

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2005

(With Independent Auditors' Report Thereon)

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

Official Roster
June 30, 2005

Office of the State Treasurer

Robert E. Vigil, CPA	State Treasurer
Elaine Olah	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
Mark Canavan	Member
Manny Ortiz	Member
Scott Stovall	State Board of Finance Member

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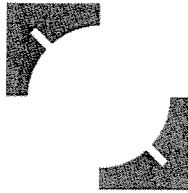
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FINANCIAL SECTION



Accounting & Consulting Group, LLP

INDEPENDENT AUDITORS' REPORT

Honorable Bill Richardson, Governor
State Board of Finance
Honorable Douglas Brown, 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, 2005, which collectively comprise the State Treasurer's basic financial statements as listed in the table of contents. We have also audited each fiduciary fund type of the State Treasurer as of and for the year ended June 30, 2005, as displayed in the State Treasurer's basic financial statements. We have also audited Schedules 2 through 5 and Schedules 8 through 9 and Schedule 6 – Summary of Long Term Debt Obligations as listed in the table of contents and included in the financial statements as supplementary information as of and for the year ended June 30, 2005. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the State Treasurer, are intended to present the financial position, and the changes in financial position and its budgetary comparisons of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2005 and the changes in financial position and its budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, as well as each fiduciary fund type of the State Treasurer as of June 30, 2005, 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. In addition, in our opinion Schedules 2 through 5 and Schedules 8 through 9 and Schedule 6 – Summary of Long Term Debt Obligations referred to above present fairly, in all material respects, the respective financial and fiduciary funds of the Office of the State Treasurer and the long-term debt obligations of the State of New Mexico as of

June 30, 2005, and the respective changes in financial position where applicable thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2006 on our consideration of the State of New Mexico, Office of the State Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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. Schedules 1 and 7 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Schedules 1 and 7 as listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Treasurer's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Certified Public Accountants

March 22, 2006
Carlsbad, New Mexico

Management Discussion and Analysis

This narrative overview and analysis of the financial activities of the State Treasurer for the fiscal year ended June 30, 2005, is presented by the management of the State Treasurer's Office. This report includes financial statements and supplemental information.

Financial Highlights

- General Fund earnings in FY 2005 grew to \$56,196,793, an increase of 40.6 percent from the \$39,963,970 earnings in FY 2004. During FY 2004, interest rates declined to historic lows, and money market yields fell below 1.0 percent. As rates began to rebound in FY 2005, the Treasurer's Office increased its portfolio liquidity and positioned the portfolio for a rising rate environment. That repositioning resulted in a year-to-year yield increase of 44 basis points in the portfolio.
- FY 2005 also saw the implementation of a new short-term cash management program that enhanced short-term yields. Integral to this cash management initiative was the initiation of commercial paper and discount note programs that increased returns on short-term overnight assets and allowed for the cash matching of maturing investments to specific expenditure needs of the State.

Relevant Events Subsequent to June 30, 2005. On September 16, 2005, the Federal Bureau of Investigation took then State Treasurer Robert Vigil into custody as the result of its investigation. Mr. Vigil had served as State Treasurer during the entire period covered by this audit. He was subsequently indicted by a federal grand jury on charges of extortion and racketeering. The indictment alleges that Mr. Vigil received kickbacks from certain investment brokers in return for placing State investments with them. Mr. Vigil resigned as State Treasurer on October 26, 2005, while the State legislature was pursuing an impeachment proceeding against him. Mr. Vigil's trial began on April 17, 2006, and had not concluded as of the date of this report.

While a forensic audit did identify a number of weaknesses in the office's internal control, personnel, and procurement procedures, it did not conclude that there was any evidence to indicate that State money had been lost as a direct result of Mr. Vigil's activities as State Treasurer. It is clear, however, that the steering of investments toward individuals who had allegedly provided kickbacks to Mr. Vigil may have resulted in a suboptimal rate of return for the State during the period addressed in this audit. The magnitude of this opportunity cost may never be fully determined.

A special committee was chartered by the Governor to select a candidate to serve out the remainder of Mr. Vigil's term. Governor Bill Richardson appointed Douglas Minge Brown as New Mexico State Treasurer on November 3, 2005. Brown had recently retired as President and CEO of the Tuition Plan Consortium. A financial expert with 28 years of experience in banking and investments, Brown is the former President and CEO of Talbot Financial Services, a multi-billion dollar annuity marketing firm that he co-founded. He served as Trustee of Stanford University from 1994-1998 and as Regent for the University of New Mexico from 2003-2005.

After his appointment to the position, Treasurer Brown moved quickly to address a number of problems identified by an intensive investigation commissioned by the Department of Finance and Administration at the direction of Governor Richardson. He recommended to the State Treasurer's Investment Committee and the State Board of Finance changes in the Treasurer's Investment Policy to streamline certain collateral requirements and to increase oversight of the investments. These changes were adopted by the State Board of Finance at its January 2006

meeting. He also moved quickly to remove employees who did not have the training or experience to perform adequately. Working with the Risk Management Division of the General Services Department, he initiated investigations of three employees. Two of these investigations resulted in terminations, and the third resulted in a reassignment of duties.

In the months following, the most experienced and qualified people available were recruited to fill the now- vacant positions and resulted in the hire of two new Bureau Chiefs for the Finance and Human Resources Bureaus, and a new State Cash Manager.

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 that consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information to the basic financial statements.

Government-Wide Financial Statements. (Exhibits A-1 and A-2). The government-wide financial statements are designed to provide 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, the difference between the two reported as net assets.

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 result in cash flows in future fiscal year periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or objectives. The Office of the State Treasurer, like other state and local government entities, 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 (Exhibits B-1 through C). 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 which provides a better understanding of 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 four 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 Bond Issuance Fund, General Obligation Bond Fund, and Severance Tax Bond Fund, all of which are considered to be major funds. The General Obligation and Severance Tax Bond funds combine into a single,

aggregated presentation of the activity of each individual bond issue. Individual bond transaction data is provided in the form of combining statements elsewhere in this report.

The Office of the State Treasurer adopts an annual operating budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Fiduciary Funds (Exhibits D-1 and D-2). Fiduciary funds are used to account for resources held for the benefit of parties outside the Office of the Treasurer. 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.

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, and begin on page 27 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 beginning on page 53 of this report. Fiduciary schedules begin on pages 80.

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, assets exceeded liabilities by \$178,346,715 at the close of the most recent FY.

By far the largest portion of the Office of the State Treasurer's net assets reflects amounts to be provided to satisfy its General Obligation 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.

An additional portion of the Office of the State Treasurer's net assets \$178,421,088 represents resources that are subject to external restrictions on their use.

Governmental activities. Governmental activities increased the Office of the State Treasurer's net assets in the governmental financial statements by \$24,222,057. Key elements of this increase are indicated on the following page:

<u>Assets:</u>	<u>2005</u>	<u>2004</u>
Cash, cash equivalents, and repurchase agreements	\$ 153,041,655	\$ 153,873,552
Due from other agencies	36,638,001	15,300,653
Accrued interest receivable	43,319	178,949
Investment in NM Business Development Corp.	1,357,139	1,363,164
Capital assets, net	<u>97,725</u>	<u>142,432</u>
Total assets	\$ <u><u>191,177,839</u></u>	\$ <u><u>170,858,750</u></u>
 <u>Liabilities and net assets:</u>		
Accounts payable and other	\$ 12,729,873	\$ 16,650,478
Compensated absences, amounts due in one year	100,000	74,000
Compensated absences, amounts due beyond one year	<u>1,251</u>	<u>9,614</u>
Total liabilities	\$ <u>12,831,124</u>	\$ <u>16,734,092</u>
Net assets:		
Invested in capital assets	\$ 97,725	\$ 142,432
Restricted	178,421,080	153,988,102
Unrestricted	<u>(172,090)</u>	<u>(5,876)</u>
Total liabilities and net assets	\$ <u><u>191,177,839</u></u>	\$ <u><u>170,858,750</u></u>
 Revenues		
	<u>2005</u>	<u>2004</u>
Federal funds	\$ 13,883	\$ 40,333
State appropriation	3,426,400	3,351,800
Interest income	<u>16,259,668</u>	<u>13,682,031</u>
Total revenues	\$ <u>19,699,951</u>	\$ <u>17,074,164</u>
Expenses		
Current:		
Personnel services and employee benefits	\$ 2,480,492	\$ 2,267,100
Operating costs	963,432	818,445
Contractual services	232,063	173,942
Debt service:		
Interest on long-term debt	51,349,828	264,435,893
Debt service activity	389,032,224	28,223,473
Other charges	4,116,899	2,697,020
Nonoperating (revenue) and expense	<u>(452,697,044)</u>	<u>(264,405,984)</u>
Net expenses (revenue)	<u>(4,522,106)</u>	<u>34,209,889</u>
Change in net assets	24,222,057	(17,135,725)
Net assets - beginning, as restated	<u>154,124,658</u>	<u>171,260,383</u>
Net assets, ending	\$ <u><u>178,346,715</u></u>	\$ <u><u>154,124,658</u></u>

Significant changes include:

- An increase of \$2,577,637 or 18.8% investment income due to the implementation of short-term cash management program.
- An increase of \$147,722,686 or 50.52% debt service activity due to the issuance of new bonds including short-term one day sponge bonds.
- An increase of \$188,291,060 or 68.56% in non-operating revenue due primarily to an increase in severance tax revenues.

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 a 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 \$178,350,240, an increase of \$24,284,397 in comparison with the prior year. Approximately 99.28 percent of this total amount, \$177,063,941 is unreserved, designated for subsequent year's expenditures that is an internal designation of unreserved fund balance. The remainder, less than one percent, reported as undesignated, is subject to reversion to the Severance Tax Permanent Fund. The primary reason for the significant increase in the overall change in Net assets is the increase in Severance tax receipts of \$88,859,919 due to the increase in the price of oil and natural gas. The increase was used for debt service payments or retained for future debt service payments after \$12,371,958 reverted to the permanent fund.

The fund balance of the Office of the State Treasurer's general fund decreased by \$148,581 during fiscal year 2005.

General Fund Budgetary Highlights. Differences between the original budget and the final amended budget are briefly summarized as follows:

- \$135,250 in decreases for personal services and employee benefits due to several positions remaining open.
- \$36,500 in decreases to the contractual services category.
- \$171,750 in increases for operating costs for rent, maintenance, repair and replacement of computer software and equipment.

There were no significant variances between final budget amounts and actual budget results for the general fund. The general fund actual expenditures were less than the final budgeted amounts by less than one percent.

Capital Assets. The Office of the State Treasurer's investment in capital assets for its governmental activities as of June 30, 2005, amounts to \$97,725 (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 of this report.

Long-term debt. At the end of the current FY, the Office of the State Treasurer was responsible for administering debt service payments on total bonded debt outstanding of \$986,441,317, including interest, all of which is secured by pledged tax revenues.

	<u>FY2005</u>	<u>FY2004</u>
General Obligation Bonds	\$318,055,000	\$249,150,000
Severance Tax Bonds	<u>512,180,000</u>	<u>486,840,000</u>
Total principal balances	<u>\$830,235,000</u>	<u>\$735,990,000</u>

Additional information on long-term debt administered by the Office of the State Treasurer can be found in Schedule 6 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 FY 2005, several personnel positions remained open, causing the budget to be under-spent. The June 30, 2006 budget anticipated filling those positions, but many remained open through December 2005.

These factors were considered in preparing the Office of the State Treasurer's budget for FY 2006.

Official Roster. It should be noted the official roster of the Office of the State Treasurer at the front of this report identifies the individuals in place on June 30, 2005. Other sections of Management's Discussion and Analysis describe the events leading to the resignation of the State Treasurer, Governor Richardson's appointment of a new State Treasurer and the subsequent staffing changes that occurred.

Request for Information. This financial report is designed to provide a general overview of the Office of the State Treasurer's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Douglas Minge Brown, State Treasurer, 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, 2005

Exhibit A-1

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 112,570
Repurchase agreements	152,929,085
Due from other agencies	36,637,540
Accrued interest receivable	43,319
Other Receivables	461
Investment in New Mexico Business Development Corporation	1,357,139
Capital assets (net of accumulated depreciation):	
Equipment	<u>97,725</u>
Total assets	<u><u>\$ 191,177,839</u></u>
LIABILITIES AND NET ASSETS	
Accounts payable and other current liabilities	\$ 256,543
Due to State General Fund	27,836
Due to Severance Tax Permanent Fund	12,445,494
Noncurrent liabilities:	
Due within one year	100,000
Due in more than one year	<u>1,251</u>
Total liabilities	<u>12,831,124</u>
Invested in capital assets	97,725
Restricted for:	
Debt service	176,349,289
Debt service-arbitrage	714,652
New Mexico Development Corporation	1,357,139
Unrestricted	<u>(172,090)</u>
Total net assets	<u>178,346,715</u>
Total liabilities and net assets	<u><u>\$ 191,177,839</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
For the year ended June 30, 2005

Exhibit A-2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenue and Changes in Net Assets</u>
		<u>Operating Grants and Contributions</u>	<u>Primary Governmental Activities</u>
Primary government:			
Governmental activities:			
Personnel services and employee benefits	\$ 2,480,492	\$ 13,883	(2,466,609)
Operating costs	963,432		(963,432)
Contractual services	232,063		(232,063)
Other charges	4,116,899		(4,116,899)
Interest on long-term debt	<u>51,349,828</u>		<u>(51,349,828)</u>
 Total governmental activities	 \$ <u>59,142,714</u>	 \$ <u>13,883</u>	 <u>(59,128,831)</u>
 General Revenues:			
State general fund appropriations			3,426,400
State property tax levy			38,325,393
Severance taxes			399,867,860
Other taxes			734,689
Capital projects - reversions in			2,722,466
Severance tax permanent fund - reversions out			(12,371,958)
Miscellaneous			409,044
Unrestricted investment earnings			16,260,172
Bond activity:			
Bond proceeds			578,102,015
Bond premiums			18,977,447
Bond principal payments			(465,533,842)
Bond appropriations expense			(520,918,242)
Transfer from other state agency			<u>23,349,444</u>
 Total general revenues and transfers			<u>83,350,888</u>
 Change in net assets			<u>24,222,057</u>
 Net assets - beginning			<u>154,124,658</u>
 Net assets - ending			<u><u>178,346,715</u></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, 2005

	General	NM Business Development Corp. Fund	Bond Issuance Fund
ASSETS			
Cash and Investments:			
Cash and cash equivalents	\$ 112,570	\$ -	\$ -
Repurchase agreements	-	-	-
Total Cash and Investments	112,570	-	-
Restricted Assets:			
Investment in New Mexico Business Development Corporation	-	1,357,139	
Other Assets:			
Due from other agencies	461	-	-
Accrued interest receivable	-	-	-
Total Assets	\$ 113,031	\$ 1,357,139	\$ -
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable - unencumbered	\$ 80,910	\$ -	\$ -
Accrued payroll	97,185	-	-
Due to State General Fund	4,255	-	-
Other liabilities	1,520	-	-
Due to Severance Tax Permanent Fund	-	-	-
Total liabilities	183,870	-	-
Fund balances:			
Reserved for:			
New Mexico Business Development Corporation	-	1,357,139	-
Debt service	-	-	-
Arbitrage	-	-	-
Undesignated, reported in:			
General fund	(70,839)	-	-
Total fund balances	(70,839)	1,357,139	-
Total liabilities and fund balances	\$ 113,031	\$ 1,357,139	\$ -

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

General Obligation Bond Funds	Severance Tax Bond Funds	Taxation & Revenue Anticipation Notes	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 112,570
47,208,761	105,720,324	-	152,929,085
<u>47,208,761</u>	<u>105,720,324</u>	<u>-</u>	<u>153,041,655</u>
-	-	-	1,357,139
1,583,041	35,054,499	-	36,638,001
25,840	17,479	-	43,319
<u>48,817,642</u>	<u>140,792,302</u>	<u>-</u>	<u>191,080,114</u>
\$ -	\$ 76,928	\$ -	\$ 157,838
-	-	-	97,185
23,581	-	-	27,836
-	-	-	1,520
-	12,445,495	-	12,445,495
<u>23,581</u>	<u>12,522,423</u>	<u>-</u>	<u>12,729,874</u>
-	-	-	1,357,139
48,079,409	128,269,879	-	176,349,288
714,652	-	-	714,652
-	-	-	-
<u>48,794,061</u>	<u>128,269,879</u>	<u>-</u>	<u>(70,839)</u>
<u>48,817,642</u>	<u>140,792,302</u>	<u>-</u>	<u>178,350,240</u>
\$ <u>48,817,642</u>	\$ <u>140,792,302</u>	\$ <u>-</u>	\$ <u>191,080,114</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2005

Exhibit B-1
(Page 2 of 2)

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

Fund balances - total governmental funds	\$	178,350,240
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		97,725
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(101,251)
Rounding		<u>1</u>
Net assets of governmental activities	\$	<u><u>178,346,715</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, 2005

	General	NM Business Development Corp. Fund	Bond Issuance Fund
Revenues:			
Federal funds	\$ 13,883	\$ -	\$ -
State general fund appropriations	3,379,300	-	-
Special appropriation, Laws 2004, C 114, S 9-Comp Pkg	47,100	-	-
Interest income	-	23,019	-
Interest income - debt service	-	-	-
Interest income - arbitrage	-	-	-
Total revenues	<u>3,440,283</u>	<u>23,019</u>	<u>-</u>
Expenditures:			
Current:			
Personnel services and employee benefits	2,462,855	-	-
Contractual services	203,019	29,044	-
Other administrative expenditures	898,420	-	-
Capital Outlay	20,306	-	-
Debt service:			
Principal and interest on long-term debt	-	-	-
Other charges	-	-	-
Total expenditures	<u>3,584,600</u>	<u>29,044</u>	<u>1,084,433</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(144,317)</u>	<u>(6,025)</u>	<u>(1,084,433)</u>
Other financing sources (uses):			
Operating transfers in (out)			
Reversions	(4,260)	-	-
State property tax levy	-	-	-
Severance taxes	-	-	-
Bond proceeds	-	-	578,102,015
Bond premiums	-	-	18,977,447
Other taxes	-	-	-
Capital projects - reversions in	-	-	-
Payment to escrow agent	-	-	-
Severance tax permanent fund - reversions out	-	-	(75,076,787)
Miscellaneous other sources	-	-	-
Transfer to other state agency	-	-	(520,918,242)
Total other financing sources (uses)	<u>(4,260)</u>	<u>-</u>	<u>1,084,433</u>
Net change in fund balances	(148,577)	(6,025)	-
Fund balances - beginning of year	<u>77,738</u>	<u>1,363,164</u>	<u>-</u>
Fund balances - end of year	<u>\$ (70,839)</u>	<u>\$ 1,357,139</u>	<u>\$ -</u>

