	-	-
2003-A Series - Rebate	873	-	-
<i>Total - Rebate Accounts</i>		<u>3,755,153</u>	<u>6,532,694</u>
<i>Combined Total</i>		<u>\$ 111,751,684</u>	<u>\$ 114,935,114</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
SEVERANCE TAX BOND DEBT SERVICE FUNDS
June 30, 2003

	CAS Fund #	Revenues		Expenditures		Total Expenditures
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges		
Severance Tax Bonding	410	\$ 6,671,550	\$ 168,132,881	\$ 379,464	\$ 168,512,345	
1993-B Series-Debt Service	571	1,530	8,372,230	5,651	8,377,881	
1994-B Series-Debt Service	418	-	-	-	-	
1995 Series-Debt Service	963	256	1,093,716	4,212	1,097,928	
1995-B Series-Debt Service	419	4,645	6,354,838	8,623	6,363,461	
1996-A Series-Debt Service	392	-	-	-	-	
1997-A Series-Debt Service	031	-	-	-	-	
1998-A Series-Debt Service	425	100,052	10,965,475	69,614	11,035,089	
1998-B Series-Debt Service	411	341,146	14,122,250	-	14,122,250	
1999-A Series-Debt Service	184	19,033	2,029,101	-	2,029,101	
1999-B Series-Debt Service	186	290,100	5,690,625	-	5,690,625	
2000 Series-Debt Service	389	818,633	11,344,150	-	11,344,150	
2000-C Series-Debt Service	405	615,250	2,010,019	1,347,353	3,357,372	
2001-A Series-Refunding	408	136,334	7,930,583	-	7,930,583	
2002-A Series-Debt Service	699	2,141,621	2,120,417	-	2,120,417	
2002-A Supp. Series - DS	095	2,013,886	8,717,773	-	8,717,773	
2002-B Supp. Series - DS	390	556,506	-	-	-	
2003-A Series-Debt Service	884	15,788	-	-	-	
<i>Total - Debt Service</i>		<u>13,726,330</u>	<u>248,884,058</u>	<u>1,814,917</u>	<u>250,698,975</u>	
1993-B Series-Rebate	570	5,428	-	-	-	
1995-A Series-Rebate	964	51	-	-	-	
1995-B Series-Rebate	420	185	-	-	-	
1996-A Series Rebate	393	72,894	-	-	-	
1998-A Series-Rebate	486	459	-	6,291	6,291	
1998-B Series-Rebate	426	50,338	-	2,771,250	2,771,250	
1999-A Series-Rebate	185	3,229	-	-	-	
1999-B Series-Rebate	461	16,501	-	-	-	
2000 Series-Rebate	391	29,402	-	60,001	60,001	
2000-C Series Rebate	406	89,182	-	-	-	
2002-A Series-Rebate	700	-	-	-	-	
<i>Total - Rebate Accounts</i>		<u>267,669</u>	<u>-</u>	<u>2,837,542</u>	<u>2,837,542</u>	
<i>Combined Total</i>		<u>\$ 13,993,999</u>	<u>\$ 248,884,058</u>	<u>\$ 4,652,459</u>	<u>\$ 253,536,517</u>	

The accompanying notes are an integral part of these financial statements.