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

General Obligation Bond Funds	Severance Tax Bond Funds	Taxation & Revenue Anticipation Notes	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 13,883
-	-	-	3,379,300
-	-	-	47,100
-	-	-	23,019
3,796,480	12,383,722	-	16,180,202
10,590	46,361	-	56,951
<u>3,807,070</u>	<u>12,430,083</u>	<u>-</u>	<u>19,700,455</u>
-	-	-	2,462,855
-	-	-	232,063
-	-	-	898,420
-	-	-	20,306
53,261,353	365,196,086	723,349,444	1,141,806,883
538,669	2,493,797	-	4,116,899
<u>53,800,022</u>	<u>367,689,883</u>	<u>723,349,444</u>	<u>1,149,537,426</u>
<u>(49,992,952)</u>	<u>(355,259,800)</u>	<u>(723,349,444)</u>	<u>(1,129,836,971)</u>
-	-	-	(4,260)
38,325,393	-	-	38,325,393
-	399,867,860	-	399,867,860
-	-	700,000,000	1,278,102,015
-	-	-	18,977,447
734,689	-	-	734,689
-	2,722,466	-	2,722,466
-	-	-	(75,076,787)
-	(12,371,958)	-	(12,371,958)
413,304	-	-	413,304
-	-	23,349,444	(497,568,798)
<u>39,473,386</u>	<u>390,218,368</u>	<u>723,349,444</u>	<u>1,154,121,371</u>
(10,519,566)	34,958,568	-	24,284,400
<u>59,313,627</u>	<u>93,311,311</u>	<u>-</u>	<u>154,065,840</u>
<u>\$ 48,794,061</u>	<u>\$ 128,269,880</u>	<u>\$ -</u>	<u>\$ 178,350,240</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
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, 2005

Exhibit B-2
(Page 2 of 2)

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

Net change in fund balances - total governmental funds	\$	24,284,400
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.		(44,706)
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.		<u>(17,637)</u>
Change in net assets of governmental activities	\$	<u><u>24,222,057</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 AND EXPENDITURES - BUDGET (NON-GAAP)
BASIS AND ACTUAL - GENERAL FUND
Year Ended June 30, 2005

	Budgeted Amounts	
	Original	Final
Revenues:		
State General Fund appropriation	\$ 3,379,300	\$ 3,379,300
Other state funds:		
Special appropriations	47,500	47,500
Other Grants	35,500	35,500
Total revenues	\$ 3,462,300	\$ 3,462,300

	Budgeted Amounts		Expenditures	Outstanding Encumbrances
	Original	Final		
Expenditures:				
Current:				
Personnel services and benefits	\$ 2,612,700	\$ 2,477,450	\$ 2,462,855	\$ -
Contractual services	174,600	138,100	135,409	955
Operating costs	675,000	846,750	837,763	600
Total expenditures	3,462,300	3,462,300	3,436,027	1,555
Other financing uses	-	-	-	-
Total expenditures and other financing uses	\$ 3,462,300	\$ 3,462,300	\$ 3,436,027	\$ 1,555
Excess of revenues over expenditures				

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

<u>Actual Amounts</u>	<u>Variance with Final Budget- Favorable (Unfavorable)</u>
\$ 3,379,300	\$ -
47,100	(400)
<u>13,883</u>	<u>(21,617)</u>
<u>\$ 3,440,283</u>	<u>\$ (22,017)</u>

<u>Total Actual Amounts</u>	<u>Variance with Final Budget- Favorable (Unfavorable)</u>
\$ 2,462,855	\$ 14,595
136,364	1,736
<u>838,363</u>	<u>8,387</u>
<u>3,437,582</u>	<u>24,718</u>
<u>-</u>	<u>-</u>
<u>3,437,582</u>	<u>\$ 24,718</u>
<u>2,701</u>	

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

Exhibit D-1

ASSETS	<u>Investment Trust Fund</u>
Cash and Investments:	
Cash and cash equivalents	\$ 58,780,032
Certificates of deposit	268,450,000
Commerical Paper	312,677,576
U.S. Government securities	1,451,035,244
Corporate Bonds	20,912,490
Repurchase agreements	<u>2,430,280,955</u>
Total Cash and Investments	4,542,136,297
Other Assets:	
Accrued interest receivable	<u>16,258,453</u>
Total Assets	<u>\$ 4,558,394,750</u>
NET ASSETS	
Net Assets:	
Net assets held in trust	\$ <u>4,558,394,750</u>
Total net assets held in trust	<u>4,558,394,750</u>
Total net assets held in trust	<u>\$ 4,558,394,750</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
For the Year Ended June 30, 2005

	<u>Investment Trust Fund</u>
Investment Income	\$ 103,113,557
Expenses - Management Fees	<u>(384,008)</u>
Net Investment Income	102,729,549
Net proceeds of deposits (withdrawals)	517,038,480
Net Assets, held in trust for pool participants, June 30, 2004	<u>3,938,626,721</u>
Net Assets, held in trust for pool participants, June 30, 2005	<u><u>\$ 4,558,394,750</u></u>

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

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

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, 2005

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.
 - 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

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies (continued)

participating entities and Indian tribes or pueblos for investment in the short-term investment fund.

The Office of the State Treasurer is responsible by Statute for making the State of New Mexico's debt service and interest payments on general obligation and severance tax bonds and maintaining the related accounting records. The proceeds from the issuance of these general obligation and severance tax bonds are maintained in agency 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. The debt service activity, including the ending balances for the general obligation and severance tax bonds and the amortization of bond premiums, discounts, and issuance costs are included in Schedule 6 of this report and the statewide Comprehensive Annual Financial Report.

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. Debt Service Funds are maintained by the State Treasurer's Office for Bonds issued by the Board. The State Treasurer's Office does not report the corresponding debt. The debt is reported on the statements of the Board. The details of the debt are reported in the supplementary and additional information sections in this report.

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 Treasurer's Office. The State Treasurer receives funding from state

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies (continued)

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) 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.

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

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies (continued)

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 53-7-46 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 service is accounted for in each specific General Obligation Bond and Severance Tax Bond Fund. The corresponding debt is accounted for on the books of the Board.

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 by other state agencies.

The Severance Tax Bond Funds are to account for tax receipts levied by other state agencies 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.

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.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies (continued)

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.

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."

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 \$1,000 (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. Information Technology Equipment including

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies (continued)

software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5) and AICPA Statement of Position 98-1.

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.

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are not reported as liabilities in the applicable governmental activities. The Office of the State Treasurer is not the issuer of the debt, nor is it ultimately responsible for the debt. The details of the long-term debt are reported in the Supplementary Information section of the financial statements as Schedule 6. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method and are reported as Supplementary Information in Schedule 6 of the financial statements. Bonds payable are reported net of the applicable bond premium or discount in Schedule 6.

The Office reports the debt service activity of the state of New Mexico in its 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 the 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 bond proceeds received, are reported as debt service expenditures.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies (continued)

Since the Office reports the debt service activity in its fund financial statements, but does not report the related liabilities in the governmental activities, the Office reports the debt service activity of the State of New Mexico in its government-wide financial statements under general revenues and program expenses as follows:

Bond Proceeds: To report the proceeds received from bonds issued by the State Board of Finance.

Bond Premiums: To report premiums on bonds issued by the State Board of Finance.

Bond Principal Payments: To report principal payments on long-term debt made by the Office on debt issued by the State Board of Finance.

Bond Appropriations Expense: To report bond proceeds transferred to the DFA State Board of Finance for the agencies to draw them down as needed.

Debt Issuance Costs: Debt issuance costs are reported as other charges and included in program expenses.

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.

Restricted Resources: When the Office of the State Treasurer has both restricted and unrestricted resources available to finance a particular program, it is the Government's policy to use restricted resources before unrestricted resources. Net assets are restricted by the bond indenture for debt service. Restricted resources include special appropriations limited to use as described in Laws 2004, C 114, S9, and severance taxes limited to use for the debt service obligations of the State of New Mexico.

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:

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 2. Stewardship, Compliance and Accountability (continued)

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.

The General Appropriation Act of 2004 established the modified accrual basis of accounting as the budgetary basis of accounting for the State of New Mexico beginning July 1, 2004. Accordingly, future budgets will be prepared using the modified accrual basis of accounting.

9. The State Treasurer's budget for the fiscal year ending June 30, 2005 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.

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NOTE 2. Stewardship, Compliance and Accountability (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	\$	(148,577)
Adjustments:		
Accounts payable		135,275
2005 outstanding encumbrances		1,555
Reversions		(21,052)
Budgeted other financing sources and uses		35,500
Excess of revenues Over expenditures (Budget Basis)	\$	2,701

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 September 30, 2005 with the option to renew for two additional years at the option of the State Board of Finance.

Correspondent Bank: The State Board of Finance and Northern Trust entered into an agreement where by BTC would provide banking services as Correspondent Bank for the State of New Mexico through September 30, 2005 with the option to renew for two additional years at the option of the State Board of Finance.

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

**STATE OF NEW MEXICO
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Notes to Financial Statements
June 30, 2005

NOTE 3. Deposits and Investments (continued)

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 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, 2005 a summary of collateral pledged to public money deposits was as follows:

	Fiscal Agent Account	Certificates Of Deposit	Total
Cash in bank	\$ 167,327,167	\$ 268,450,000	\$ 435,777,167
Less FDIC insurance coverage	<u>(100,000)</u>	<u>(3,000,000)</u>	<u>(3,100,000)</u>
Total unsecured public funds	\$ <u>167,227,167</u>	\$ <u>265,450,000</u>	\$ <u>432,677,167</u>
Collateral requirement (50% of uninsured public funds)	\$ 83,613,583	\$ 132,725,000	\$ 216,338,583
Collateral pledged:	<u>(83,785,048)</u>	<u>(169,182,924)</u>	<u>(252,967,972)</u>
(Over) Under Collateralized	\$ <u>(171,465)</u>	\$ <u>(36,457,924)</u>	\$ <u>(36,629,389)</u>

The book balance in the Fiscal Agent Account was \$58,780,032 at June 30, 2005. See Schedule 10 for detail of pledged collateral.

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NOTE 3. Deposits and Investments (continued)

Brokered Transactions: The State Treasurer initiated purchase trades with the following brokers during the year ended June 30, 2005:

Broker Name	Number of Transactions
Wachovia Securities	31
Merrill Lynch	23
Morgan Stanley	21
LPL Financial	17
State Board of Finance	7
Cantor Fitzgerald	5
Citibank	5
Bear Stearns	3
Citigroup	3
PBC Capital	3
Avests, Inc	2
MFR Securities	2
Raymond James	2

Investment Balances

The fair value of investments administered by the State Treasurer at June 30, 2005 follows:

Description	Amortized Cost	Carrying Amount Fair Value
US Government securities	\$ 1,440,490,374	\$ 1,451,035,244
Corporate Bonds	21,171,538	20,912,490
Commercial Paper	312,677,576	312,677,576
Flex Repurchase Agreements	<u>2,495,231,768</u>	<u>2,573,491,983</u>
	\$ <u>4,269,571,256</u>	\$ <u>4,358,117,293</u>

The fair value includes repurchase agreements of \$152,929,085 of debt service funds reported in the Statement of Net Assets Governmental Activities and Governmental Funds Activity for general obligation funds and severance tax bond funds. The remainder \$4,205,188,208, represents the investment portion of the investment trust fund reported in the Statement of Fiduciary Net Assets

The State Treasurer also administers an investment of \$ 1,357,139.42 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.

The fair value and other information related to the agency 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, 2005, the Local Government Investment Pool carrying cost approximated the fair value.

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NOTE 3. Deposits and Investments (continued)

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10.1., 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.

Investment Guidelines and Limitations -The investment policy is a comprehensive guide governing the investment functions of the New Mexico State Treasurer with respect to all financial assets of the State of New Mexico invested by the State Treasurer in the exercise of his statutory authority or invested as directed by other agencies which have specific investment authority and for which the State Treasurer acts as the investing authority. These assets include, as examples only, the State General Fund, the Local Government Investment Pool, bond proceeds, bond debt service funds, and those pension and permanent funds and other special funds with respect to which the State Treasurer is the investing authority.

The investment policy and the public finance investment decisions of the State Treasurer must serve and satisfy several fiduciary, fiscal and financial obligations. In making these decisions and in resolving any conflict or competing considerations that may arise from time to time among these obligations, the State Treasurer will observe the following priority:

1. Preservation Of Principal - to ensure the performance of basic governmental functions, clearly the highest priority must be accorded to the preservation and protection of capital or the principal of the funds and other assets to be invested;
2. Maintenance Of Liquidity – similarly, the next level of priority must be accorded to maintaining sufficient liquidity to ensure the immediate availability of public funds to satisfy the reasonably anticipated, continuing operational requirements of State Government;
3. Maximum Return – to serve the legislative policy of revenue enhancement, third priority will be accorded to maximizing investment yield, through budgetary and economic cycles, consistent with the higher priority accorded to the security and liquidity of principal.

The standard of prudence to be applied in the investment of State assets shall be the "Prudent Person" rule that specifies that: "Investments shall be made with the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

STATE OF NEW MEXICO
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Notes to Financial Statements

June 30, 2005

NOTE 3. Deposits and Investments (continued)

The State Treasurer or his designees, acting in accordance with this policy and any other written procedures pertaining to the administration and management of State assets and exercising due diligence, shall be relieved of personal responsibility, if any, for credit risk or market price changes of a particular security, provided that deviations from expectations are timely noted and appropriate action is taken to control and prevent further adverse developments.

Investments Permitted By Policy: The scope of investment authority of the State Treasurer is defined by law. The applicable investment statutes, principally Sections 6-10-10, 6-10-25, 6-10-26, 6-10-37, 6-10-44 and 6-1410.1, NMSA 1978, as well as Article VIII, Section 4 of the New Mexico Constitution, specify particular types of investments that may be made by the State Treasurer, and they establish certain prerequisites, limitations and other requirements relating to such investments. Moreover, the State Treasurer, in his discretion, may further limit or restrict such investments.

In this regard, the State Treasurer has determined that only the following statutorily authorized investments may presently be made, and these investments shall be subject to such further limitations or restrictions as follows:

1. U.S. Government Obligations - Securities, including discount notes, that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies sponsored by the United States government. Investments shall be limited to a maximum maturity of three (3) years at time of purchase, except securities for any advanced refunding escrow with a duration of more than three years.
2. Commercial Paper - Unsecured obligations with a maturity up to 270 days at time of purchase issued by corporations organized and operating within the United States. The commercial paper shall have short-term credit ratings of A-1, P-1 or equivalent or better by two national rating services. If the rating declines below A-1, P-1, then the Investment Committee will meet to evaluate a course of action.
3. Corporate Bonds - Debt instruments issued by a corporation organized and operating in the United States with a maturity not exceeding three (3) years at time of purchase and at the time of purchase rated A or its equivalent or better by Standard & Poor's and/or Moody's. If the rating declines below BBB+ or Baa1, then the Investment Committee will meet to evaluate a course of action.
4. Asset-Backed Obligations - Debt instruments which are backed by defined cash flows or receivables with a final maturity not exceeding three (3) years at time of purchase and rated AAA, or its equivalent by Standard & Poor's and/or Moody's. If the rating declines below AAA, then the Investment Committee will meet to evaluate a course of action.
5. Repurchase Agreements - Contracts for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by deliverable obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract. Repurchase agreements and flexible repurchase agreements shall be limited to a maximum maturity of one (1) year, but flexible repurchase agreements,

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OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 3. Deposits and Investments (continued)

in which bond proceeds are invested, may have a maximum maturity of three (3) years. Repurchase agreements for the Local Government Investment Pool shall be limited to the maximum maturity allowed by law, although any underlying U.S. government obligations may have maturities extending beyond the term of such repurchase agreements. Subject to these conditions and the prior approval of the State Board of Finance with respect to the custodial undertaking agreement, tri-party repurchase agreements are proper investments under this policy.

6. Bank, Savings and Loan Association or Credit Union Deposits - Deposits are allowed in certified and designated New Mexico financial institutions whose deposits are insured by an agency of the United States. All deposits will comply with the Interest Rate and Collateral Policies adopted by the State Board of Finance. Deposits shall be limited to a maximum maturity of three (3) years. A deposit in any credit union shall be limited to the amount insured by an agency of the United States.
7. Securities Lending - Following State Board of Finance approval of the terms and conditions under which securities lending may occur and including but not limited to specifics with respect to credit and collateral requirements, the State Treasurer may also invest in contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. Securities lending agreements shall be limited to a maximum maturity of one (1) year. No securities lending activity occurred during the year ended June 30, 2005.
8. Variable Rate Notes - Variable rate notes (VRNs) may be United States government obligations, commercial paper, corporate bonds, or repurchase agreements. The use of VRNs is considered to be prudent in the management of the portfolio within certain maturity, indexing and and concentration restrictions.
9. Tax Exempt Securities - Pursuant to 6-14-10.1, the State Treasurer or designee may also invest in tax exempt securities that at time of purchase are rated in any of the three highest major rating categories by one or more national rating agencies and have a final maturity of up to three years. If the rating declines below A, then the Investment Committee will meet to evaluate a course of action.
10. Mutual Funds - Shares of an open-end money market mutual fund, registered under the Federal Investment Company Act of 1940 and managing total assets of at least one billion dollars (\$1,000,000,000), that invests in United States fixed income securities or debt instruments specified in Subsections I, J and N of Section 6-10-10 NMSA 1978, provided that the investments made by the State Treasurer in any particular money market mutual fund are less than 5 percent of the assets of the investment company. In addition, the State Treasurer may act as the investing authority for those agencies which have independent statutory authority to invest. The State Treasurer shall act in a manner consistent with each agency's guidelines and directives.

STATE OF NEW MEXICO
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June 30, 2005

NOTE 3. Deposits and Investments (continued)

Unauthorized Investments/Investment Actions - Except as otherwise provided by law, the State Treasurer will not borrow funds for the sole purpose of investing those funds at a higher yield. The State Treasurer is not authorized by law to invest or as a matter of policy has determined not to invest in securities, assets, investment agreements or instruments except as specifically permitted in this Investment Policy. Accordingly, as examples only, the following securities, assets, investment agreements or instruments are presently impermissible:

1. Common or preferred stock
2. Exchange traded future contracts
3. Inverse floaters
4. Whole-loan mortgage obligations
5. Interest only and principal only as they relate to asset-backed obligations
6. Currency swaps
7. Range notes and index amortizing notes
8. Reverse repurchase agreements
9. Short sales

Custodial Credit Risk - Custodial credit risk is the risk that the State Treasurer will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of State Treasurer and are held by either the counterparty of the counterparty's trust department of agent but not in State Treasurer's name.

The State Treasurer's Investment Policy for safekeeping and custody states that all investment securities purchased by the State, held as collateral on repurchase agreements or held as collateral on securities lending arrangements shall be held in third-party safekeeping at a fiduciary qualified to act in this capacity. All securities held for the State account will be held free and clear of any lien and all transactions will be conducted in compliance with Section 6-10-10(P) NMSA 1978, which requires contemporaneous transfer and same day settlement. On a monthly basis, the custodian will provide reports, which list all transactions that occurred during the month, and all securities held for the State at month-end including the book and market value of holdings. The Fiscal agent and representatives of the custodian responsible for, or in any manner involved with, the safekeeping and custody process of the State shall be bonded in such a fashion as to protect from losses from malfeasance and misfeasance.