Excess (Deficiency) of Revenues over Expenditures	Other Financing Sources (Uses)				
	Severance Taxes	Bond Proceeds	Capital Projects Reversions	Interfund Transfers	Payment to Escrow Agent
\$ (161,840,795)	\$ 242,110,486	\$ -	\$ 2,548,522	\$ (75,027,681)	\$ -
(8,376,351)	-	-	-	(54,092)	-
-	-	-	-	-	-
(1,097,672)	-	-	-	(17,827)	-
(6,358,816)	-	-	-	(774,732)	-
-	-	-	-	-	-
-	-	-	-	-	-
(10,935,037)	-	-	-	10,645,000	-
(13,781,104)	-	-	-	11,450,000	-
(2,010,068)	-	-	-	2,100,000	-
(5,400,525)	-	-	-	3,145,000	-
(10,525,517)	-	-	-	11,000,000	-
(2,742,122)	-	-	-	1,500,000	-
(7,794,249)	-	-	-	17,800,000	-
21,204	-	-	-	8,300,000	-
(6,703,887)	-	-	-	6,300,000	-
556,506	-	64,772	-	4,800,000	-
15,788	-	219,397	-	-	-
<u>(236,972,645)</u>	<u>242,110,486</u>	<u>284,169</u>	<u>2,548,522</u>	<u>1,165,668</u>	<u>-</u>
5,428	-	-	-	(1,154,895)	-
51	-	-	-	(10,210)	-
185	-	-	-	(563)	-
72,894	-	-	-	-	-
(5,832)	-	-	-	-	-
(2,720,912)	-	-	-	-	-
3,229	-	-	-	-	-
16,501	-	-	-	-	-
(30,599)	-	-	-	-	-
89,182	-	-	-	-	-
-	-	-	-	-	-
<u>(2,569,873)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,165,668)</u>	<u>-</u>
<u>\$ (239,542,518)</u>	<u>\$ 242,110,486</u>	<u>\$ 284,169</u>	<u>\$ 2,548,522</u>	<u>\$ -</u>	<u>\$ -</u>

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**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

Schedule 5
(Page 2 of 2)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
SEVERANCE TAX BOND DEBT SERVICE FUNDS
June 30, 2003

	CAS Fund #	Other Financing Sources (Uses)	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	Fund Balances June 30, 2002	Fund Balances June 30, 2003
		Severance Tax Permanent Fund Reversions			
Severance Tax Bonding	410	\$ (1,032,283)	\$ 6,758,249	\$ 17,044,629	\$ 23,802,878
1993-B Series-Debt Service	571	-	(8,430,443)	8,430,443	-
1994-B Series-Debt Service	418	-	-	3,615	3,615
1995 Series-Debt Service	963	-	(1,115,499)	1,115,499	-
1995-B Series-Debt Service	419	-	(7,133,548)	7,133,548	-
1996-A Series-Debt Service	392	-	-	5,949	5,949
1997-A Series-Debt Service	031	-	-	1,051	1,051
1998-A Series-Debt Service	425	-	(290,037)	11,194,797	10,904,760
1998-B Series-Debt Service	411	-	(2,331,104)	16,262,789	13,931,685
1999-A Series-Debt Service	184	-	89,932	1,870,314	1,960,246
1999-B Series-Debt Service	186	-	(2,255,525)	7,273,347	5,017,822
2000 Series-Debt Service	389	-	474,483	12,196,970	12,671,453
2000-C Series-Debt Service	405	-	(1,242,122)	3,158,191	1,916,069
2001-A Series-Refunding	408	-	10,005,751	5,791,214	15,796,965
2002-A Series-Debt Service	699	-	8,321,204	-	8,321,204
2002-A Supp. Series - DS	095	-	(403,887)	8,410,258	8,006,371
2002-B Supp. Series - DS	390	-	5,421,278	-	5,421,278
2003-A Series-Debt Service	884	-	235,185	-	235,185
<i>Total - Debt Service</i>		<u>(1,032,283)</u>	<u>8,103,917</u>	<u>99,892,614</u>	<u>107,996,531</u>
1993-B Series-Rebate	570	-	(1,149,467)	1,149,467	-
1995-A Series-Rebate	964	-	(10,159)	10,159	-
1995-B Series-Rebate	420	-	(378)	378	-
1996-A Series-Rebate	393	-	72,894	(72,894)	-
1998-A Series-Rebate	486	-	(5,832)	31,780	25,948
1998-B Series-Rebate	426	-	(2,720,912)	3,513,723	792,811
1999-A Series-Rebate	185	-	3,229	223,339	226,568
1999-B Series-Rebate	461	-	16,501	1,165,658	1,182,159
2000 Series-Rebate	391	-	(30,599)	1,267,154	1,236,555
2000-C Series Rebate	406	-	89,182	201,930	291,112
2002-A Series Rebate	700	-	-	-	-
<i>Total - Rebate Accounts</i>		<u>-</u>	<u>(3,735,541)</u>	<u>7,490,694</u>	<u>3,755,153</u>
<i>Combined Total</i>		<u>\$ (1,032,283)</u>	<u>\$ 4,368,376</u>	<u>\$ 107,383,308</u>	<u>\$ 111,751,684</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SUMMARY OF LONG-TERM DEBT OBLIGATIONS
June 30, 2003