All investment and collateral securities were held by the State Treasurer or its Custodian in the name of the State Treasurer. As of June 30, 2005, \$432,677,167 of the State Treasurer's bank balances of \$435,777,167 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 216,338,584
Uninsured and collateralized, held by pledging bank's trust department in the Office's name	<u>216,338,583</u>
Total	\$ <u>432,677,167</u>

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NOTE 3. Deposits and Investments (continued)

Credit Risk - The State Treasurer's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub asset classes and or as outlined in each portfolio manager contract. The quality rating of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard and Poors) at June 30, 2005 are as follows:

Quality Rating	Fair Value	Percentage of Portfolio
AAA:	\$ 1,268,242,731	29.10%
Corporate Bonds	5,940,240	0.14%
US Government Agency Obligations	1,262,302,491	28.96%
A +	5,076,470	0.12%
Corporate Bonds	5,076,470	0.12%
BBB +	4,892,200	0.11%
Corporate Bonds	4,892,200	0.11%
BB	5,003,580	0.11%
Corporate Bonds	5,003,580	0.11%
A-1		
Commercial Paper	312,677,576	7.17%
Not rated and other:	2,762,224,735	63.38%
Flex Repurchase Agreements	1,714,491,983	39.34%
Flex Overnight Pool	859,000,000	19.71%
Short term Government Bonds and Notes	188,732,752	4.33%
Grand Total	\$ 4,358,117,292	100.00%

Concentration of Credit Risk - Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. It is the policy of the State to diversify its investment portfolios. Assets shall be diversified to reduce the risk of loss resulting from an over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The following diversification limitations shall be imposed on the portfolio:

1. Investment maturities will be staggered to avoid undue concentration of assets in a specific maturity sector and to reflect cash flow requirements.
2. Investment in callable instruments is permitted for the State General Fund, but, the amount invested in callable instruments should not exceed the range of twenty to twenty five percent (20% to 25%) of the total amount invested from the State General Fund. Investment in callable investments is prohibited for Tax and Revenue Anticipation Note proceeds (and any other liquidity vehicle), the Local Government Investment Pool, bond proceeds, bond debt service funds, and such pension and permanent fund monies with respect to which the State Treasurer is the investing authority.
3. The maximum level of CD deposits for the entire portfolio shall be \$300 million with not more than \$30 million in any single financial institution. The State Board of Finance urges banks to loan this money out in their respective local communities to spur economic development.

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June 30, 2005

NOTE 3. Deposits and Investments (continued)

4. Investments in commercial paper, corporate bonds and assetbacked obligations shall not exceed 40 percent of assets of a fund. Investments in corporate bonds shall not exceed 10 percent of assets of a fund; provided that investments in commercial paper or bonds of any single corporation shall not exceed \$30 million; provided that investments in corporate bonds of a single corporation shall not exceed \$10 million.
5. Investments purchased with Tax Revenue Anticipation Note proceeds will be excluded from State General Fund investments for the purpose of determining investment allocation limits.

Investments greater than 5% with a single issuer include the following:

Issuer	Fair Value	Percentage of Portfolio
US Government Agency Obligations	\$ 1,262,302,491	28.96%
Federal Home Loan Bank	709,096,543	16.27%
FNMA	425,476,478	9.76%
Other	127,729,470	2.93%
Other issuers:		
Flex Repurchase Agreements	1,714,491,983	39.34%
Citibank/Citicorp	431,560,232	9.90%
Morgan Stanley	945,162,530	21.69%
Cantor Fitzgerald	337,769,221	7.75%
Flex Overnight Pool	859,000,000	19.71%
Corporate Bonds	859,000,000	19.71%
Corporate Bonds	20,912,490	0.48%
Commercial Paper	312,677,576	7.17%
Short Term Government Bonds and Notes	188,732,752	4.33%
Grand Total	\$ 4,358,117,292	100.00%

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The State Treasurer recognizes that any portfolio of marketable investment securities is subject to interest-rate risk. The State Treasurer, in an attempt to limit the possibility of loss due to interest rate fluctuations, will attempt to match investments with anticipated cash requirements. The State Treasurer or designee shall give particular emphasis to the following factors when selecting a specific security for inclusion in the portfolio:

1. Relative Yield to Maturity: Comparison of return available from alternative investment media for comparable maturity dates.
2. Marketability: Analysis of relative marketability of alternate investments in case of forced sale and/or possibility of future trades.
3. Intermarket Yield Analysis: Analysis of the spread relationship between sectors of the market, i.e. Treasury Bonds or Bills versus Agency Bonds or Discount Notes, to take advantage of aberrations in yield differentials.
4. Yield Curve Analysis: Analysis of the slope of the yield curve to determine the most attractive maturities for earning maximum return with minimal risk.
5. General Economic and Interest Rate Outlook: Review and analysis of current literature on interest rate projections to assist in timing transactions and selecting appropriate maturities.

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NOTE 3. Deposits and Investments (continued)

Maturities on investment are as follows:

Quality Rating	-----Maturities-----		
	Fair Value	Less 1 year	1-5 years
AAA:	\$ 1,268,242,731	\$ 559,904,155	\$ 708,338,576
Corporate Bonds	5,940,240	5,940,240	-
US Government Agency Obligations	1,262,302,491	553,963,915	708,338,576
A+	5,076,470	5,076,470	
Corporate Bonds	5,076,470	5,076,470	
BBB+	4,892,200	4,892,200	
Corporate Bonds	4,892,200	4,892,200	
BB	5,003,580	-	5,003,580
Corporate Bonds	5,003,580	-	5,003,580
A-1	312,677,576	312,677,576	
Commercial Paper	312,677,576	312,677,576	
Not rated and other:	2,762,224,735	1,966,412,099	795,812,636
Flex Repurchase Agreements	1,714,491,983	918,679,347	795,812,636
Flex Overnight Pool	859,000,000	859,000,000	-
Short term Government Bonds and Notes	188,732,752	188,732,752	-
Grand Total	\$ 4,358,117,292	\$ 2,848,962,500	\$ 1,509,154,792

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The State Treasurer's investment policy does not have a specific policy on foreign currency risk. However, the listing of permissible investments includes descriptions on the limitations related to each investment type.

All holdings at June 30, 2005 were denominated in United States Dollars.

Securities Collateral - Securities collateral relates to Flex Repurchase Agreements. At June 30, 2005, investments in repurchase agreements were \$ 2,573,491,983. Collateral required by State statute at June 30, 2005 was \$ 2,624,961,823. The investments in repurchase agreements were collateralized by US Government Mortgage Backed Securities valued at \$2,645,489,319 held at Northern Trust Company in California, in the Office's name.

The State's Investment Policy states that no such contract shall be invested in unless the contract is fully secured by deliverable obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract. The State's collateral requirements follow:

1. The market value of the collateral including accrued interest must be equal to 102% of the amount of cash transferred by the State to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 102% of the value of the cash transferred, then additional cash and/or acceptable securities must be delivered to the third party custodian sufficient to cure any deficiency; and

STATE OF NEW MEXICO
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Notes to Financial Statements
June 30, 2005

NOTE 3. Deposits and Investments (continued)

2. For repurchase agreements with terms to maturity of greater than one (1) day, the State will value the collateral securities continuously and require that if additional collateral is required then that collateral must be delivered within one business day. If a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated; and
3. The collateral on all repurchase agreements will have a maturity date that exceeds the term of the repurchase agreement. If the maturity date of the collateral is significantly longer than that of the repurchase agreement, then the collateral rate must be higher than 102% to compensate for market risk.

Credit ratings on collateral securities are as follows:

Quality Rating	Fair Value	Percentage of Portfolio
AAA:	\$ 2,621,578,133	100.00%
US Government Mortgage Backed Securities	1,713,848,081	65.37%
US Government Bonds	907,730,052	34.63%
Grand Total	\$ 2,621,578,133	100.00%

Concentrations of risk on collateral are as follows:

Issuer	Fair Value	Percentage of Portfolio
US Government Agency Obligations:	\$ 2,621,578,133	100.00%
US Government Mortgage Backed Securities	1,713,848,081	65.37%
GNMA Pool	1,713,848,081	65.37%
US Government Bonds	907,730,052	34.63%
Grand Total	\$ 2,621,578,133	100.00%

Maturities on collateral are as follows:

Quality Rating	Fair Value	-----Maturities-----		
		1 - 10 years	11-20 years	21 -30 years
AAA:	\$ 2,621,578,133	\$ -	\$ 167,785,374	\$ 2,453,792,759
US Government Mortgage Backed Securities	1,713,848,081	-	69,584,322	1,644,263,759
US Government Bonds	907,730,052	-	98,201,052	809,529,000
Grand Total	\$ 2,621,578,133	\$ -	\$ 167,785,374	\$ 2,453,792,759

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NOTE 4. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, being depreciated				
Equipment	\$ 324,648	\$ 20,306	\$ (38,295)	\$ 306,659
Total capital assets being depreciated	<u>324,648</u>	<u>20,306</u>	<u>(38,295)</u>	<u>306,659</u>
Less accumulated depreciation for:				
Equipment	(182,216)	(60,543)	33,825	(208,934)
Total accumulated depreciation	<u>(182,216)</u>	<u>(60,543)</u>	<u>33,825</u>	<u>(208,934)</u>
Total capital assets being depreciated, Net	\$ <u>142,432</u>	\$ <u>(40,237)</u>	\$ <u>(4,470)</u>	\$ <u>97,725</u>

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

Governmental activities:	
General government	\$ <u>60,543</u>
Total depreciation expense - governmental activities	\$ <u>60,543</u>

NOTE 5. Long-Term Obligations

Compensated Absences

As in prior years, the general fund is used to liquidate compensated absences. Following are the changes in compensated absences for the year ended June 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ <u>83,614</u>	\$ <u>117,489</u>	\$ <u>99,852</u>	\$ <u>101,251</u>	\$ <u>100,000</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 6. Condensed Financial Statements

Condensed financial statement of the Investment Trust Fund, inclusive of external and internal participants for the fiscal year ended June 30, 2005, as follows:

State Treasurer's Investment Trust Fund	
Balance Sheet	
June 30, 2005	
Assets	
Cash and Cash Equivalents	\$ 58,780,032
Investments	4,483,356,265
Interest Receivable	<u>16,258,453</u>
Total Assets	<u>\$ 4,558,394,750</u>
Liabilities and Net Assets:	
External Participant account balances	\$ 1,188,038,077
Other Internal Participant account balances	3,380,076,768
Primary Government	<u>(9,720,095)</u>
Undistributed Reserves and Unrealized Gains (Losses)	<u>(9,720,095)</u>
Total Net Assets	<u>\$ 4,558,394,750</u>

Investment Income – At June 30, 2005 the Office's investment income earnings were as follows:

Local Government Investment Pool	\$ 30,400,993
Consolidated Investment Pool	22,646,590
General Fund	<u>50,065,974</u>
	<u>\$ 103,113,557</u>

NOTE 7. Appropriations and Other Revenue

The Office received the following appropriation and other revenue for the year ended June 30, 2005:

General appropriation, (General Appropriation Act)	\$ 3,379,300
Special appropriation	<u>47,100</u>
Total state general fund appropriations	<u>\$ 3,426,400</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.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

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 \$ 12,371,958 remains in the Severance Tax Bonding Fund payable to the Severance Tax Permanent Fund that was transferred in July, 2005.

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.

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:

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 10. Arbitrage on Tax Exempt Bonds (continued)

	First Computation Date	First Payment Due to IRS	First Computation of Arbitrage Completed
General Obligation Capital Projects Bonds Series 1999	July 2004	August 2004	X
General Obligation Bonds Series 2001	3/21/2006	5/20/2006	
General Obligation Bonds Refunding Series 2001A	July 2005	August 2005	X
General Obligation Bonds Refunding Series 2001B	9/1/2006	10/31/2006	
General Obligation Bonds Series 2003	3/18/2008	5/17/2008	
General Obligation Bonds Refunding Series 2003B	4/16/2008	6/15/2008	
General Obligation Bonds Series 2005	3/1/2010	4/30/2010	
Severance Tax Bonds Series 1993B	July 1998	August 1998	X
Severance Tax Bonds Series 1994B	July 1999	August 1999	X
Severance Tax Bonds Series 1995A	July 2000	August 2000	X
Severance Tax Bonds Series 1995B	July 2000	August 2000	X
Severance Tax Bonds Series 1996A	July 2001	August 2001	X
Severance Tax Refunding Bonds Series 1997A	July 2002	August 2002	X
Severance Tax Refunding Bonds Series 1998A	July 2003	August 2003	X
Severance Tax Bonds Series 1998B	July 2003	August 2004	X
Severance Tax Bonds Series 1999B	July 2004	August 2004	X
Severance Tax Bonds Series 1999A			
Supplemental	July 2004	August 2004	X
Severance Tax Bonds Series 2000	July 2005	August 2005	X
Severance Tax Bonds 2000C Supplemental	July 2006	August 2006	X
Severance Tax Bonds Refunding Series 2001A	12/20/2006	2/18/2007	
Severance Tax Bonds Series 2002A	6/19/2007	8/18/2007	
Severance Tax Bonds Series 2002A Supplemental	1/16/2007	3/17/2007	
Severance Tax Bonds Series 2002B Supplemental	11/14/2007	1/13/2008	
Severance Tax Bonds Series 2003A	6/27/2008	8/26/2008	
Severance Tax Bonds Series 2003B Supplemental	10/14/2008	12/13/2008	
Severance Tax Bonds Series 2004A	6/15/2009	8/14/2009	
Severance Tax Bonds Series 2004B Supplemental	11/17/2009	1/16/2010	
Severance Tax Bonds Series 2005A	6/15/2010	8/14/2010	
Severance Tax Bonds Series 2005B-1 Refunding	6/28/2010	8/27/2010	
Severance Tax Bonds Series 2005B-2 Supplemental	6/28/2010	8/27/2010	
Enhanced 911 Revenue Bonds Series 2000	July 2005	August 2005	X

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

Notes to Financial Statements
June 30, 2005

NOTE 10. Arbitrage on Tax Exempt Bonds (continued)

Interest earnings on invested bond proceeds through June 30, 2005 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 collectability is not known, the accounts receivable or corresponding bad debt has not been recognized. The balance at June 30, 2005 is the fair market value at that date.

Subsequently, the 2005 New Mexico Legislature repealed the Business Development Corporation Act. The repeal included appropriating \$500,000 to the Economic Development Department and the transfer of the remaining unencumbered balance to the State General Fund.

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, 2005 financial statements:

CAS Number		Transfer From Amount	Transfer To Amount
	Bond Issuance Fund	\$ 520,918,242	\$
183	Series 2004-B Supplemental		10,486,497
410	Series 2004S-F		13,497,000
410	Series 2004S-G Supplemental		106,740,000
412	Series 2005-A		87,571,381
410	Series 2005S-A		51,280,015
410	Series 2005S-B Supplemental		44,600,000
410	Series 2005S-C		23,000,000
410	Series 2005S-D Supplemental		62,000,000
032	Series 2005A		121,743,349
Total		<u>\$ 520,918,242</u>	<u>\$ 520,918,242</u>

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

Notes to Financial Statements
June 30, 2005

NOTE 12. Transfers (continued)

Interfund Transfers: Interfund transfers are completed to move revenue from Fund 410, Severance Tax Bonding Fund, to the specific Debt Service funds per bond resolutions. The debt on Sponge Notes (noted with S in description) is paid directly from Fund 410.

	Fund	Transfer From	Transfer To
Debt Service:			
Severance Tax Bonding Fund	410	\$ 91,650,000	\$ 1,111,645
1999B STB Rebate	461	1,111,645	-
Supp STB 1999-A Debt Service	184	-	2,050,000
STB 2000 Debt Service	389	-	10,400,000
Debt Service - STB 2000C	405	-	1,900,000
STB Series 2001A Debt Service	408	-	25,750,000
STB Series 2002A	699	-	8,450,000
STB - 2002A Debt Service	095	-	8,150,000
STB Supp 2002B Debt Service	390	-	8,950,000
STB 2003A Debt Service	884	-	7,750,000
STB 2003B Debt Service	484	-	1,150,000
STB 2004B Debt Service	183	-	1,150,000
STB 2004-A Debt Service	492	-	15,950,000
		<u>\$ 92,761,645</u>	<u>\$ 92,761,645</u>

CAS #	Transfer From	Transfer To							Total
		031 GO 2003 Debt Service	414 GO 2001 Debt Service	418 GO 2003B Ref Debt Service	482 GO 2001B Refunding	487 GO 2001A Refunding	640 GO 1999 Debt Service	032 GO 2005 Debt Service	
031	GO 2003 Debt Service	\$ -	\$ -	\$ -	\$ 852,980	\$1,303,592	\$555,797	\$ -	\$2,712,369
409	GO 1999 Rebate	63,790	63,790	63,790	63,789	-	-	-	255,159
487	GO 2001A Refunding	4,632	4,632	4,632	4,633	-	-	-	18,529
640	GO 1999 Debt Service	146,738	146,738	146,738	146,737	-	-	-	586,951
712	GO Bonds 2001A - Rebate	689	689	689	690	-	-	-	2,757
416	GO 2003 Cost of Issuance	-	-	-	-	-	-	23,581	23,581
	DFA	-	-	-	-	73,410	-	-	73,410
	Total	<u>\$215,849</u>	<u>\$ 215,849</u>	<u>\$ 215,849</u>	<u>\$1,068,829</u>	<u>\$1,377,002</u>	<u>\$555,797</u>	<u>\$ 23,581</u>	<u>\$3,672,756</u>

\$23,349,443.71 was transferred from DFA to the TRAN Debt Service fund for the purpose of paying interest on the Taxation and Revenue Anticipation Notes.

\$10,332 and \$63,078, for a total of \$73,410, were transferred by DFA for reversion to the General Obligation Bonding fund.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

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 contribution to PERA for the years ending June 30, 2005, 2004, and 2003, were \$408,129, \$374,200, \$386,643, 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 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 before the employer's NMRHCA effective date, in which event the time period for contributions shall become the period of time between the employer's effective date and the date of retirement. (2) Retirees defined by the Act who retired prior to July 1, 1990 and former legislators who served at least two years.

Fund Contributions: Each participating employer makes contributions to the fund in the amount of 1.3 percent of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65 percent of the employee's salary.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

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

Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional participation fee of five dollars (\$5.00) if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

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, Albuquerque State Government Center, 401 Roma Avenue, NW, Suite 200, Albuquerque, NM 87102.

For the fiscal year ended June 30, 2005, the Office remitted \$21,395 in employer contributions and \$10,698 in employee contributions to the Retiree Health Care Authority.

NOTE 15. Deficit Fund Balance

As of June 30, 2005, the Office of the State Treasurer reported a deficit fund balance of \$70,839 in its general fund. The primary cause of the deficit fund balance was a \$97,185 accrual of payroll that was budgeted and paid for in the following fiscal year.

NOTE 16. Risk Management

The Office is exposed to various risks of loss for which the Office 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. Public employee fidelity bonding coverage is self-insured by the State of New Mexico. The current policy year is July 1, 2004 to June 30, 2005. 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.

The amount expected to revert to the state general fund as of June 30, 2005 is \$4,255, which relates to the fiscal year ended June 30, 2005. A stale dated warrant in the amount of \$1,520 will also revert.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 17. Reversion to the State General Fund (continued)

Amounts reverted to the State General Fund during 2005 were as follows:

	Appropriation	Reversion
Reversion to State General Fund FY 04	\$ 3,351,800	\$ 21,047

NOTE 18. 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. Excess of expenditures over appropriations. No funds over expended the appropriations for the year ended June 30, 2005.