Issue	Date	Amount	Interest Rate	Unpaid Balance 6/30/2002
<i>General Obligation and Revenue Bonds</i>				
Capital Projects-Series 1993	3/1/1993	\$ 80,500,000	4.75%	\$ 12,687,000
Capital Projects-Series 1997	3/1/1997	64,825,000	4.30-5.50%	14,675,000
Capital Projects-Series 1999	3/1/1999	80,895,000	4.00-5.00%	65,455,000
Capital Projects-Series 2001	3/1/2001	62,550,000	4.00-5.00%	57,780,000
Refunding Series 2001-A Enhanced 911 Revenue	9/1/2001	33,615,000	5.00%	25,860,000
Bonds-Series 2000	8/1/2000	4,545,000	4.35-5.90%	3,980,000
2001-B Refunding	11/1/2001	23,830,000	1.80-3.04%	23,830,000
Capital Projects-Series 2003	3/1/2003	130,900,000	2.00-5.00%	-
Refunding Series 2003-B	4/1/2003	44,955,000	3.00-5.00%	-
<i>Total General Obligation Bonds</i>		526,615,000		204,267,000
<i>Severance Tax Bonds</i>				
Series 1993-B	9/1/1993	75,023,000	4.70%	8,180,000
Series 1995-A	4/1/1995	8,062,000	5.20%	1,066,000
Series 1995-B	11/1/1995	58,340,000	4.50%	6,215,000
Series 1998-A Refunding	3/1/1998	22,730,000	4.25-5.00%	22,655,000
Series 1998-B	5/1/1998	136,100,000	4.50-4.75%	39,500,000
Series 1999-A Supplemental	10/1/1999	12,000,000	4.25-5.50%	9,000,000
Series 1999-B	6/15/1999	50,668,000	5.00%	19,920,000
Series 2000	6/1/2000	59,650,000	5.00%	51,725,000
Series 2000-C Supplemental	7/1/2000	12,000,000	4.50-5.00%	10,670,000
Series 2001-A Refunding	11/1/2001	115,380,000	1.85-3.60%	115,380,000
Series 2002-A	5/1/2002	67,000,000	4.00-5.00%	67,000,000
Series 2002-A Supplemental	12/1/2001	65,000,000	4.00-5.00%	65,000,000
Series 2002-B Supplemental	11/1/2002	45,000,000	2.00-5.00%	-
Series 2003-A	6/1/2003	89,660,000	2.50-5.00%	-
<i>Total Severance Tax Bonds</i>		816,613,000		416,311,000
<i>Total General Long-Term Debt</i>		\$ 1,343,228,000		\$ 620,578,000

The accompanying notes are an integral part of these financial statements.

New Bonds	Refunded Debt	Principal Payments	Total Reductions	Unpaid Balance 6/30/2003
\$ -	\$ -	\$ 12,687,000	\$ 12,687,000	\$ -
-	7,525,000	7,150,000	14,675,000	-
-	39,775,000	8,195,000	47,970,000	17,485,000
-	-	5,260,000	5,260,000	52,520,000
-	-	8,240,000	8,240,000	17,620,000
-	-	590,000	590,000	3,390,000
-	-	-	-	23,830,000
130,900,000	-	-	-	130,900,000
44,955,000	-	-	-	44,955,000
<u>175,855,000</u>	<u>47,300,000</u>	<u>42,122,000</u>	<u>89,422,000</u>	<u>290,700,000</u>
-	-	8,180,000	8,180,000	-
-	-	1,066,000	1,066,000	-
-	-	6,215,000	6,215,000	-
-	1,970,000	10,100,000	12,070,000	10,585,000
-	13,790,000	12,560,000	26,350,000	13,150,000
-	-	1,635,000	1,635,000	7,365,000
-	-	4,815,000	4,815,000	15,105,000
-	-	8,850,000	8,850,000	42,875,000
-	-	1,550,000	1,550,000	9,120,000
-	-	1,375,000	1,375,000	114,005,000
-	-	-	-	67,000,000
-	-	5,460,000	5,460,000	59,540,000
45,000,000	-	-	-	45,000,000
89,660,000	-	-	-	89,660,000
<u>134,660,000</u>	<u>15,760,000</u>	<u>61,806,000</u>	<u>77,566,000</u>	<u>473,405,000</u>
<u>\$ 310,515,000</u>	<u>\$ 63,060,000</u>	<u>\$ 103,928,000</u>	<u>\$ 166,988,000</u>	<u>\$ 764,105,000</u>