NOTE 19. Subsequent Events

State Treasurer

While this audit covers only New Mexico state fiscal year 2005 (July 1, 2004 through June 30, 2005), it is important to disclose that on September 16, 2005, the Federal Bureau of Investigation took then State Treasurer Robert Vigil into custody as the result of an investigation dubbed "Operation Midas Touch." Mr. Vigil had served as State Treasurer during the entire period covered by this audit. He was subsequently indicted by a federal grand jury on charges of extortion and racketeering. The indictment alleges that Mr. Vigil received kickbacks from certain investment brokers in return for placing state investments with them. Mr. Vigil resigned as State Treasurer on October 26, 2005, while the state legislature was pursuing an impeachment proceeding against him.

As a result of these events, the New Mexico Department of Finance and Administration, acting on behalf of the Governor, contracted with the law firm of Hogan and Hartson to conduct an investigation of the activities of the State Treasurer's Office. Hogan and Hartson in turn subcontracted with Deloitte-Touche for a special forensic audit of the office to determine whether Mr. Vigil's activities had resulted in a loss of state funds or compromise of the office's internal controls or accounting systems. While the forensic audit did identify a number of weaknesses in the office's internal control, personnel and procurement procedures, it did not conclude that there was any evidence to indicate that state money had been lost as a direct result of Mr. Vigil's activities as State Treasurer. It is clear, however, that the steering of investments toward individuals who had allegedly provided kickbacks to Mr. Vigil may have resulted in a suboptimal rate of return for the state during the period addressed in this audit.

See the Management Discussion and Analysis for a more in-depth discussion of this event.

NOTE 20. Short-Term Debt – Taxation and Revenue Anticipation Notes

The State Treasurer's Office issues six month, fixed-rate, taxation and revenue anticipation notes to provide short-term cash to carry on the State of New Mexico operations until tax revenues are received in June. Repayment of the Notes comes from tax payments received in the year.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 20. Short-Term Debt – Taxation and Revenue Anticipation Notes (continued)

Short-term debt activity for the year ended June 30, 2005 was as follows:

	Balance 7/1/2004	Issued	Redeemed	Balance 6/30/2005
Taxation and Revenue Anticipation Notes	\$ -	\$ 700,000,000	\$ 700,000,000	\$ -

NOTE 21. Special Appropriation

The State Treasurer’s Office received a special appropriation, Laws 2004, C 114, S 9) to fund the FY 2005 compensation package. The policy of the State Treasurer’s Office is to use restricted funds first, therefore the special appropriation was utilized and not reverted. See Exhibit C for further information on general operating appropriations and expenditures.

State General Fund appropriation	\$ 3,379,300
Special appropriation	47,100
Other Grants	<u>13,883</u>
Total Revenues	\$ 3,440,283
Personnel services and benefits	\$ 2,462,855
Contractual Services	136,364
Operating Costs	<u>838,363</u>
Total Expenditures	\$ 3,437,582
Excess of Revenues over expenditures	<u>\$ 2,701</u>

NOTE 22. Subsequent Accounting Pronouncements

As of June 30, 2005, the Office adopted the provisions of GASB Statement No. 40, Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3. The Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Note 3 to the financial statements incorporates the provisions of this Statement. As an element of the interest rate risk, this Statement required certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement are also disclosed.

In November 2003, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which is effective for financial statements for periods beginning after December 15, 2004. This statement requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. The Statement also requires all governments to account for insurance recoveries in the same manner. The Office is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Notes to Financial Statements
June 30, 2005

NOTE 22. Subsequent Accounting Pronouncements (continued)

In December 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 46, Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement 34, which is effective for financial statements for periods beginning after June 15, 2005. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The Office is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In June 2005, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 47, Accounting for Termination Benefits, which is effective for financial statements for periods beginning after June 15, 2005, with earlier application encouraged. The Statement establishes accounting standards for termination benefits. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. For financial reporting purposes, a plan of involuntary termination is defined as a plan that (a) identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and when the terminations are expected to occur and (b) establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated. If a plan of involuntary termination requires that employees render future service in order to receive benefits, the employer should recognize a liability and expense for the portion of involuntary termination benefits that will be provided after completion of future service ratably over the employees' future service period, beginning when the plan otherwise meets the recognition criteria discussed above. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. The Office is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY ASSET CLASS AND SOURCE
Year Ended June 30, 2005

Schedule 1

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Governmental funds capital assets:				
Equipment, furniture & fixtures	\$ 324,648	\$ 20,306	\$ 38,295	\$ 306,659
Total governmental funds capital assets	\$ <u>324,648</u>	\$ <u>20,306</u>	\$ <u>38,295</u>	\$ <u>306,659</u>
Investments in governmental funds capital assets by source:				
General Fund revenues	\$ 324,648	\$ 20,306	\$ 38,295	\$ 306,659
Total governmental funds capital assets	\$ <u>324,648</u>	\$ <u>20,306</u>	\$ <u>38,295</u>	\$ <u>306,659</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, 2005

	CAS Fund #	Repurchase Agreements	Due From Other Agencies	Interest Receivable	Total Assets
1999 Series-Debt Service	640	\$ -	\$ 11,156	\$ -	\$ 11,156
2001 Series-Debt Service	414	8,259,314	58,402	9,262	8,326,978
2001-B Series-Refunding	482	4,601,190	559,908	371	5,161,469
2003 Series-Debt Service	031	15,306,630	157,968	13,557	15,478,155
2003B Series - Refunding	418	6,490,957	640,437	514	7,131,908
2005 Series Debt Service	032	11,081,013	153,413	628	11,235,054
911 Revenue	018	734,689	-	-	734,689
Total - Debt Service		<u>46,473,793</u>	<u>1,581,284</u>	<u>24,332</u>	<u>48,079,409</u>
2001 Series-Rebate	415	623,436	1,546	1,501	626,483
911-Rebate	488	87,951	211	7	88,169
Total - Rebate Accounts		<u>711,387</u>	<u>1,757</u>	<u>1,508</u>	<u>714,652</u>
2003 Series-Cost of Issuance	416	23,581	-	-	23,581
Total - Cost of Issuance		<u>23,581</u>	<u>-</u>	<u>-</u>	<u>23,581</u>
Combined Total		<u>\$ 47,208,761</u>	<u>\$ 1,583,041</u>	<u>\$ 25,840</u>	<u>\$ 48,817,642</u>

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

<u>Arbitrage Interest Payable</u>	<u>Designated for Debt Service</u>	<u>Designated for Arbitrage</u>	<u>Total Fund Equity</u>	<u>Total Liabilities and Fund Equity</u>
\$ -	\$ 11,156	\$ -	\$ 11,156	\$ 11,156
-	8,326,978	-	8,326,978	8,326,978
-	5,161,469	-	5,161,469	5,161,469
-	15,478,155	-	15,478,155	15,478,155
-	7,131,908	-	7,131,908	7,131,908
-	11,235,054	-	11,235,054	11,235,054
-	734,689	-	734,689	734,689
-	48,079,409	-	48,079,409	48,079,409
-	-	626,483	626,483	626,483
-	-	88,169	88,169	88,169
-	-	714,652	714,652	714,652
23,581	-	-	-	23,581
23,581	-	-	-	23,581
\$ 23,581	\$ 48,079,409	\$ 714,652	\$ 48,794,061	\$ 48,817,642

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, 2005

	CAS Fund #	Revenues		Expenditures	
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures
1995 Series-Debt Service	960	\$ (482)	\$ -	\$ -	\$ -
1999 Series-Debt Service	640	25,751	9,168,625	1,750	9,170,375
2001 Series-Debt Service	414	349,777	7,716,438	-	7,716,438
2001-A Series-Refunding	487	20,968	9,230,125	7,316	9,237,441
2001-B Series-Refunding	482	83,941	8,489,375	-	8,489,375
2003 Series-Debt Service	031	2,275,970	16,125,000	-	16,125,000
2003B Series - Refunding	418	107,348	1,776,750	750	1,777,500
2003 Series-Refunding	419	-	-	-	-
2005 Rebate	426	2	-	-	-
911 Revenue	018	43,442	755,040	-	755,040
2005 Series Debt Service	032	889,259	-	-	-
Total - Debt Service		<u>3,795,976</u>	<u>53,261,353</u>	<u>9,816</u>	<u>53,271,169</u>
1997 Series-Rebate	959	-	-	-	-
1999 Series-Rebate	409	1,770	-	212,036	212,036
2001 Series-Rebate	415	6,838	-	-	-
2001-A Series-Rebate	712	9	-	-	-
2000 Series-Enhanced 911-Rebate	488	1,973	-	-	-
Total - Rebate Accounts		<u>10,590</u>	<u>-</u>	<u>212,036</u>	<u>212,036</u>
2003 Series-Cost of Issuance	416	-	-	316,817	316,817
2003-B Ref.-Cost of Issuance	866	-	-	-	-
Total - Cost of Issuance		<u>-</u>	<u>-</u>	<u>316,817</u>	<u>316,817</u>
Combined Total		<u>\$ 3,806,566</u>	<u>\$ 53,261,353</u>	<u>\$ 538,669</u>	<u>\$ 53,800,022</u>

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

Other Financing
Sources (Uses)

Excess (Deficiency) of Revenues over Expenditures	Other Financing Sources (Uses)				
	State Property Tax Levy	Other Taxes	Bond Proceeds	Capital Projects Reversions	Interfund Transfers
(482)	\$ -	\$ -	\$ -	\$ -	\$ -
(9,144,624)	52,100	-	-	-	(31,154)
(7,366,661)	5,437,039	-	-	-	215,849
(9,216,473)	(306)	-	-	-	1,358,473
(8,405,434)	5,078,233	-	-	-	1,068,829
(13,849,030)	11,265,595	-	-	-	(2,496,520)
(1,670,152)	6,170,520	-	-	-	215,849
-	-	-	-	-	-
2	-	-	-	-	-
(711,598)	-	734,689	-	-	-
889,259	10,322,212	-	-	-	23,581
<u>(49,475,193)</u>	<u>38,325,393</u>	<u>734,689</u>	<u>-</u>	<u>-</u>	<u>354,907</u>
-	-	-	-	-	-
(210,266)	-	-	-	-	(255,159)
6,838	-	-	-	-	-
9	-	-	-	-	(2,757)
-	-	-	-	-	-
1,973	-	-	-	-	-
<u>(201,446)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(257,916)</u>
(316,817)	-	-	340,398	-	(23,581)
-	-	-	-	-	-
<u>(316,817)</u>	<u>-</u>	<u>-</u>	<u>340,398</u>	<u>-</u>	<u>(23,581)</u>
<u>(49,993,456)</u>	<u>\$ 38,325,393</u>	<u>\$ 734,689</u>	<u>\$ 340,398</u>	<u>\$ -</u>	<u>\$ 73,410</u>

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

Schedule 3
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June 30, 2005
Excess (Deficiency)
of Revenues and
Other Financing
Sources Over

	CAS Fund #	Expenditures and Other Financing Uses	Fund Balances June 30, 2004	Fund Balances June 30, 2005
1995 Series-Debt Service	960	\$ (482)	\$ 482	\$ -
1999 Series-Debt Service	640	(9,123,678)	9,134,834	11,156
2001 Series-Debt Service	414	(1,713,773)	10,040,751	8,326,978
2001-A Series-Refunding	487	(7,858,306)	7,858,306	-
2001-B Series-Refunding	482	(2,258,372)	7,419,841	5,161,469
2003 Series-Debt Service	031	(5,079,955)	20,558,110	15,478,155
2003B Series - Refunding	418	4,716,217	2,415,691	7,131,908
2003 Series-Refunding	419	-	-	-
2005 Rebate	426	2	-	2
911 Rebate	018	23,091	711,598	734,689
2005 Series Debt Service	032	11,235,052	-	11,235,052
Total - Debt Service		(10,060,204)	58,139,613	48,079,409
1997 Series-Rebate	959	-	-	-
1999 Series-Rebate	409	(465,425)	465,425	-
2001 Series-Rebate	415	6,838	619,645	626,483
2001-A Series-Rebate	712	(2,748)	2,748	-
2000 Series-Enhanced				
911-Rebate	488	1,973	86,196	88,169
Total - Rebate Accounts		(459,362)	1,174,014	714,652
2003 Series-Cost of Issuance	416	-	-	-
2003-B Ref.-Cost of Issuance	032	-	-	-
		-	-	-
Combined Total		\$ (10,519,566)	\$ 59,313,627	\$ 48,794,061

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, 2005

	Assets				Total Assets
	CAS Fund #	Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	
Severance Tax Bonding	410	\$ 12,219,910	\$ 34,868,795	\$ -	\$ 47,088,705
1999-A Series-Debt Service	184	1,990,365	4,936	162	1,995,463
1999-B Series-Debt Service	186	-	-	-	-
2000 Series-Debt Service	389	11,127,333	1,914	919	11,130,166
2000-C Series-Debt Service	405	2,091,874	5,002	171	2,097,047
2001-A Series-Refunding	408	25,665,370	4,503	5,463	25,675,336
2002-A Series-Debt Service	699	7,785,581	3,672	1,623	7,790,876
2002-A Supp. Series - DS	095	7,738,656	5,135	1,626	7,745,417
2002-B Supp. Series - DS	390	9,035,718	24,813	737	9,061,268
2003-A Series-Debt Service	884	8,645,080	4,533	1,731	8,651,344
2003-B Series-Debt Service	484	1,086,430	4,026	89	1,090,545
2004-A Series-Debt Service	492	15,195,122	5,898	3,095	15,204,115
2004-B Series Debt Service	183	1,327,752	7,782	254	1,335,788
2005-A Series Debt Service	412	-	109,000	-	109,000
Total - Debt Service		103,909,191	35,050,009	15,870	138,975,070
1999-A Series-Rebate	185	236,754	587	20	237,361
1999-B Series-Rebate	461	-	-	-	-
2000 Series Rebate	391	1,274,507	3,159	1,565	1,279,231
2000-C Series Rebate	406	299,872	744	24	300,640
Total - Rebate Accounts		1,811,133	4,490	1,609	1,817,232
Combined Total		\$ 105,720,324	\$ 35,054,499	\$ 17,479	\$ 140,792,302

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

Liabilities			Fund Equity	
Due To Severance Tax Permanent Fund	Accounts Payable	Total Liabilities	Unreserved- Designated for Debt Service	Unreserved- Designated for Arbitrage
\$ 12,371,958	\$ 76,928	\$ 12,448,886	\$ 34,639,818	\$ -
-	-	-	1,995,463	-
-	-	-	-	-
-	-	-	11,130,166	-
-	-	-	2,097,047	-
-	-	-	25,675,336	-
-	-	-	7,790,876	-
-	-	-	7,745,417	-
-	-	-	9,061,268	-
73,537	-	73,537	8,577,808	-
-	-	-	1,090,545	-
-	-	-	15,204,115	-
-	-	-	1,335,788	-
-	-	-	109,000	-
<u>12,445,495</u>	<u>76,928</u>	<u>12,522,423</u>	<u>126,452,647</u>	<u>-</u>
-	-	-	237,361	-
-	-	-	-	-
-	-	-	1,279,231	-
-	-	-	300,640	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,817,232</u>	<u>-</u>
<u>\$ 12,445,495</u>	<u>\$ 76,928</u>	<u>\$ 12,522,423</u>	<u>\$ 128,269,879</u>	<u>\$ -</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, 2005

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	CFAS Fund #	Total Fund Equity	Liabilities and Fund Equity
Severance Tax Bonding	410	\$ 34,639,818	\$ 47,088,704
1999-A Series -Debt Service	184	1,995,463	1,995,463
1999-B Series-Debt Service	186	-	-
2000 Series-Debt Service	389	11,130,166	11,130,166
2000-C Series-Debt Service	405	2,097,047	2,097,047
Series 2001-A Refunding	408	25,675,336	25,675,336
2002-A Series-Debt Service	699	7,790,876	7,790,876
2002-A Supp. Series - DS	095	7,745,417	7,745,417
2002-B Supp. Series - DS	390	9,061,268	9,061,268
2003-A Series-Debt Service	884	8,577,808	8,651,345
2003-B Series-Debt Service	484	1,090,545	1,090,545
2004-A Series-Debt Service	492	15,204,115	15,204,115
2004-B Series Debt Service	183	1,335,788	1,335,788
2005-A Series Debt Service	412	109,000	109,000
		126,452,648	138,975,071
Total - Debt Service			
1999-A Series-Rebate	185	237,361	237,361
1999-B Series-Rebate	461	-	-
2000 Series Rebate	391	1,279,231	1,279,231
2000-C Series Rebate	406	300,640	300,640
		1,817,231	1,817,231
Total - Rebate Accounts			
Combined Total		\$ 128,269,879	\$ 140,792,302

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, 2005

	<u>Revenues</u>		<u>Expenditures</u>		
	CAS	Interest	Principal and	Other Charges	Total
Fund #	Fund #	Income	Interest on Long-Term Debt	Other Charges	Expenditures
Severance Tax Bonding	410	\$ 8,235,689	\$ 301,137,816	\$ 595,338	\$ 301,733,154
1999-A Series-Debt Service	184	34,239	2,034,672	-	2,034,672
1999-B Series-Debt Service	186	992	5,450,375	101,584	5,551,959
2000 Series-Debt Service	389	666,565	11,929,038	284,875	12,213,913
2000-C Series-Debt Service	405	194,934	2,042,419	-	2,042,419
2001-A Series-Refunding	408	448,051	15,891,750	191,250	16,083,000
2002-A Series-Debt Service	699	173,801	8,450,725	769,250	9,219,975
2002-A Supp. Series - DS	095	167,585	8,460,038	551,500	9,011,538
2002-B Supp. Series - DS	390	189,669	5,407,900	-	5,407,900
2003-A Series-Debt Service	884	629,787	1,248,463	-	1,248,463
2003-B Series-Debt Service	484	50,703	1,062,296	-	1,062,296
2004-A Series-Debt Service	492	1,296,919	2,080,594	-	2,080,594
2004-B Series Debt Service	183	185,788	-	-	-
2005-A Series -Debt Service	412	109,000	-	-	-
Total - Debt Service		<u>12,383,722</u>	<u>365,196,086</u>	<u>2,493,797</u>	<u>367,689,883</u>
1998-A Series-Rebate	486	-	-	-	-
1999-A Series-Rebate	185	8,385	-	-	-
1999-B Series-Rebate	461	1,965	-	-	-
2000 Series-Rebate	391	29,532	-	-	-
2000-C Series Rebate	406	6,479	-	-	-
Total - Rebate Accounts		<u>46,361</u>	<u>-</u>	<u>-</u>	<u>-</u>
Combined Total		<u>\$ 12,430,083</u>	<u>\$ 365,196,086</u>	<u>\$ 2,493,797</u>	<u>\$ 367,689,883</u>

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

Other Financing
Sources (Uses)

Excess (Deficiency) of Revenues over Expenditures	Severance Taxes	Bond Proceeds	Capital Projects Reversions	Interfund Transfers
\$ (293,497,465)	\$ 399,867,860	\$ -	\$ 2,568,077	\$ (90,538,355)
(2,000,433)	-	-	-	2,050,000
(5,550,967)	-	-	-	-
(11,547,348)	-	-	-	10,400,000
(1,847,485)	-	-	-	1,900,000
(15,634,949)	-	-	-	25,750,000
(9,046,174)	-	-	-	8,450,000
(8,843,953)	-	-	-	8,150,000
(5,218,231)	-	-	-	8,950,000
(618,676)	-	-	154,389	7,750,000
(1,011,593)	-	-	-	1,150,000
(783,675)	-	-	-	15,950,000
185,788	-	-	-	1,150,000
109,000	-	-	-	-
<u>(355,306,161)</u>	<u>399,867,860</u>	<u>-</u>	<u>2,722,466</u>	<u>1,111,645</u>
-	-	-	-	-
8,385	-	-	-	-
1,965	-	-	-	(1,111,645)
29,532	-	-	-	-
6,479	-	-	-	-
<u>46,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,111,645)</u>
<u>\$ (355,259,800)</u>	<u>\$ 399,867,860</u>	<u>\$ -</u>	<u>\$ 2,722,466</u>	<u>\$ -</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, 2005