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Interest to Maturity	Debt Service Requirements
\$ -	\$ -
-	-
2,412,650	19,897,650
10,370,592	62,890,592
890,750	18,510,750
-	-
394,573	3,784,573
3,025,250	26,855,250
31,476,100	162,376,100
7,262,313	52,217,313
<u>55,832,228</u>	<u>346,532,228</u>
-	-
-	-
-	-
306,488	10,891,488
639,825	13,789,825
767,036	8,132,036
1,179,875	16,284,875
4,523,214	47,398,214
1,127,478	10,247,478
20,436,750	134,441,750
17,802,191	84,802,191
14,028,614	73,568,614
10,277,983	55,277,983
15,530,984.00	105,190,984
<u>86,620,438</u>	<u>560,025,438</u>
<u>\$ 142,452,666</u>	<u>\$ 906,557,666</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SUMMARY OF LONG-TERM DEBT OBLIGATIONS
June 30, 2003

Issue	Year Ending June 30,		
	2004	2005	2006
<i>General Obligation Bonds</i>			
Capital Projects-Series 1999	\$ 10,208,925	\$ 9,688,725	\$ -
Capital Projects-Series 2001	7,722,438	7,716,438	7,769,838
Refunding Series 2001-A	9,280,625	9,230,125	-
Enhanced 911 Revenue Bonds-Series 2000	752,606	755,040	755,663
2001 B Refunding	1,191,500	8,489,375	8,549,000
Capital Projects-Series 2003	15,947,400	16,125,000	16,197,000
Refunding Series 2003-B	9,372,688	1,776,750	10,302,750
<i>Total General Obligation Bonds</i>	<u>54,476,182</u>	<u>53,781,453</u>	<u>43,574,251</u>
<i>Severance Tax Bonds</i>			
Series 1998-A Refunding	10,891,488	-	-
Series 1998-B	13,789,825	-	-
Series 1999-A Supplemental	2,029,657	2,034,672	2,038,394
Series 1999-B	5,133,000	5,586,125	5,565,750
Series 2000	12,792,676	11,929,038	10,896,625
Series 2000-C Supplemental	2,028,244	2,042,419	2,051,406
Series 2001-A Refunding	15,861,000	15,891,750	25,618,750
Series 2002-A Supplemental	8,549,076	8,460,038	8,353,625
Series 2002-A	8,399,126	8,450,726	8,481,751
Series 2002-B Supplemental	5,622,933	5,407,900	5,457,600
Series 2003-A	1,772,050	24,402,363	8,512,676
<i>Total Severance Tax Bonds</i>	<u>86,869,075</u>	<u>84,205,031</u>	<u>76,976,577</u>
<i>Total Debt Service Requirements</i>	<u>\$ 141,345,257</u>	<u>\$ 137,986,484</u>	<u>\$ 120,550,828</u>

The accompanying notes are an integral part of these financial statements.