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	CFAS Fund #	Other Financing Sources (Uses)	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	Fund Balances June 30, 2004	Fund Balances June 30, 2005
		Severance Tax Permanent Fund Reversions			
Severance Tax Bonding	410	\$ (12,371,958)	\$ 6,028,159	\$ 28,611,659	\$ 34,639,818
1999-A Series-Debt Service	184	-	49,567	1,945,896	1,995,463
1999-B Series-Debt Service	186	-	(5,550,967)	5,550,967	-
2000 Series-Debt Service	389	-	(1,147,348)	12,277,514	11,130,166
2000-C Series-Debt Service	405	-	52,515	2,044,532	2,097,047
2001-A Series-Refunding	408	-	10,115,051	15,560,285	25,675,336
2002-A Series-Debt Service	699	-	(596,174)	8,387,050	7,790,876
2002-A Supp. Series - DS	095	-	(693,953)	8,439,370	7,745,417
2002-B Supp. Series - DS	390	-	3,731,769	5,329,499	9,061,268
2003-A Series-Debt Service	884	-	7,285,713	1,292,095	8,577,808
2003-B Series-Debt Service	484	-	138,407	952,138	1,090,545
2004-A Series-Debt Service	492	-	15,166,325	37,790	15,204,115
2004-B Series Debt Service	183	-	1,335,788	-	1,335,788
2005-A Series -Debt Service	412	-	109,000	-	109,000
Total - Debt Service		(12,371,958)	36,023,852	90,428,795	126,452,647
1998-A Series-Rebate	486	-	-	-	-
1999-A Series-Rebate	185	-	8,385	228,976	237,361
1999-B Series-Rebate	461	-	(1,109,680)	1,109,680	-
2000 Series-Rebate	391	-	29,532	1,249,699	1,279,231
2000-C Series Rebate	406	-	6,479	294,161	300,640
Total - Rebate Accounts		-	(1,065,284)	2,882,516	1,817,232
Combined Total		\$ (12,371,958)	\$ 34,958,568	\$ 93,311,311	\$ 128,269,879

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
LONG-TERM DEBT ROLLFORWARD
June 30, 2005

Issue		Date	Amount	Interest Rate	Unpaid Balance 6/30/2004
General Obligation and Revenue Bonds					
Capital Projects-Series 1999	409	3/1/1999	80,895,000	4.00-5.00%	\$ 8,945,000
Capital Projects-Series 2001	414	3/1/2001	62,550,000	4.00-5.00%	47,000,000
Refunding Series 2001-A	487	9/1/2001	33,615,000	5.00%	9,005,000
Enhanced 911 Revenue Bonds-Series 2000	(341-018)488	8/1/2000	4,545,000	4.35-6.75%	2,775,000
2001-B Refunding	482	11/1/2001	23,830,000	1.80-3.04%	23,830,000
Capital Projects-Series 2003	031	3/1/2003	130,900,000	3.00-5.00%	120,320,000
Refunding Series 2003-B	418	4/1/2003	44,955,000	2.00-5.00%	37,275,000
Series 2005 Debt Service	032	3/1/2005	111,850,000	4.00-5.00	-
Total General Obligation Bonds			<u>493,140,000</u>		<u>249,150,000</u>
Severence Tax Bonds					
Series 1999-A Supplemental	184	10/1/1999	12,000,000	4.25-5.50%	5,655,000
Series 1999-B	186	6/15/1999	50,668,000	5.00%	5,185,000
Series 2000	389	6/1/2000	59,650,000	5.00-5.50%	32,035,000
Series 2000-C Supplemental	405	7/1/2000	12,000,000	4.50-5.00%	7,480,000
Series 2001-A Refunding	408	11/1/2001	115,380,000	1.85-3.60%	103,530,000
Series 2002-A	699	5/1/2002	67,000,000	4.00-5.00%	61,675,000
Series 2002-A Supplemental	095	12/1/2001	65,000,000	4.00-5.00%	53,765,000
Series 2002-B Supplemental	390	11/1/2002	45,000,000	2.50-5.00%	41,425,000
Series 2003-A	884	6/1/2003	89,660,000	2.50-5.00%	68,025,000
Series 2003-B Supplemental	484	11/1/2003	10,000,000	2.00-3.70%	10,000,000
Series 2004-A	492	6/15/2004	76,430,000	5.00%	76,430,000
Series 2004- B Supplemental	183	11/17/2004	10,000,000	2.00-5.00%	-
Series 2004S-F	410	12/30/2004	13,497,000	1.79%	-
Series 2004S-G Supplemental	410	12/30/2004	106,740,000	1.79%	-
Series 2005-A	412	6/15/2005	97,000,000	4.00-5.50%	-
Series 2005B-1 Refunding	388	6/28/2005	37,040,000	3.00-5.00%	-
Series 2005B-2 Supplemental	571	6/28/2005	21,095,000	3.25-5.00%	-
Series 2005S-A	410	6/29/2005	51,280,015	2.95%	-
Series 2005S-B Supplemental	410	6/29/2005	44,600,000	2.95%	-
Series 2005S-C	410	6/29/2005	23,000,000	2.95%	-
Series 2005S-D Supplemental	410	6/29/2005	62,000,000	2.95%	-
Total Severence Tax Bonds			<u>1,069,040,015</u>		<u>465,205,000</u>
Total General Long-Term Debt			<u>\$ 1,562,180,015</u>		<u>\$ 714,355,000</u>

Current year bond premiums:

	Premium/Discount
GO Bond Series 2005	\$ 10,378,034
STB Series 2004B	532,477
STB Series 2005A	2,230,076
STB Series 2005B-1	3,576,857
STB Supplemental Series 2005B-2	2,260,003
STB 2004S-F	-
STB 2004S-G	-
SSTB 05-SA	-
SSTB 05-SB	-
SSTB 05-SC	-
SSTB 05-SD	-
	<u>\$ 18,977,447</u>

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

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New Bonds	Refunded Debt	Principal Payments	Total Reductions	Unpaid Balance 6/30/2005
-	\$ -	\$ 8,945,000	\$ 8,945,000	\$ -
-	-	5,790,000	5,790,000	41,210,000
-	-	9,005,000	9,005,000	-
-	-	645,000	645,000	2,130,000
-	-	7,485,000	7,485,000	16,345,000
-	-	11,075,000	11,075,000	109,245,000
-	-	-	-	37,275,000
111,850,000	-	-	-	111,850,000
<u>111,850,000</u>	<u>-</u>	<u>42,945,000</u>	<u>42,945,000</u>	<u>318,055,000</u>
-	-	1,795,000	1,795,000	3,860,000
-	-	5,185,000	5,185,000	-
-	11,395,000	10,565,000	21,960,000	10,075,000
-	-	1,730,000	1,730,000	5,750,000
-	7,650,000	10,990,000	18,640,000	84,890,000
-	30,770,000	5,595,000	36,365,000	25,310,000
-	22,060,000	5,935,000	27,995,000	25,770,000
-	-	3,760,000	3,760,000	37,665,000
-	-	-	-	68,025,000
-	-	730,000	730,000	9,270,000
-	-	-	-	76,430,000
10,000,000	-	-	-	10,000,000
13,497,000	-	13,497,000	13,497,000	-
106,740,000	-	106,740,000	106,740,000	-
97,000,000	-	-	-	97,000,000
37,040,000	-	-	-	37,040,000
21,095,000	-	-	-	21,095,000
51,280,015	-	51,280,015	51,280,015	-
44,600,000	-	44,600,000	44,600,000	-
23,000,000	-	23,000,000	23,000,000	-
62,000,000	-	62,000,000	62,000,000	-
<u>466,252,015</u>	<u>71,875,000</u>	<u>347,402,015</u>	<u>419,277,015</u>	<u>512,180,000</u>
<u>578,102,015</u>	<u>\$ 71,875,000</u>	<u>\$ 390,347,015</u>	<u>\$ 462,222,015</u>	<u>\$ 830,235,000</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
LONG-TERM DEBT ROLLFORWARD
June 30, 2005

Schedule 6
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Issue		Interest to Maturity	Debt Service Requirements
General Obligation and Revenue Bonds			
Capital Projects-Series 1999	409	\$ -	\$ -
Capital Projects-Series 2001	414	6,241,716	47,451,716
Refunding Series 2001-A	487	-	-
Enhanced 911 Revenue Bonds-Series 2000	(341-018)488	146,927	2,276,927
2001-B Refunding	482	829,375	17,174,375
Capital Projects-Series 2003	031	21,058,700	130,303,700
Refunding Series 2003-B	418	3,792,875	41,067,875
Series 2005 Debt Service	032	33,016,250	144,866,250
		<u>65,085,843</u>	<u>383,140,843</u>
Total General Obligation Bonds			
Severance Tax Bonds			
Series 1999-A Supplemental	184	207,707	4,067,707
Series 1999-B	186	-	-
Series 2000	389	251,875	10,326,875
Series 2000-C Supplemental	405	426,815	6,176,815
Series 2001-A Refunding	408	8,727,000	93,617,000
Series 2002-A	699	2,547,588	27,857,588
Series 2002-A Supplemental	095	2,633,250	28,403,250
Series 2002-B Supplemental	390	6,582,150	44,247,150
Series 2003-A	884	10,991,571	79,016,571
Series 2003-B Supplemental	484	1,468,035	10,738,035
Series 2004-A	492	18,925,250	95,355,250
Series 2004- B Supplemental	183	2,282,588	12,282,588
Series 2004S-F	410	-	-
Series 2004S-G Supplemental	410	-	-
Series 2005-A	412	21,853,685	118,853,685
Series 2005B-1 Refunding	388	8,981,412	46,021,412
Series 2005B-2 Supplemental	571	5,241,553	26,336,553
Series 2005S-A	410	-	-
Series 2005S-B Supplemental	410	-	-
Series 2005S-C	410	-	-
Series 2005S-D Supplemental	410	-	-
		<u>91,120,479</u>	<u>603,300,479</u>
Total Severance Tax Bonds			
Total General Long-Term Debt		<u>\$ 156,206,322</u>	<u>\$ 986,441,322</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
SCHEDULE OF DEBT SERVICE MATURITIES
June 30, 2005

Schedule 6
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Issue	Year Ending June 30,		
General Obligation Bonds	2006	2007	2008
Capital Projects-Series 2001	\$ 7,769,838	\$ 7,821,838	\$ 7,882,038
Enhanced 911 Revenue Bonds-Series 2000	755,663	759,501	761,763
2001 B Refunding	8,549,000	8,625,375	-
Capital Projects-Series 2003	16,197,000	16,157,500	16,111,000
Refunding Series 2003-B	10,302,750	10,262,250	10,252,875
Series 2005	13,859,000	14,615,000	14,603,000
Total General Obligation Bonds	<u>57,433,251</u>	<u>58,241,464</u>	<u>49,610,676</u>
Severance Tax Bonds			
Series 1999-A Supplemental	2,038,394	2,029,313	-
Series 2000	10,326,875	-	-
Series 2000-C Supplemental	2,051,406	2,060,034	2,065,375
Series 2001-A Refunding	25,236,250	23,179,875	23,157,875
Series 2002-A Supplemental	7,250,625	7,144,750	7,048,125
Series 2002-A	6,943,251	6,967,462	6,976,875
Series 2002-B Supplemental	5,457,600	5,470,200	5,467,950
Series 2003-A	8,512,676	8,501,551	8,494,676
Series 2003-B Supplemental	1,113,032	1,129,682	1,154,376
Series 2004-A	15,151,000	9,397,625	9,208,625
Series 2004-B	1,251,238	1,244,300	1,243,575
Series 2005-A	20,395,985	12,514,050	10,559,300
Series 2005-B1	896,592	1,763,788	1,763,788
Series 2005-B2	529,111	1,040,876	1,040,876
Total Severance Tax Bonds	<u>107,154,035</u>	<u>82,443,506</u>	<u>78,181,416</u>
TOTAL DEBT SERVICE REQUIREMENTS	<u>\$ 164,587,286</u>	<u>\$ 140,684,970</u>	<u>\$ 127,792,092</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
SCHEDULE OF DEBT SERVICE MATURITIES
June 30, 2005

Schedule 6
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2009	2010	2011-2015	Total
\$ 7,939,638	\$ 7,995,476	\$ 8,042,888	\$ 47,451,716
-	-	-	2,276,927
-	-	-	17,174,375
16,193,400	16,277,200	49,367,600	130,303,700
10,250,000	-	-	41,067,875
14,588,000	14,574,000	72,627,250	144,866,250
48,971,038	38,846,676	130,037,738	383,140,843
-	-	-	4,067,707
-	-	-	10,326,875
-	-	-	6,176,815
17,307,500	4,735,500	-	93,617,000
6,959,750	-	-	28,403,250
6,970,000	-	-	27,857,588
5,482,900	5,525,700	16,842,800	44,247,150
8,557,576	8,697,976	36,252,116	79,016,571
1,175,633	1,195,721	4,969,591	10,738,035
9,047,250	8,911,750	43,639,000	95,355,250
1,240,075	1,243,500	6,059,900	12,282,588
10,532,350	10,543,600	54,308,400	118,853,685
7,531,088	9,742,700	24,323,456	46,021,412
1,040,876	7,634,063	15,050,751	26,336,553
75,844,998	58,230,510	201,446,014	603,300,479
\$124,816,036	\$ 97,077,186	\$ 331,483,752	\$ 986,441,322

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SUMMARY OF LONG-TERM DEBT OBLIGATIONS
AMORTIZATION OF BOND ISSUANCE COSTS
June 30, 2005

Schedule 6
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Issue	Date	Original Cost	Amortization			Net Book Value 30-Jun-05
			Accumulated Amortization 30-Jun-04	Current Amortization Expense	Accumulated Amortization 30-Jun-05	
General Obligation						
Capital Projects-Series 1993	3/1/1993	183,658	183,658	-	183,658	-
Capital Projects-Series 1997	3/1/1997	147,896	147,896	-	147,896	-
Capital Projects-Series 1999	3/1/1999	184,559	98,432	18,456	116,888	67,671
Capital Projects-Series 2001	3/1/2001	142,706	47,570	14,271	61,841	80,865
Refunding Series 2001-A Enhanced 911 Revenue	9/1/2001	76,692	18,108	6,391	24,499	52,193
Bonds-Series 2000	8/1/2000	10,369	5,076	1,296	6,372	3,997
2001-B Refunding	11/1/2001	156,167	69,408	26,028	95,436	60,731
Capital Projects-Series 2003	3/1/2003	898,030	108,852	81,639	190,491	707,539
2003-B Refunding	4/1/2003	187,165	46,791	37,433	84,224	102,941
Series 2005	1/11/2005	801,503	-	80,150	80,150	721,353
Severance						
Series 1993-B	9/1/1993	171,163	171,163	-	171,163	-
Series 1995-A	4/1/1995	18,393	18,393	-	18,393	-
Series 1995-B	11/1/1995	133,101	133,101	-	133,101	-
Series 1998-A Refunding	3/1/1998	51,858	46,918	4,940	51,858	-
Series 1998-B	5/1/1998	310,508	273,542	36,966	310,508	-
Series 1999-A Supplemental	10/1/1999	27,378	16,255	3,422	19,677	7,701
Series 1999-B	6/15/1999	115,597	83,946	16,514	100,460	15,137
Series 2000	6/1/2000	136,090	69,462	17,011	86,473	49,617
Series 2000-C Supplemental	7/1/2000	27,378	13,688	3,422	17,110	10,268
Series 2001-A Refunding	11/1/2001	491,432	145,610	54,604	200,214	291,218
Series 2002-A	5/1/2002	201,625	39,715	18,330	58,045	143,580
Series 2002-A Supplemental	12/1/2001	323,200	83,493	32,320	115,813	207,387
Series 2003-A Refunding	6/1/2003	229,530	22,605	20,866	43,471	186,059
Series 2002-B Supplemental	11/1/2002	206,444	31,280	18,768	50,048	156,396
Series 2003-B Supplemental	11/1/2003	33,445	-	3,345	3,345	30,100
Series 2004-A	6/15/2004	158,974	-	15,897	15,897	143,077
Series 2004-B	11/17/2004	127,805	-	12,781	12,781	115,024
Series 2005-A	5/12/2005	565,863	-	56,586	56,586	509,277
Series 2005-B1 Refunding	6/28/2005	399,646	-	57,092	57,092	342,554
Series 2005-B2 Supplemental	6/28/2005	110,254	-	18,376	18,376	91,878
Total		<u>6,628,429</u>	<u>1,874,962</u>	<u>656,904</u>	<u>2,531,866</u>	<u>4,096,564</u>
Refunded						
Series 2000	6/1/2000	136,090	-	-	86,474	49,617
Series 2001-A Refunding	11/1/2001	491,432	-	-	200,213	291,219
Series 2002-A	5/1/2002	201,625	-	-	58,044	143,581
Series 2002-A Supplemental	12/1/2001	323,200	-	-	115,813	207,387
		1,152,347			460,544	691,803
Grand Total		<u>5,476,082</u>			<u>2,071,322</u>	<u>3,404,761</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
ADDITIONAL INFORMATION
June 30, 2005

Schedule 6
(Page 5 of 6)

Additional Information Related to Long-Term Debt Obligations

The following information is presented as additional explanation of the long-term debt obligations of the State of New Mexico as detailed in Schedule 6 of this report.

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 levied by other state agencies.

The following General Obligation Bonds were issued during the fiscal year ended June 30, 2005.

Series 2005 Debt Service

On March 1, 2005 the State Board of Finance issued general obligation bonds with a principal amount of \$111,850,000 to finance public capital projects. Interest rates range from 4% to 5% with principal payments due 2015.

The annual requirements to amortize the combined General Obligation Bond issues outstanding as of June 30, 2005 including interest payments are as follows (See details on Schedule 6):

Fiscal Year Ending June 30	Total
2006	57,433,251
2007	58,241,464
2008	49,610,676
2009	48,971,038
2010	38,846,676
2010-2015	130,037,738
Total	<u>383,140,843</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, 2005:

Severance Tax Bonds Supplemental Series 2004B

On November 17, 2004 the State Board of Finance issued bonds with a principal amount of \$10,000,000 to finance public capital projects. Interest rates range from 2.00% to 4.00% with principal payments due through 2014.

Severance Tax Bonds Series 2005A

On June 15, 2005 the State Board of Finance issued bonds with a principal amount of \$97,000,000 to finance public capital projects authorized by the State Legislature, as well as to provide for the partial refunding of Severance Tax Bonds, Series 2000. The interest rate ranges from 4.00% to 5.5% with principal payments due through 2015.

Severance Tax Bonds 2005B-1 Refunding

On June 28, 2005 the State Board of Finance issued bonds with a principal amount of \$37,040,000 to provide for the partial refunding of Severance Tax Bonds, Series 2001A Refunding and 2002A. The interest rate ranges from 3.00% to 5.00% with principal payments due through 2012.