2007	2008	2009-2013	Total
\$ -	\$ -	\$ -	\$ 19,897,650
7,821,838	7,882,038	23,978,002	62,890,592
-	-	-	18,510,750
759,501	761,763	-	3,784,573
8,625,375	-	-	26,855,250
16,157,500	16,111,000	81,838,200	162,376,100
10,262,250	10,252,875	10,250,000	52,217,313
<u>43,626,464</u>	<u>35,007,676</u>	<u>116,066,202</u>	<u>346,532,228</u>
-	-	-	10,891,488
-	-	-	13,789,825
2,029,313	-	-	8,132,036
-	-	-	16,284,875
9,729,875	2,050,000	-	47,398,214
2,060,034	2,065,375	-	10,247,478
23,562,375	23,540,375	29,967,500	134,441,750
8,247,750	8,151,125	31,807,000	73,568,614
8,505,963	8,515,375	42,449,250	84,802,191
5,470,200	5,467,950	27,851,400	55,277,983
8,501,551	8,494,676	53,507,668	105,190,984
<u>68,107,061</u>	<u>58,284,876</u>	<u>185,582,818</u>	<u>560,025,438</u>
<u>\$ 111,733,525</u>	<u>\$ 93,292,552</u>	<u>\$ 301,649,020</u>	<u>\$ 906,557,666</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
June 30, 2003

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value
Repurchase Agreements	Various	Various	Various	\$ 3,213,838,660
<u>Fixed Income Governmental Obligations</u>				
Federal Home Loan Banks	2.020%	4/11/2003	4/11/2005	29,967,188
Federal Home Loan Banks	2.660%	4/17/2003	4/17/2006	30,000,000
Federal Home Loan Banks	3.500%	11/26/2001	5/24/2004	40,000,000
Total Other Federal Agency				<u>99,967,188</u>
<u>Financial Obligations</u>				
Lehman Brothers Holdings, Inc.	6.125%		7/15/2003	<u>10,007,498</u>
Total-All Securities				<u><u>\$ 3,323,813,346</u></u>

The accompanying notes are an integral part of these financial statements.

Market Value	Unrealized Gain (Loss)
\$ 3,213,838,660	\$ -
30,009,301	42,113
30,018,900	18,900
41,250,000	1,250,000
<u>101,278,201</u>	<u>1,311,013</u>
<u>10,015,600</u>	<u>8,102</u>
<u>\$ 3,325,132,461</u>	<u>\$ 1,319,115</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2003

	Investment Trust Fund		
ASSETS	Short-Term Investment Pool	Consolidated Investment Pool	State Funds Investment Pool
<i>Cash and Investments:</i>			
Cash and cash equivalents	\$ -	\$ -	\$ -
Certificates of deposit	-	-	195,550,000
U.S. Government securities	-	-	101,278,201
Corporate Bonds	-	-	10,015,600
Repurchase agreements	<u>1,177,443,747</u>	<u>803,839,454</u>	<u>1,232,555,459</u>
<i>Total Cash and Investments</i>	1,177,443,747	803,839,454	1,539,399,260
<i>Other Assets:</i>			
Accrued interest receivable	<u>22,207</u>	<u>1,541</u>	<u>1,032,247</u>
<i>Total Assets</i>	<u>\$ 1,177,465,954</u>	<u>\$ 803,840,995</u>	<u>\$ 1,540,431,507</u>
LIABILITIES AND FUND EQUITY			
<i>Liabilities:</i>			
Accounts payable	\$ -	\$ -	\$ <u>20,679,078</u>
<i>Fund equity:</i>			
Fund balances, unreserved:			
Net assets held in trust	<u>1,177,465,954</u>	<u>803,840,995</u>	<u>1,519,752,429</u>
<i>Total fund equity and net assets held in trust</i>	<u>1,177,465,954</u>	<u>803,840,995</u>	<u>1,519,752,429</u>
<i>Total liabilities and fund equity and net assets held in trust</i>	<u>\$ 1,177,465,954</u>	<u>\$ 803,840,995</u>	<u>\$ 1,540,431,507</u>

The accompanying notes are an integral part of these financial statements.

Total
(Memorandum
Only)

\$ -
195,550,000
101,278,201
10,015,600
3,213,838,660

3,520,682,461

1,055,995

\$ 3,521,738,456

\$ 20,679,078

3,501,059,378

3,501,059,378

\$ 3,521,738,456

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
June 30, 2003

	Investment Trust Fund		
	<u>Short-Term Investment Pool</u>	<u>Consolidated Investment Pool</u>	<u>State Funds Investment Pool</u>
Investment Income	\$ 19,265,013	\$ 15,988,776	\$ 35,136,380
Expenses - Management Fees	<u>(49,051)</u>	<u>(347,622)</u>	<u>-</u>
Net Investment Income	19,215,962	15,641,154	35,136,380
Net proceeds of deposits (withdrawals)	(2,479,625)	255,823,271	(279,848,158)
Net Assets, held in trust for pool participants, June 30, 2002	<u>1,160,729,617</u>	<u>532,376,570</u>	<u>1,764,464,207</u>
Net Assets, held in trust for pool participants, June 30, 2003	<u>\$ 1,177,465,954</u>	<u>\$ 803,840,995</u>	<u>\$ 1,519,752,429</u>

The accompanying notes are an integral part of these financial statements.