Severance Tax Bonds 2005B-2 Supplemental

On June 28, 2005 the State Board of Finance issued bonds with a principal amount of \$21,095,000 to provide for the partial refunding of Severance Tax Bonds 2002A Supplemental. The interest rate ranges from 3.25% to 5.00% with principal payments due through 2011.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SUMMARY OF LONG-TERM DEBT OBLIGATIONS
ADDITIONAL INFORMATION
June 30, 2005

Schedule 6
(Page 6 of 6)

The annual requirements to amortize the combined Severance Tax Bond issues outstanding as June 30, 2005, including interest payments are as follows (See details on Schedule 6):

Fiscal Year Ending June 30	Total
2006	107,154,035
2007	82,443,505
2008	78,181,415
2009	75,844,997
2010	58,230,510
2010-2015	201,446,013
Total	<u>603,300,475</u>

Advance and Current Refundings

The State Board of Finance defeased certain severance and supplemental severance tax bonds by placing the proceeds of new bonds in an irrevocable trust to provide for the refunded portion of future debt service payments on old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the summary long-term debt obligations disclosed in Schedule 6 of this report.

The following refunding activity occurred during the year ended June 30, 2005:

On June 15, 2005 the State Board of Finance issued Severance Tax Bonds Series 2005A with a principal amount of \$97,000,000 to finance public capital projects by the State Legislature, as well as to provide for the partial refunding of Severance Tax Bonds Series 2000. The difference in cash flows required between the prior debt service requirements and new funding debt service requirements resulted in cash flow savings of \$251,346. The economic gain, or present value savings, was \$238,526.

On June 28, 2005 the State Board of Finance issued Severance Tax Bonds Series 2005B-1 Refunding with a principal amount of \$37,040,000 to provide for the partial refunding of Severance 2001A Refunding and 2002A. The difference in cash flow required between the prior debt service requirements and new funding debt service requirements resulted in a cash flow savings of \$2,529,745. The economic gain, or present value savings, was \$1,663,078.

On June 28, 2005 the State Board of Finance issued Severance Tax Bonds Series 2005B-2 Supplemental with a principal amount of \$21,095,000 to provide for the partial refunding of Severance 2002A Supplemental. The difference in cash flow required between the prior debt service requirements and new funding debt service requirements resulted in a cash flow savings of \$1,462,101. The economic gain, or present value savings, was \$966,167.

As of June 30, 2005, the amount of defeased debt removed from the Summary of Long Term Debt Obligations, but still outstanding with escrow agents included the following:

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	17,125,000
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 2004A:	
Severance Tax Bond Series 1998B	5,430,000
Severance Tax Bonds, Series 2005A:	
Severance Tax Bonds, Series 2000	11,395,000
Severance Tax Bonds, Series 2005B-1 Refunding:	
Severance Tax Bonds, Series 2001A Refunding	7,805,000
Severance Tax Bonds, Series 2002A	30,770,000
Severance Tax Bonds, Series 2005B-2 Supplemental:	
Severance Tax Bonds, Series 2002A Supplemental	22,060,000

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
June 30, 2005

Schedule 7

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value
<u>GENERAL FUND</u>				
Cash				490,000,000
Overnight				249,609,402
Repurchase Agreements	Various	Various	Various	\$ 739,609,402
<u>Certificates of deposit</u>	Various	Various	Various	\$ 208,450,000
<u>Fixed Income Governmental Obligations</u>				
City of Albuquerque	2.930%	6/30/2005	7/1/2005	20,005,917
Federal National Mortgage Association Mdtrm NT	7.000%	1/25/2005	7/15/2005	15,293,550
Federal Home Loan Mtgcorp Disc Dn	2.741%	1/25/2005	7/26/2005	14,792,105
Federal National Mortgage Association Mdtrm NT	1.550%	7/29/2003	7/29/2005	4,997,500
Federal National Mortgage Association Mdtrm NT	1.550%	7/29/2003	7/29/2005	4,996,250
Federal Home Loan Banks	1.700%	8/5/2003	8/5/2005	10,000,000
Federal Home Loan Mortgage Corp	1.910%	8/11/2003	8/11/2005	15,000,000
Federal Home Loan Banks	3.250%	12/2/2004	8/15/2005	5,020,623
Federal Home Loan Banks	1.500%	11/16/2004	8/26/2005	14,869,620
Federal Home Loan Mortgage Corp	2.875%	11/23/2004	9/15/2005	5,004,741
Federal Home Loan Mortgage Corp	2.875%	12/2/2004	9/15/2005	5,003,320
Federal National Discount Note	2.765%	12/29/2004	9/16/2005	24,498,844
Federal National Mortgage Association Mtn	2.250%	11/23/2004	9/22/2005	3,985,880
Federal Home Loan Banks	2.230%	9/13/2004	10/13/2005	30,000,000
Federal National Mortgage Association DN	2.948%	2/10/2005	11/4/2005	9,781,328
Federal National Mortgage Association DN	3.310%	5/26/2005	11/23/2005	19,999,537
Federal National Mortgage Association Mdtrm NT	2.390%	10/27/2004	11/30/2005	25,000,000
Federal National Mortgage Association DN	2.856%	12/20/2004	12/9/2005	19,438,320
Federal Home Loan Mortgage Corp	2.500%	12/2/2004	12/30/2005	4,979,920
Federal Home Loan Mortgage Corp	5.250%	12/2/2004	1/15/2006	2,409,852
Federal Home Loan Banks	2.900%	12/27/2004	1/27/2006	40,000,000
Federal Home Loan Banks	2.000%	2/2/2004	2/13/2006	19,990,000
Federal Home Loan Mortgage Corp BDS	2.000%	2/17/2004	2/17/2006	25,000,000
Federal Farm CR BKS	1.875%	3/22/2004	3/22/2006	5,996,170
Federal Home Loan Banks	1.790%	3/29/2004	3/29/2006	25,000,000
Federal Home Loan Banks	2.500%	12/1/2004	3/30/2006	4,965,000
Federal Home Loan Mortgage Corp	2.375%	8/19/2004	4/15/2006	10,000,000
Federal National Mortgage Association	2.125%	2/4/2005	4/15/2006	9,934,626
Federal National Mortgage Association Mdtrm NT	5.500%	2/2/2004	5/2/2006	10,629,764
Federal National Mortgage Association Mdtrm NT	2.210%	2/5/2004	5/5/2006	19,987,120
Federal Home Loan Banks	2.240%	2/12/2004	5/12/2006	5,000,000
Federal Home Loan Banks	2.260%	2/19/2004	5/19/2006	20,000,000
Federal Home Loan Banks	1.875%	2/2/2004	6/15/2006	9,915,400
Federal Home Loan Banks	1.875%	2/24/2004	6/15/2006	19,920,068
Federal National Mortgage Association Mdtrm NT	2.500%	11/23/2004	6/15/2006	4,957,581
Federal National Mortgage Association Mdtrm NT	2.210%	3/16/2004	6/16/2006	20,000,000
Federal Home Loan Banks	2.920%	11/29/2004	6/26/2006	25,000,000
Federal Home Loan Banks	2.020%	7/7/2003	7/7/2006	40,000,000
Federal Home Loan Mortgage Corp	2.690%	8/7/2003	8/7/2006	20,000,000
Federal Home Loan Banks	2.885%	9/9/2004	9/29/2006	25,000,000
Federal Home Loan Banks	3.000%	10/29/2004	10/30/2006	30,000,000

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

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
 SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
 June 30, 2005

Schedule 7

Market Value	Unrealized Gain (Loss)
490,000,000	-
249,609,402	-
739,609,402	-
208,450,000	-

20,005,917	-
15,293,550	-
14,967,000	174,895
4,992,200	(5,300)
4,992,200	(4,050)
9,984,400	(15,600)
14,973,600	(26,400)
4,998,450	(22,173)
14,953,200	83,580
4,993,750	(10,991)
4,993,750	(9,570)
24,820,000	321,156
3,988,760	2,880
29,896,800	(103,200)
9,880,000	98,672
20,057,336	57,799
24,890,750	(109,250)
19,688,000	249,680
4,921,750	(58,170)
2,367,625	(42,227)
39,812,400	(187,600)
19,793,800	(196,200)
24,734,250	(265,750)
5,921,280	(74,890)
24,648,500	(351,500)
4,954,700	(10,300)
9,893,800	(106,200)
9,939,188	4,562
10,137,500	(492,264)
19,743,800	(243,320)
4,935,950	(64,050)
19,743,800	(256,200)
9,825,000	(90,400)
19,650,000	(270,068)
4,940,650	(16,931)
19,706,200	(293,800)
24,797,000	(203,000)
39,300,000	(700,000)
19,764,800	(235,200)
24,726,500	(273,500)
29,690,700	(309,300)

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
June 30, 2005

Schedule 7

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value
Federal National Mortgage Association Mdtrm NT	2.930%	9/21/2004	11/21/2006	30,000,000
Federal National Mortgage Association Mdtrm NT	2.890%	10/26/2004	12/28/2006	40,000,000
Federal National Mortgage Association Mdtrm NT	3.350%	12/28/2004	12/28/2006	25,000,000
Federal Home Loan Banks	3.150%	1/30/2004	1/30/2007	15,046,970
Federal Home Loan Banks	2.800%	2/5/2004	2/5/2007	30,000,000
Federal Home Loan Banks	3.250%	2/6/2004	2/6/2007	25,177,500
Federal National Mortgage Association Mdtrm NT	2.980%	2/20/2004	2/20/2007	25,000,000
Federal National Mortgage Association Mdtrm NT	2.920%	3/2/2004	3/2/2007	30,000,000
Federal Home Loan Banks	2.645%	3/15/2004	3/15/2007	25,000,000
Federal Home Loan Banks	2.700%	4/27/2004	4/27/2007	25,000,000
Federal Home Loan Banks	3.000%	7/30/2003	4/30/2007	5,000,000
Federal Home Loan Banks	2.990%	4/30/2004	4/30/2007	25,000,000
Federal Home Loan Banks	3.125%	5/7/2004	5/7/2007	25,000,000
Federal National Mortgage Association Mdtrm NT	3.375%	5/18/2005	5/18/2007	30,000,000
Federal National Mortgage Association Mdtrm NT	4.000%	5/23/2005	5/23/2007	10,000,000
Federal Farm CR BKS	3.000%	5/9/2005	6/6/2007	9,824,000
Federal Home Loan Banks	3.330%	11/17/2004	6/15/2007	25,000,000
Federal Home Loan Banks	4.100%	6/28/2005	6/28/2007	30,000,000
Federal National Mortgage Association Mdtrm NT	4.125%	6/29/2005	6/29/2007	20,000,000
Federal National Mortgage Association	4.250%	2/11/2005	7/15/2007	10,161,230
Federal Home Loan Banks	3.750%	2/25/2005	8/15/2007	10,001,100
Federal Home Loan Banks	3.750%	3/4/2005	8/15/2007	9,979,988
Federal Home Loan Banks Bullet	4.060%	4/20/2005	9/26/2007	10,000,000
Federal Home Loan Banks	3.375%	6/20/2005	10/5/2007	19,746,200
Federal National Mortgage Association Mdtrm NT	3.375%	11/19/2004	11/9/2007	14,930,700
Total Other Federal Agency				1,171,240,723
<u>Corporate Obligations</u>				
<u>Non-Oil Industrials</u>				
General Electric Cap Corp	2.000%	1/3/2005	1/30/2006	5,932,440
Bank One Corp	6.500%	1/3/2005	2/1/2006	5,178,650
Mara Lee Corp	1.950%	8/25/2004	6/15/2006	4,934,704
General Motors Accept Corp	6.125%	9/8/2003	9/15/2006	5,125,744
Total Non-Oil Industrials				21,171,537
<u>Financial Obligations</u>				
Wicaros Funding Commercial	3.080%	6/1/2005	7/1/2005	19,949,500
WEL USA Inc	3.130%	6/14/2005	7/12/2005	19,999,193
George Street Finance	3.211%	6/21/2005	7/21/2005	19,946,476
Thames Asset Commercial	3.220%	6/22/2005	7/22/2005	19,946,340
Total Financial Obligations				79,841,509
Total-All Securities-General Fund				\$ 2,220,313,172
<u>LOCAL GOVERNMENT INVESTMENT POOL</u>				
Flex				450,000,000
Overnight				153,160,322
Repurchase Agreements	Various	Various	Various	\$ 603,160,322

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

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
June 30, 2005

Schedule 7

Market Value	Unrealized Gain (Loss)
29,653,200	(346,800)
39,475,200	(524,800)
24,836,000	(164,000)
14,845,350	(201,620)
29,531,400	(468,600)
24,781,250	(396,250)
24,672,000	(328,000)
29,165,700	(834,300)
24,515,750	(484,250)
24,507,750	(492,250)
4,926,550	(73,450)
24,632,750	(367,250)
24,687,500	(312,500)
29,962,500	(37,500)
10,003,100	3,100
9,843,800	19,800
24,765,750	(234,250)
30,018,900	18,900
20,012,600	12,600
10,087,500	(73,730)
9,975,000	(26,100)
9,979,988	-
10,043,800	43,800
19,818,800	72,600
14,840,700	(90,000)
<u>1,161,901,693</u>	<u>(9,339,030)</u>
5,940,240	7,800
5,076,450	(102,200)
4,892,200	(42,504)
5,003,600	(122,144)
<u>20,912,490</u>	<u>(259,047)</u>
19,949,500	-
19,999,193	-
19,946,476	-
19,946,340	-
<u>79,841,509</u>	<u>-</u>
<u>2,210,715,094</u>	<u>\$ (9,598,077)</u>
450,000,000	-
153,160,322	-
<u>603,160,322</u>	<u>-</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
June 30, 2005

Schedule 7

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value
<u>Certificates of deposit</u>	Various	Various	Various	\$ 60,000,000
<u>Fixed Income Governmental Obligations</u>				
Federal Home Loan Banks	2.860%	4/4/2005	7/1/2005	49,996,027
Federal National Mortgage Assn	7.000%	1/26/2005	7/15/2005	20,034,515
Federal Home Loan Banks	1.500%	11/16/2004	8/26/2005	9,982,184
Federal National Discount Note	2.765%	12/29/2004	9/16/2005	24,850,229
Federal Home Loan Mrgcorp Disc	3.410%	6/14/2005	12/13/2005	9,842,761
Federal National Mortgage Association DN	3.430%	6/16/2005	12/14/2005	19,681,789
Federal National Mortgage Association DN	2.375%	6/23/2005	12/15/2005	24,868,062
Federal National Mortgage Association Mdtrm NT	3.250%	4/11/2005	4/11/2006	25,000,000
Federal Home Loan Banks	3.050%	5/2/2005	5/2/2006	25,000,000
Federal Home Loan Banks	3.050%	4/11/2005	5/11/2006	25,000,000
Federal Home Loan Banks	3.250%	5/20/2005	5/26/2006	30,000,000
Federal Home Loan Mortgage Corp	3.750%	6/28/2005	7/24/2006	25,000,000
Total Other Federal Agency				<u>289,255,568</u>
<u>Financial Obligations</u>				
Starbird Funding Corp	3.040%	6/1/2005	7/1/2005	19,998,311
Hanover Fndg Co LLC	3.120%	6/14/2005	7/15/2005	19,973,997
Gotham Fndg	3.200%	6/16/2005	7/15/2005	19,973,333
HIRO Balanced Fnd	3.190%	6/20/2005	7/15/2005	20,017,358
Dollar Thrifty	3.230%	6/22/2005	7/21/2005	13,095,280
GLIO Funding Corp	3.260%	6/24/2005	7/22/2005	19,960,156
Morgan Stanley	3.210%	6/21/2005	7/25/2005	20,015,279
Cobbler Fund LLC	3.265%	6/27/2005	7/25/2005	20,004,540
Thames Ast Glob Sec	3.220%	6/22/2005	7/26/2005	19,953,491
Goldenfish LTD Commercial	3.280%	6/28/2005	7/28/2005	19,948,978
Bavaria Univ Funding	3.310%	6/29/2005	7/28/2005	19,948,511
Morrigan Trr Fdg	3.300%	6/30/2005	7/29/2005	19,946,833
Total Financial Obligations				<u>232,836,067</u>
Total-All Securities-Local Government Invest Pool				<u>\$ 1,125,251,957</u>
<u>Consolidated</u>				
Flex				\$ 698,935,849
Overnight				\$ 399,539,024
Repurchase Agreements	Various	Various	Various	\$ 1,098,474,873
Summary of Flex and Repurchase Agreements				
Repurchase Agreements - Flex				\$ 1,638,935,849
Repurchase Agreements - Overnight				\$ 802,308,748
Total Repurchase Agreements				<u>\$ 2,441,244,597</u>
Certificates of Deposit				\$ 268,450,000
Fixed Income Governmental Obligations				1,460,496,291
Corporate Obligations - Non-Oil Industrials				21,171,537
Financial Obligations				312,677,576
Grand Total of All Funds				<u>\$ 4,504,040,002</u>

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

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
June 30, 2005

Schedule 7

Market Value	Unrealized Gain (Loss)
60,000,000	-
50,000,000	3,973
20,025,000	(9,515)
9,968,800	(13,384)
24,820,000	(30,229)
9,840,000	(2,761)
19,678,000	(3,789)
24,859,500	(8,562)
24,976,500	(23,500)
25,000,000	-
24,992,250	(7,750)
30,000,000	-
24,973,500	(26,500)
<u>289,133,550</u>	<u>(122,018)</u>
19,998,311	-
19,973,997	-
19,973,333	-
20,017,358	-
13,095,280	-
19,960,156	-
20,015,279	-
20,004,540	-
19,953,491	-
19,948,978	-
19,948,511	-
19,946,833	-
<u>232,836,067</u>	<u>-</u>
<u>1,125,129,939</u>	<u>(122,018)</u>
698,935,849	-
399,539,024	-
<u>1,098,474,873</u>	<u>-</u>
1,638,935,849	-
802,308,748	-
<u>2,441,244,597</u>	<u>-</u>
268,450,000	\$ -
1,451,035,243	(9,461,048)
20,912,490	(259,047)
312,677,576	-
<u>4,494,319,906</u>	<u>\$ (9,720,095)</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

ASSETS	Investment Trust Fund		
	Short-Term Investment Pool	Consolidated Investment Pool	State Funds Investment Pool
Cash and Investments:			
Cash and cash equivalents	\$ -	\$ -	\$ 58,780,032
Certificates of deposit	60,000,000	-	208,450,000
Commercial Paper	232,836,067	-	79,841,509
U.S. Government securities	289,133,550	-	1,161,901,694
Corporate Bonds	-	-	20,912,490
Repurchase agreements	603,160,322	1,087,511,231	739,609,402
Total Cash and Investments	1,185,129,939	1,087,511,231	2,269,495,127
Other Assets:			
Accrued interest receivable	2,908,138	2,941,802	10,408,513
Total Assets	\$ 1,188,038,077	\$ 1,090,453,033	\$ 2,279,903,640
NET ASSETS			
Net assets held in trust	\$ 1,188,038,077	\$ 1,090,453,033	\$ 2,279,903,640
Total net assets held in trust	\$ 1,188,038,077	\$ 1,090,453,033	\$ 2,279,903,640

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

Total
(Memorandum
Only)