Total
(Memorandum
Only)

\$ 70,390,169

(396,673)

69,993,496

(26,504,512)

3,457,570,394

\$ 3,501,059,378

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COMPLIANCE SECTION

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

Honorable Bill Richardson, Governor
State Board of Finance
Honorable Robert Vigil, CPA, State Treasurer
Honorable Domingo P. Martinez, CGFM, State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the State of New Mexico, Office of the State Treasurer, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 20, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of New Mexico, Office of the State Treasurer's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2003-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of New Mexico, Office of the State Treasurer's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of New Mexico, Office of the State Treasurer's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2003-1.

GARY BENDER, CPA ■ E. DEAN FRIESEN, CPA, CVA ■ DAVID M. FRITSCHY, CPA ■ REESE GATELEY, CPA
R.A. "BOBBI" HAYES, CPA ■ MARION L. LEDFORD, CPA ■ S. JOHN MANGANARO, CPA ■ RAY ROBERTS, CPA, CVA

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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 of the governmental activities, each major fund, and the aggregate remaining fund information 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 matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2003-1 to be a material weakness.

This report is intended for the information and use of management of the State of New Mexico, Office of the State Treasurer, State of New Mexico, the Office of the State Auditor and other applicable state entities and is not intended to be and should not be used by anyone other than these specified parties.

*Accounting & Consulting
Group, LLP*
Accounting & Consulting Group, LLP
Certified Public Accountants

November 20, 2003
Carlsbad, New Mexico

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF FINDINGS
Year Ended June 30, 2003

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2003-1: Investment Trust Fund

Condition:

The State Treasurer's Office (STO) is responsible for maintaining accurate and timely agency account cash balances. The current system, which includes other entities, the DFA, individual agencies and the banking system, is not designed correctly to allow the STO to fulfill their responsibility. The current process does not allow the STO to allocate unrealized gains and losses in accordance with GASB #31 and the ability to have accurate and timely agency balances.

Criteria:

Any government activity is required to be accounted for in an appropriate fund, which reflects all activity and presents the information in a trial balance format. Individual state agency balances on the TRACS system should equal total cash and investments in the State Treasurer investment pool. Any difference should be identified in a timely manner.

Cause:

There are numerous factors that complicate this matter. The main factors include 1) outdated computer program (TRACS), 2) involvement of a variety of agencies and the related difficulties when dealing with a large group of people, 3) the lack of funding to address the project correctly and 4) the timeliness of correction made by individual agencies and the STO.

Effect:

Transactions affecting this fund may not be identified or may be improperly recorded. The untimely preparations of the TRACS report diminishes its effectiveness.

Recommendation:

We recommend that the Office of the State Treasurer determine its informational needs for financial and control purposes, assess the cost of obtaining this information, and also address their computer concerns involving the TRACS system. In addition, the STO needs to resolve the old reconciling items.

Client Response:

The Treasury Reconciliation, Accounting, and Cashiering System otherwise known as TRACS, is utilized as a means of supplemental accounting for state government monetary transactions beyond the scope of the State Treasurer's statute regarding fund balances. The database is written in a legacy language namely COBOL and is housed and supports at GSD/ISD's data center. Inadvertently TRACS has been associated amid dilemmas within fund accounting throughout state government. Many agencies assume that TRACS is the underlying reason for accounting discrepancies such as the inability to provide real-time transaction activity for agency funds. The true nature of these dilemmas, however, exist within the methodology of the current reverse positive pay practice. This reverse positive pay practice is a legacy government practice which should be converted into a positive pay practice as technology has progressed and can now facilitate the process. TRACS may still be utilized within a positive pay process, however, highly unlikely.