58,780,032
268,450,000
312,677,576
1,451,035,244
20,912,490
2,430,280,955

4,542,136,297

16,258,453

4,558,394,750

4,558,394,750

4,558,394,750

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
June 30, 2005

	Investment Trust Fund		
	<u>Short-Term Investment Pool</u>	<u>Consolidated Investment Pool</u>	<u>State Funds Investment Pool</u>
Investment Income	\$ 30,400,993	\$ 22,646,590	\$ 50,065,974
Expenses - Management Fees	<u>(50,133)</u>	<u>(333,875)</u>	<u>-</u>
Net Investment Income	30,350,860	22,312,715	50,065,974
Net proceeds of deposits (withdrawals)	(103,960,467)	225,323,881	395,675,066
Net Assets, held in trust for pool participants, June 30, 2004	<u>1,261,647,684</u>	<u>842,816,437</u>	<u>1,834,162,600</u>
Net Assets, held in trust for pool participants, June 30, 2005	<u>\$ 1,188,038,077</u>	<u>\$ 1,090,453,033</u>	<u>\$ 2,279,903,640</u>

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

Total
(Memorandum
Only)

103,113,557

(384,008)

102,729,549

517,038,480

3,938,626,721

4,558,394,750

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
FOR PUBLIC FUNDS
June 30, 2005

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required
Banks:				
Alamogordo				
(FHLB)	First National Bank	\$ 12,143,613	\$ 100,000	\$ 6,021,807
(FHLB)	Western Bank	4,650,000	100,000	2,275,000
Albuquerque				
(WFB)	Bank of America	10,589,292	100,000	5,244,646
(TIB)	Bank First	100,000	100,000	-
(WFB)	Bank of the West	11,087,404	100,000	5,493,702
(WFB)	Compass Bank	30,014,752	100,000	14,957,376
(FHLB)	First State Bank N.M.	33,103,413	100,000	16,501,707
(WFB)	New Mexico Bank & Trust	233,283	100,000	66,642
(BA)	Wells Fargo Bank NM, N.A.	17,049,498	100,000	8,474,749
Artesia				
(FHLB)	First National Bank	26,641	26,641	-
(FHLB)	Western Bank	500,000	100,000	200,000
Belen				
(TIB)	Bank of Belen	109,317	100,000	4,659
(TIB)	Ranchers Banks	93,989	93,989	-
Carlsbad				
(FHLB)	Carlsbad National Bank	5,004,522	100,000	2,452,261
(FHLB)	Western Commerce Bank	10,545,996	100,000	5,222,998
Clayton				
(FHLB)	Farmers & Stockmens Bank	6,109,996	100,000	3,004,998
(FHLB)	First National Bank of NM	3,472,673	100,000	1,686,337
Clovis				
(TIB)	Bank of Clovis	343,022	100,000	121,511
(TIB)	Citizens Bank	24,235	24,235	-
(FHLB)	Western Bank	600,000	100,000	250,000
Espanola				
(TIB)	Valley National Bank	29,000,500	100,000	14,450,250
Gallup				
(FHLB)	Western Bank	2,464	2,464	-
Grants				
(TIB)	Grants State Bank	48,393	48,393	-
Hobbs				
(TIB)	Lea County State Bank	421,743	100,000	160,872
(WFB)	Bank of the Rio Grande	2,000,000	100,000	950,000
(WFB)	Citizens Bank	4,023,173	100,000	1,961,587
(FHLB)	Community 1st National Bank	-	-	-
(FHLB)	Mesilla Valley Bank	2,100,000	100,000	1,000,000

Details of the collateral pledged are on file with the Office of the State Treasurer.

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

Collateral Pledged

Surety Bond Letter Of Credit	Securities	Excess (under)
-	\$ 7,829,813	\$ 1,808,007
-	2,483,319	208,319
-	8,591,447	3,346,801
-	-	-
-	12,006,330	6,512,628
-	18,031,146	3,073,770
13,500,000	8,994,168	5,992,462
-	200,000	133,359
-	22,903,266	14,428,517
-	-	-
-	300,000	100,000
-	144,824	140,166
-	51,529	51,529
-	2,645,324	193,063
-	7,978,584	2,755,586
-	3,686,866	681,868
-	1,910,792	224,456
-	275,000	153,489
-	159,767	159,767
-	293,091	43,091
-	15,134,049	683,799
-	-	-
-	100,000	100,000
-	530,000	369,129
-	988,285	38,285
-	2,571,100	609,514
-	-	-
2,000,000	9,370	1,009,370

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
FOR PUBLIC FUNDS
June 30, 2005

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required
Las Vegas				
(FHLB)	Bank of Las Vegas	2,825,500	100,000	1,362,750
(FHLB)	First National Bank	52,575	52,575	-
Lordsburg				
(FHLB)	Western Bank	5,041,915	100,000	2,470,958
Los Alamos				
(FHLB)	Los Alamos National Bank	30,028,403	100,000	14,964,202
Portales				
(TIB)	Portales National Bank	62,555	62,555	-
Raton				
(TIB)	International State Bank	131,825	100,000	15,913
Roswell				
(FHLB)	Bank of the Southwest	1,399,469	100,000	649,735
(TIB)	Valley Bank of Commerce	77,217	77,217	-
Ruidoso				
(FHLB)	First National Bank	5,028,869	100,000	2,464,435
(FHLB)	State National Bank	669,487	100,000	284,744
Santa Fe				
(FHLB)	Century Bank	6,000,000	100,000	2,950,000
(FHLB)	Community Bank	145,756	100,000	22,878
Silver City				
(FHLB)	AM Bank	-	-	-
Socorro				
(BA)	First State Bank	104,988	100,000	2,494
Taos				
(TIB)	Centinel Bank	1,123,828	100,000	511,914
(FHLB)	Peoples Bank	2,000,000	100,000	950,000
Savings and Loans:				
Alamogordo				
(FHLB)	Alamogordo Federal S&L	72,463	72,463	-
Albuquerque				
(FHLB)	Union Savings Bank	12,000,000	100,000	5,950,000
Clovis				
(FHLB)	Access Bank	966	966	-
Roswell				
(FHLB)	First Federal Bank	11,107,468	100,000	5,503,734
Santa Fe				
(FHLB)	Charter Bank For Savings	30,000,000	100,000	14,950,000
Credit Union:				
Santa Fe				
	Guadalupe Credit Union	100,000	100,000	-

Details of the collateral pledged are on file with the Office of the State Treasurer.

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

Schedule 10

Collateral Pledged

Surety Bond Letter Of Credit	Securities	Excess (under)
-	1,494,690	131,940
-	1,254,188	1,254,188
-	3,285,141	814,184
22,500,000	-	7,535,799
-	100,531	100,531
-	301,125	285,213
-	907,616	257,882
-	75,000	75,000
-	-	-
-	4,142,515	1,678,081
-	1,898,443	1,613,700
-	3,030,000	80,000
-	30,226	7,348
-	-	-
-	-	-
-	570,000	567,506
-	730,936	219,022
-	981,894	31,894
-	87,619	87,619
-	6,852,165	902,165
-	-	-
-	5,934,981	431,247
-	15,936,671	986,671
-	-	-

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
FOR PUBLIC FUNDS
June 30, 2005

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required
Ancillary Receivership Accounts:				
Albuquerque:				
(WFB)	Bank of America, N.A.	649,063	100,000	274,532
(FHLB)	First State Bank of Taos	2,571,895	100,000	1,235,948
(BA)	Wells Fargo Bank, N.A.	328,804	100,000	114,402
Espanola				
(TIB)	Valley National Bank	622,911	100,000	261,456
Santa Fe				
(WFB)	Century Bank	2,745,836	100,000	1,322,918
(WFB)	First National Bank	297,774	100,000	98,887
Fiscal Agent Bank:				
(BA)	Wells Fargo Bank NM, N.A.	167,327,167	100,000	83,613,584
	Total	<u>\$ 465,914,653</u>	<u>\$ 4,961,498</u>	<u>\$ 230,476,578</u>
Reconciliation to Note 3:				
	Fiscal Agent Account	\$ 167,327,167	\$ 100,000	\$ 83,613,583
	Certificates of Deposit	268,450,000	3,000,000	132,725,000
		<u>435,777,167</u>	<u>3,100,000</u>	<u>216,338,583</u>
Add:				
	Agency Deposits	22,921,203	1,861,498	10,529,853
	Ancillary Receivership Accounts	7,216,283	-	3,608,143
		<u>465,914,653</u>	<u>4,961,498</u>	<u>230,476,578</u>
Subtract:				
	Gallup Federal Savings Bank (LGIP)(Collateral pledged - no deposits)			
	Total	<u>\$ 465,914,653</u>	<u>\$ 4,961,498</u>	<u>\$ 230,476,578</u>

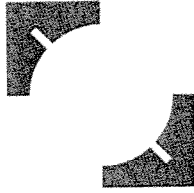
Details of the collateral pledged are on file with the Office of the State Treasurer.

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

Collateral Pledged

Surety Bond Letter Of Credit	Securities	Excess (under)
-	348,261	73,730
-	1,290,745	54,798
-	261,046	146,644
-	870,000	608,545
-	2,050,000	727,082
-	2,515,625	2,416,738
-	83,785,048	171,465
<u>\$ 38,000,000</u>	<u>\$ 256,552,536</u>	<u>\$ 64,075,959</u>
\$ -	\$ 83,785,048	\$ 171,465
<u>38,000,000</u>	<u>131,182,924</u>	<u>36,457,924</u>
38,000,000	214,967,972	36,629,389
	36,318,137	25,788,286
	7,335,677	3,727,535
<u>38,000,000</u>	<u>258,621,786</u>	<u>66,145,209</u>
	(2,069,250)	(2,069,250)
<u>\$ 38,000,000</u>	<u>\$ 256,552,536</u>	<u>\$ 64,075,959</u>

COMPLIANCE SECTION



Accounting & Consulting Group, LLP

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of State of New Mexico, Office of the State Treasurer, as of and for the year ended June 30, 2005, which collectively comprise the Office of the State Treasurer's basic financial statements and have issued our report thereon dated March 22, 2006. We have also audited each fiduciary fund type of the State Treasurer as of and for the year ended June 30, 2005, as displayed in the State Treasurer's basic financial statements. We have also audited Schedules 2 through 5 and Schedules 8 through 9 and Schedule 6 – Summary of Long Term Debt Obligations as listed in the table of contents and included in the financial statements as supplementary information as of and for the year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion 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. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 2005-1 through 2005-15. We also noted another matter involving the internal control over financial reporting that is required to be reported per section 12-6-5 NMSA 1978 which is included in the accompanying Schedule of Findings and Recommendations as item 2005-16.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements 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

Internal Control Over Financial Reporting (continued)

Reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions, we consider items 2005-1 and 2005-2 to be material weaknesses.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Recommendations as items 2005-4, 2005-5, 2005-6, 2005-7, 2005-8, 2005-11, 2005-12, and 2005-13.

This report is intended solely 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**

March 22, 2006
Carlsbad, New Mexico

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2005

Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT

2005-1: Reconciliation of the QED to Northern Trust

Condition:

The Office of the State Treasurer uses QED Information Systems (QED) software for its investment accounting and portfolio management. The QED generates accounting information for pricing, earnings accruals, bond amortization, realized gains and losses and other information regarding investments. During our investment testwork, we found that the Office does not reconcile its internal investment accounting maintained using the QED to the investment statements provided by the Office's investment custodian, Northern Trust.

Criteria:

2.20.5.8(C)(7) NMAC requires all State Agencies to ensure that all accounting systems, including subsidiary systems are recording transactions timely, completely and accurately.

Cause:

The Office has not implemented an accounting procedure requiring the reconciliation to be completed.

Effect:

Although we were able to satisfy ourselves that the differences are immaterial as of June 30, 2005, a difference between information maintained using the QED and information provided by the custodian of the investments, Northern Trust, may not be identified and documented such as timing differences or corrected if necessary in a timely manner.

Recommendation:

We recommend the Office develop and implement policies and procedures that require the preparation, documentation and approval of a monthly reconciliation of the information maintained using the QED and information provided by the custodian of the investments. This procedure will help the Office ensure that the QED is recording transactions timely, completely and accurately.

Agency Response:

The Office of the State Treasurer does perform a monthly reconciliation of the par value of its investment holdings. The three-way reconciliation is performed between STO, QED and Northern Trust. Only par values are reconciled because:

- Northern Trust does not amortize or accrete the STO portfolio, a function performed by QED.
- Northern Trust prices commercial paper and QED does not.
- There are differences in the accrual for flexible repurchase agreements, due to the method Northern Trust tracks receipts. The State draws down on these investments and receives interest only on a specified, semi-annual basis.

When comparing differences in market values between QED and Northern Trust, the amounts in question are immaterial to the total value of the portfolio. Numerous transactions are initiated through Northern Trust, daily. On a daily basis, reports from both QED and Northern Trust are generated and compared, by staff. Any discrepancies identified are researched and corrected, daily.

With regard to pricing, differences will always exist because:

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A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-1: Reconciliation of the QED to Northern Trust (continued)

- Northern Trust and QED use different pricing services.
- IDC (QED pricing service) does not price commercial paper. The pricing service used by Northern Trust does.
- The State Treasurer's Office downloads pricing only once a week, on Mondays, for cost reasons.

2005-2: TRACS System

Condition:

The Office of the State Treasurer is required to maintain accurate and timely agency account cash balances. During our test work we found:

- Approximately 4,000 items dated prior to June 1, 2005 where items recorded in the TRACS system were not matched to items clearing in the bank, and items clearing in the bank were not matched to items recorded in the TRACS system.
- The reconciliation did not clearly document the preparation and approval process.
- The method of clearing unmatched items, and the approval process for their clearing was not documented.
- Cash balances were reported in the State Funds Investment Pool, however, the TRACS system included outstanding items for the Short-term Investment Pool (Local Government Investment Pool) and the balances in the TRACS system were not reconciled to balances in the individual agency funds.

Criteria:

2.20.5.8(C)(7) NMAC requires all State Agencies to ensure that all accounting systems, including subsidiary systems are recording transactions timely, completely and accurately. The DFA Model Accounting Practices manual, Volume 1, Chapter 8, Section 3.2 required differences to be identified in a timely manner

Cause:

The causes for this condition include:

- 1) The TRACS system is outdated.
- 2) Changes in the cashing process implemented by the former Treasurer where agencies presented their deposits directly to the bank increased the complexity of the reconciliation because errors in the deposits were not identified until the deposit reached the bank, and Agencies were not presenting the paperwork supporting the deposits to the Office as timely as they were in the past.
- 3) The former Chief of the Banking Division was not trained and did not possess the skills necessary to be the director of the Banking Division.
- 4) The Office did not commit an adequate amount of resources to ensure timely and accurate reconciliations of the fiscal bank account.
- 5) Those persons assigned to reconcile the fiscal account were unskilled, in many cases untrained, and inadequately supervised.

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-2: TRACS System (continued)

- 6) Management of the Banking Division did not place proper emphasis on timely and accurately recording transactions and on the importance of a complete, accurate and timely reconciliation of the fiscal bank account.
- 7) Reverse positive pay, where warrants are cleared by the bank before approval by the Office, versus a system of positive pay, where the Office provides the bank with a listing of approved warrants before they are cleared adds additional complexity to the reconciliation.

Effect:

The effectiveness of the TRACS system on the Office's ability to provide timely, accurate cash balances to the individual agencies was significantly diminished. The Office did not adequately document the preparation and approval process used in the reconciliation.

Delays in recording revenue and expenditures to individual Agency accounts impair the Agencies abilities to properly manage their cash. Late validations of deposits and revenue recording have caused insufficient funds.

Recommendation:

Subsequent to June 30, 2005, the Office has dedicated additional resources to the reconciliation of the stale dated items included in the June 30, 2005 reconciliation and the timely recording of transactions. We recommend that the Office develop and implement policies and procedures that require the timely reconciliation of the TRACS system that include clear documentation of the preparation and approval process, including the approval of the method of clearing stale dated items. In addition, we recommend that the policies and procedures include a separate reconciliation of the items affecting the Short-term Investment Pool.

The Office is currently implementing a change in fiscal agents. We recommend that the Office consider additional policies and procedures to insure adequate documentation of the preparation and approval process and the timely and accurate clearing of items that will be outstanding from transactions initiate before the change in fiscal agents.

Response:

Statutes require that the state treasurer keep a just, true and comprehensive account of all money received and disbursed and over time this has been interpreted to mean that there must be a segregation of duties between the Department of Finance (DFA) and the Treasurer's Office (STO) whereby STO maintains a separate set of books to record agency cash receipts and warrant disbursements. This set of books is commonly referred to as the Treasurer's Reconciliation, Accounting, and Cashiering System (TRACS) and is part of a decentralized cash receipts and disbursement system utilized by the state. It has been perceived by many that the STO can provide and maintain real-time cash balances by agency and fund, however, in the current operating environment this can not be done because TRACS was not designed to produce real-time cash balances. We anticipate that beginning in FY06 the decentralized accounting systems utilized by the state will be replaced by a fully automated Enterprise Resource Planning (ERP) system. People soft, a web based ERP system and will replace the TRACS system. This will provide the Treasury with the tools necessary to provide more efficient, effective and timely cash reconciliations. Management concurs with the reported conditions and root causes however, we would like to make the following comment relative to a couple of the reported conditions. It should be noted that policies and procedures, with regard to the bank reconciliation, outstanding items and the approval process, were in place during the audited period; however management

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-2: TRACS System (continued)

at the time did not place adequate emphasis or allocate proper resources to ensure accurate and timely bank reconciliations and proper recording of those bank transactions. The 4,000+ items outstanding prior to June 1, 2005 have since been cleared and management has developed a strategic plan to improve this process and internal controls have been developed to ensure the accurate, efficient and timely cash reconciliations.

The Office of the Treasurer concurs with the reported conditions identified regarding the TRACS system during FY05. It should be noted that policies and procedures, with regard to the bank reconciliation, outstanding items and the approval process, were in place during the audited period; however, former management did not place adequate emphasis or allocate proper resources to ensure accurate and timely bank reconciliations and proper recording of those bank transactions. The 4,000+ items outstanding prior to June 1, 2005 have since been cleared and management has developed a strategic plan to improve this process. Internal controls have been developed to ensure the accurate, efficient and timely cash reconciliations.

Several major transitions are underway to drastically change the current TRACS system used by the Office of the State Treasurer. The State Board of Finance awarded the fiscal agent contract to Bank of America and the transition from the previous fiscal agent bank began in April 2006. Additionally, the state is implementing a fully automated Enterprise Resource Planning (ERP) system designed by Peoplesoft, on July 1, 2006. This new system called "SHARE," will provide budget, accounting and human resources systems for state government. It will replace the TRACS system. This new system will allow for more efficient, effective and timely cash reconciliations.

2005-3: Reconciliation of the QED to LGIP Participant Account Balances

Condition:

During our testwork of the investments and the Short-term Investment Pool (Local Government Investment Pool (LGIP)), we found that the investments maintained for the LGIP using the QED were reconciled to the total of the June 30, 2005 balances of the participant's accounts, and the amounts reported to the State Board of Finance, but the reconciliation was difficult to follow, did not include accurate descriptions of the reconciling items, and the preparation and approval process was not clearly documented.

Criteria:

2.20.5.8(C)(7) NMAC requires all State Agencies to ensure that all accounting systems, including subsidiary systems are recording transactions timely, completely and accurately.