As technology has evolved within the past few years, most banking institutions now possess the ability to provide real-time transaction activity. As state government migrates toward a positive pay practice, transaction information will be made available to the banking institutions whereas real-time transaction activity can now be established.

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2003-1: Investment Trust Fund (continued)

In all likelihood the TRACS system will be phased out and the State's fiscal and custody banks will interface with an Enterprise Resource Planning solution currently being selected. The ERP initiative is based upon the idea of a streamlined solution for state government information consolidation. The ERP initiative is currently in progress and a vendor is near selection. Committee members of the ERP initiative are discussing the nature of TRACS and how it will be utilized or replaced with a new module within the new ERP system.

As such, it is the opinion of the State Treasurer that TRACS remain unchanged until the ERP solution is fully implemented. Resources and effort by Treasury staff will be more prudently spent on migrating current business practices into improved business practices i.e. converting reverse positive pay practices into positive pay practices which is a colossal effort requiring numerous man hours and immense communication amongst state government agencies. This change in business practice may occur during the ERP implementation as efficiency and optimal business practices are major focal points of the initiative.

2003-2: Collateralization of Repurchase Agreements

Condition:

During our examination we determined the State Treasurer's total investment in repurchase agreements was undercollateralized as follows:

Repurchase agreements - general obligation funds	\$ 56,630,825
Repurchase agreements - severance tax funds	93,807,277
Repurchase agreements - fiduciary fund	3,213,838,660
	<u>3,364,276,762</u>
State of New Mexico collateral requirement percentage	102%
State of New Mexico collateral requirement	<u>3,431,562,297</u>
Amount pledged as collateral	3,342,105,251
Over (under) collateralized	<u><u>\$ (89,457,046)</u></u>

Criteria:

Repurchase agreements must be covered by 102% of pledged collateral (Section 6-10-10 H, NMSA 1978).

Effect:

The effect of the condition is a violation of the Public Money Act.

Recommendation:

We recommend the State Treasurer begin reviewing amounts of collateral pledged on repurchase agreements, at a minimum, on a monthly basis. The Fiscal Agent Bank has been responsible for pledging the appropriate amounts of collateral on repurchase agreements, thus, we also recommend the State Treasurer coordinate their efforts with representatives from the Fiscal Agent Bank to ensure collateral shortfalls do not occur in the future.

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2003-2: Collateralization of Repurchase Agreements (continued)

Client Response:

The collateral on behalf of the New Mexico State Treasurer is monitored by the fiscal agent, Wells Fargo Bank. Due to the volatility of the market, the pledged collateral was .68% (less than 1%) for that particular day (June 30, 2003); however, appropriate pledged collateral was put in place shortly thereafter. The State Treasurer continues to monitor this issue with officials at Wells Fargo Bank.

B. PRIOR YEAR AUDIT FINDINGS

2002-1: Investment Trust Fund

Unresolved and repeated as Finding 2003-1

2002-2: Collateralization of Certificates of Deposit

Resolved and not repeated in the current year

2002-3: Travel Reimbursement Documentation

Resolved and not repeated in the current year

C. AUDITOR PREPARED FINANCIAL STATEMENTS

The State of New Mexico, Office of the State Treasurer (Office) prepared portions of the financial statements and Supplementary Information as of and for the year ended June 30, 2003. However, it would be preferred and desirable for the Office to prepare its own GAAP-basis financial statements. The Office's personnel have neither the time nor the expertise to prepare them. Therefore, the outside auditor also prepared portions of the GAAP-basis financial statements and footnotes for inclusion in the annual report.

STATE OF NEW MEXICO
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D. EXIT CONFERENCE

The contents of this report were discussed on December 5, 2003. The following individuals were in attendance:

Office of the State Treasurer

Robert E. Vigil
Richard Barela
Ann Marie Gallegos
Manny Ortiz
Tomasita Gallegos
Victor Vigil
Steve Gonzales
Leo Sandoval
Danny Tinoco
Dolores Baca
Gabriel Cisneros

Accounting & Consulting Group, LLP

Ray Roberts, CPA
Simon Benson, CPA