Cause:

The Office has not updated its policies and procedures over the reconciliation preparation and approval process.

Effect:

The absence of a complete, concise reconciliation of accounts that is prepared and approved by the appropriate individuals could cause errors, whether intentional or unintentional to go undetected.

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-3: Reconciliation of the QED to LGIP Participant Account Balances (continued)

Recommendation:

We recommend the Office develop and implement policies and procedures that require the preparation, documentation and approval of a monthly reconciliation of the information maintained using the QED and the total of the LGIP participant's account balances. This procedure will help the Office ensure that the QED is recording transactions timely, completely and accurately.

Response:

The recently-hired LGIP Portfolio Manager is reviewing existing reconciliation procedures and will recommend improvements and subsequently, document new, standardized procedures. These new procedures will ensure timely and accurate reconciliations between QED and individual LGIP participant monthly balances.

2005-4: Notification of the State Auditor

Condition:

The Office of the State Treasurer does not have a process in place to formally notify the Office of the State Auditor, immediately, in writing of possible criminal statute violations.

Criteria:

Every agency and IPA, pursuant to Section 12-6-6, NMSA 1978 (Criminal Violations), shall notify the State Auditor immediately, in writing, upon discovery of any possible criminal statute violation in connection with its financial affairs. The notification shall include an estimate of the dollar amount involved, and a complete description of the violation, including names of persons involved and any action taken or planned. The State Auditor will determine whether a special audit is warranted based upon the written information provided. If warranted, the State Auditor will conduct the special audit.

Cause:

The Office of the State Treasurer has not implemented a process to ensure compliance with Section 12-6-6 NMSA 1978.

Effect:

Failure to formally notify the Office of the State Auditor, immediately, in writing of possible criminal statute violations is a violation of Section 12-6-6 NMSA 1978.

Recommendation:

We recommend that the Office of the State Treasurer implement a process to ensure compliance with Section 12-6-6 NMSA 1978.

Response:

The Office of the State Treasurer has implemented a new investment policy, strengthening procedures for investments and oversight by the State Board of Finance. Additionally, a Code of Ethics and Whistleblower policy have been adopted, mandating stringent employee conduct and designating procedures for employees to report any allegations of wrongdoing or criminal violations.

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-5: Late Audit Report

Condition:

Records and information were not made available to the auditors in time for the audit report to be submitted by the December 15, 2005 deadline. The report was received by the Office of the State Auditor on June 20, 2006.

Criteria:

2.2.2.9(A)(1)(F) NMAC specifies that audit reports for state agencies be submitted no later than December 15 for the year ended June 30.

Effect:

The Office risks having the auditors' opinion being submitted based on an incomplete audit.

Cause:

Circumstances including the indictment and subsequent resignation of the former treasurer occurring in the Office of the State Treasurer subsequent to June 30, 2005 prevented the timely completion of the audit.

Recommendation:

Unforeseen circumstances caused the delay in performing the June 30, 2005 audit. We recommend that the Office continue to evaluate and make any necessary adjustments to current policies and procedures that would assist the Office in its reporting efforts.

Response:

Audit Rule 2.2.2 NMAC, mandating audit requirements for state agencies requires submission of the audit by December 15th of each year and the Office of the State Treasurer will comply with this deadline beginning December 15, 2006

2005-6: Disbursements

Condition:

During our testwork of disbursements 1 of 25 items tested was found to include an invoice that did not match the payment amount. This condition resulted in an underpayment to the vendor, and as of the date of our testwork, the balance of the invoice, \$17,632 was still outstanding. In 24 of 25 items tested, requisitions and travel request documents could not be matched to the purchase order, invoice and check.

In 21 of 25 disbursements tested, the invoice had not been cancelled when paid.

Criteria:

2.20.5.8(C)(1) requires agencies to ensure that an internal control structure exists and is functioning properly. Good accounting controls require that requisitions, purchase orders, invoices and checks match and that invoices be cancelled when paid. The Office's internal policy requires all expenditures will be accompanied by either a requisition or a travel request document.

Effect:

In one instance there was an underpayment to the vendor. In addition, payments were being made for items without evidence of approval.

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-6: Disbursements (continued)

Cause:

The Office had not encumbered enough funds to pay the June 2005 invoice, so the Office paid as much as possible. In addition, there was a lack of an adequate filing system that matched the requisitions or requests to the purchase orders and invoices.

Recommendation:

We recommend that the Office evaluate its policies and procedures over disbursements and implement additional controls to strengthen its controls and prevent such occurrences in the future.

Response:

The underpayment to the vendor occurred due to an insufficient encumbrance balance for a vendor obligation. The Finance Bureau Chief now prepares a full budget projection report bi-weekly, reviewing each outstanding encumbrance and making all necessary encumbrance adjustments, based current contractual obligations and projected expenditures.

Additionally, procedures have been implemented to require all necessary backup documentation be completed and properly attached to financial documents before they are approved and processed. All price quotes and bids must be attached to purchase documents. Requisitions are approved for budget availability, and are fully justified for propriety. All requisitions now require an approval from supervisors before processing can occur. Invoices are reviewed to ascertain goods or services have been received and subsequently approved for payment before the voucher is prepared and signed. All supporting documentation is then attached to the payment voucher before submission to Department of Finance and Administration for processing. These internal procedures will strengthen STO internal controls.

2005-7: Purchasing

Condition:

During our testwork we found that 14 out of 20 invoices tested for one vendor appeared to have been for four purchases, and that the invoices were split into amounts less than \$1,500.

Criteria:

DFA rules and the Save Smart Program require purchases greater than \$1,500 be submitted for approval using a purchase order and that these purchases be made using a vendor approved through the Save Smart Program. It appears that these invoices were split to avoid complying with DFA and the Save Smart Program.

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-7: Purchasing (continued)

Effect:

Overriding existing controls exposes the Office to additional risks of errors whether intentional or unintentional and exposes the Office to additional risks of misappropriation of assets.

Cause:

The Office did not implement proper controls to prevent or detect intentional overrides of the system of internal control.

Recommendation:

We recommend that the Office evaluate the current system of controls over purchasing and implement those additional controls necessary to prevent them being overridden.

Response:

The Finance Bureau, under direction from upper management, has strengthened purchasing procedures to improve internal controls and provide full accountability for all agency purchases. All anticipated purchases must be initiated with a requisition form, which includes all required support documents and is signed by the requestor and appropriate supervisor. All proposed purchases must strictly conform to the state procurement code and the "Save Smart Program" instituted by executive order of Governor Richardson. Circumvention of the Procurement Code on all purchases is strictly forbidden. Goods received are verified against the shipping invoice and purchase documents to verify goods ordered were received. Once goods have been received or services rendered, invoices are approved for payment and submitted to the accounts payable staff person who prepares the purchase voucher to pay the vendor. This procedure requires a "segregation of duties," which the State Treasurer's Office requires through its strengthened internal control procedures.

2005-8: Payroll Withholdings

Condition:

During our testwork of 17 payroll items, we noted the following conditions:

Two instances where the most recent available W-4 completed by the employee did not agree to the amounts actually being withheld from pay.

Two instances where time card information was not available for testing.

Criteria:

2.20.5.8(C)(1) requires agencies to ensure that an internal control structure exists and is functioning properly. Good accounting controls require that current, accurate documentation for employee withholdings and payments should be maintained in the employee's payroll files.

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A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-8: Payroll Withholdings (continued)

Cause:

This condition appears to be caused by changes in the position responsible for maintaining the records.

Effect:

Errors in employee withholdings and payments could go undetected.

Recommendation:

We recommend that the office implement procedures to insure the proper retention and verification of information contained in employee personnel files.

Response:

All W-4 withholdings on the most recent check of each employee will be compared to the most recent W-4 in their respective personnel file. If a discrepancy is noted, the employee will be required to complete a new W-4.

The two instances where time-sheets were not in the folder containing payroll support documents for the given pay period pulled by the auditor were payrolls completed prior to the implementation of the automated time sheet system (ATS system) the agency currently uses. The pay periods checked by the auditor required hard copy time-sheets be completed by each employee. Under the new ATS system it is impossible to pay someone without an electronic time sheet. This type of error can not happen with the current time reporting system.

A new Human Resources Bureau Chief was recently hired to assume the HR, payroll and other employee support functions. This employee is organizing HR and payroll systems and procedures and conducting a formal audit of all employee records, which will uncover any discrepancies. In addition, W-4s of all current staff members will be compared to the most recent payroll worksheet to verify that individual withholding requests match paycheck deductions. These preventive measures will alleviate discrepancies between employee payroll withholding records (W-4s) and paycheck deductions in the future.

With implementation of the ATSS automated payroll system, timesheets are now gathered, reported and stored electronically; therefore, missing time sheets should no longer be an issue. (The missing time sheets were discovered in reporting periods prior to installation of ATSS.)

2005-9: Management's Override of Controls

Condition:

During the year ended June 30, 2005, the control system of the Office of the State Treasurer was observed to have certain deficiencies which allowed management to override controls.

Criteria:

2.20.5.8(C) NMAC requires agencies to ensure that an internal control structure exists and is functioning properly.

Cause:

The tone set from the members of management in control during the year ended June 30, 2005 created an environment where override of controls could exist. In addition, there was no

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-9: Management's Override of Controls (continued)

procedure in place where the board responsible for oversight of the Office of the State Treasurer discussed their consideration of the potential for, detection of, and remedies to the possibility of management's override of internal control.

Effect:

An otherwise effective control system can be undermined when members of management are determined to circumvent procedures.

Recommendation:

We recommend that the Office of the State Treasurer continue to design, implement and monitor a system of control where the tone from management emphasizes the importance of compliance with internal control.

We also recommend that those responsible for oversight of the activities of the Office of the State Treasurer implement procedures where they regularly discuss their consideration of the potential for, detection of, and remedies to the possibility of management's override of internal control and make inquiries to gain assurance that management's override of controls is not occurring. Those discussions and inquiries should be documented in the board minutes of the oversight body.

Response:

The State Treasurer's Office has implemented multiple initiatives to strengthen internal control procedures. The State Treasurer's Investment Policy includes monthly, quarterly and annual reporting and multiple approval requirements by the State Board of Finance, the State Treasurer's oversight authority. Additionally, it required the appointment of a compliance officer, who is responsible for verification of Treasurer's Office compliance with all policies and procedures. This position has the responsibility to report any noncompliance issues directly to the State Board of Finance.

Internal procedures were developed to ensure segregation of responsibilities and checks and balances on all investment, banking and administrative activity. (See finding 2005-10 for segregation of duty initiatives.) Internal controls were also enhanced with facility security system upgrades. The Information Technology office and equipment area was also fully secured to prevent access by unauthorized persons. Additionally, the entire building will be re-keyed to provide maximum safety and security for the Treasurer's Office. The Compliance Officer will be responsible for continually monitoring operations and reporting any observed internal control overrides or other noncompliance to the State Board of Finance. All internal activity has been reviewed to assure strong internal controls and prevent any possible management overrides of these procedures.

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-10: Inadequate Segregations of Duty

Condition:

During the year ended June 30, 2005, the control system of the Office of the State Treasurer was observed to have certain deficiencies which included inadequate segregations of duties in certain areas of its operations.

Examples of this condition observed in the office included an inadequate system of control over the access to blank check stock and physical checks, and a system where an individual who had the rights to enter deposits in the accounting system was responsible for taking the deposit to the bank. This is not intended to be an all inclusive listing.

Criteria:

2.20.5.8(C) NMAC requires agencies to ensure that an internal control structure exists and is functioning properly.

Cause:

During the year ended June 30, 2005, the Office of the State Treasurer had in place an organizational structure that allowed for an inadequate segregation of duties to occur.

Effect:

An inadequate segregation of duties subjects an organization to the significant risk that intentional or unintentional errors could be made and not detected.

Recommendation:

We recommend that the Office of the State Treasurer continue to define its organizational structure and its specific policies and procedures to insure that an adequate segregation of duties exists in each significant area of its operations. Since it is likely that the structure will evolve over time, we recommend Office of the State Treasurer implement the necessary policies and procedures to monitor ongoing activities to be sure the system remains in tact and is functioning as it was designed.

Response:

State Treasurer's Office policies and procedures have been under review to determine weaknesses and initiate needed changes. The entire organizational structure was reconfigured into two divisions, each with specific task-oriented bureaus, designating responsibilities. Internal assigned duties were segregated to strengthen internal controls. Investment, banking and administration operational procedures were included in this review. A separate approval is required for every investment transaction. A trade over \$25 million requires two separate management-level approvals. Investment accounting is separate from portfolio management. Banking transactions and processing are separate from account reconciliations. Purchase requisitions, purchase orders, receiving, inventory control and vendor payments have all been segregated to strengthen internal controls. Financial document preparation is separate from approvals. Segregation of duties has been implemented in all operational areas to strengthen internal controls and prevent fraudulent activities.

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-11: Improper Alteration of Employee Performance Reviews

Condition:

In a report dated September 19, 2005, the State Personnel Office (SPO) reported that nine employees of the Office of the State Treasurer had performance evaluations that were improperly altered after they were finalized and signed by both the employees and their supervisor.

Criteria:

2.20.5.8(C) NMAC requires agencies to ensure that an internal control structure exists and is functioning properly.

Cause:

An inadequate and poorly functioning human resources department allowed this situation to occur.

Effect:

As a result, certain employees were denied some of the salary increases they deserved, thus back pay was awarded to the employees as a result to the findings of the SPO.

Recommendation:

We recommend that the Office of the State Treasurer continue to define its organizational structure and its specific policies and procedures to insure that the department is functioning properly, and implement a system to monitor ongoing activities to insure that similar situations will not occur in the future.

Response:

Multiple actions were taken by the State Treasurer's Office to correct this condition. A new Human Resource Bureau Chief was appointed and new procedures are being established to prevent unauthorized access and improper alterations to HR documents. All files were audited to verify that documents are in order. The Human Resource Bureau will require timely preparation of EDAs and employee evaluations to comply with State Personnel Office regulations. Once these evaluations are complete, the HR copy will be filed in a secure file cabinet, which is only accessible by the HR bureau chief or the staff member assigned as backup. The HR office will be locked when unattended. Additionally, the Compliance Officer will periodically verify these HR procedures are being adhered to.

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-12: Missing Fixed Assets

Condition:

Subsequent to June 30, 2005, it was found that certain computers and other equipment with an original cost of \$11,745 assigned to specific individuals were not on the premises of the Office of the State Treasurer.

Criteria:

2.20.5.8(C) NMAC requires agencies to ensure that an internal control structure exists and is functioning properly.

Cause:

Inadequate physical controls over capital assets belonging to the Office of the State Treasurer allowed this situation to occur.

Effect:

Inadequate physical controls over capital assets expose the Office of the State Treasurer to the risks that intentional or unintentional errors can occur and not be detected, and that capital assets could be misappropriated and not be detected.

Recommendation:

We recommend that the Office of the State Treasurer continue to implement the necessary control structure and specific policies and procedures to insure that adequate controls over fixed assets are in place. In addition, we recommend that the Office of the State Treasurer implement a system to monitor ongoing activities to insure that similar situations will not occur in the future.

Response:

The Finance Bureau and the Information Technology Bureau have coordinated the tracking of all fixed assets. A new fixed asset program has been purchased. IT will record and tag all Information Technology equipment, and the Finance Bureau will record and tag all other equipment and furniture and fixtures. The inventory tracking system implemented is a server-based program, running on a SQL database, which utilizes a hand-held barcode reader/scanner to inventory items into the system. Access to the system is controlled, utilizing standard IT policies and procedures. A complete inventory of all fixed assets was taken on June 30, 2006.

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-13: Control over Cash Management Improvement Act Documentation

Condition:

Of 5 items documenting time charged to Cash Management Improvement Act (CMIA) audits tested, 2 were found to charge time to agencies on a day when the employee was either off work, or gone on educational leave.

Criteria:

Time spent on CMIA must be correctly recorded and documented to insure the program is billed the proper amounts.

Cause:

The system of control over the documentation of CMIA time was inadequate.

Effect:

The program could be overcharged for the services performed, either intentionally or unintentionally and not be detected.

Recommendation:

We recommend that the Office of the State Treasurer continue to implement the necessary control structure and specific policies and procedures to insure that adequate controls over the CMIA program are in place. In addition, we recommend that the Office of the State Treasurer implement a system to monitor ongoing activities to insure that similar situations will not occur in the future.

Response:

The Office of the State Treasurer agrees with the recommendations. Discovery of this condition led the State Treasurer's Office to address the issue and change how the CMIA program was being managed to prevent this from occurring in the future. Time reporting for the CMIA program will require use of work logs to document time spent on the CMIA program. The Compliance Officer is now charged with monitoring the issues presented in the recommendation.

2005-14: Control over Information Systems

Condition:

It was observed that during the year ended June 30, 2005, the control and documentation over information systems policies, procedures, security and operations either had not been established, or they were insufficiently documented.

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Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-14: Control over Information Systems (continued)

Criteria:

2.20.5.8(C) NMAC requires agencies to ensure that an internal control structure exists and is functioning properly.

Cause:

The system of control over information systems and the documentation of the policies procedures and security over information systems was inadequate.

Effect:

The Office of the State Treasurer is exposed to the additional risk that information systems security could be breached, and errors, whether intentional or unintentional could occur and not be detected.

Inadequate program documentation may result in excessive program maintenance costs and undue reliance upon "key" individuals. Improperly documented control procedures may result in erroneous input and processing, undetected conditions, and misinterpreted output reports.

Recommendation:

We recommend that the Office of the State Treasurer continue its development of a written plan for the IT department. At a minimum, a one- to three-year plan should be developed that identifies priorities, projects, training needs, and resources necessary to achieve established objectives. Future IT personnel, hardware, and software requirements should be defined in the plan. The plan should be reviewed and approved by the appropriate committee.

Response:

The IT CIO is currently working on a detailed FY 08 IT Plan, which will be completed by September 1, 2006. The one-year strategic plan developed to guide operations through December 2006, covers specific goals and tasks needed to maintain and enhance operations related to IT. The specific areas of concern are overall IT security, new project implementation, training, continuing IT policy and procedure development and budgeting/planning for IT personnel, hardware and software needs.

Controls and measures are now in place to ensure a uniform process for all IT systems access requests. Each request is reviewed, granted/denied and documented via access request forms. A new, secure IT environment is now in place to ensure IT systems are protected against intrusion and malicious acts from internet viruses and hackers. The server and network equipment rooms are now only accessible via an electronic key system and only authorized IT personnel are allowed access. Environmental measures are in place to ensure a clean and cool environment exists for all servers, network equipment and telecommunications systems. Additionally, the State Treasurer's Office transitioned over to the domain of the General Services Department, which provides enhanced network connectivity, additional security and support for the Treasurer's IT function.

Digital surveillance systems have been upgraded to provide 24 by 7 digital image capture and retention for all critical entrances, egresses and general IT areas. An upgraded building premise alarm system is now in place to guard against intrusion into the State Treasurer's Office in general. Fire suppression systems are now up to date. New security policies and procedures are

STATE OF NEW MEXICO
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Year Ended June 30, 2005

Schedule 11

A. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2005-14: Control over Information Systems (continued)

in place to regulate access to the building. Each employee is issued an electronic key, ID badge and office key for building access.

The IT systems supporting the State Treasurer's Office are currently under review to ensure appropriate software and hardware maintenance contracts are in place and are current and cost effective. System testing, fine tuning, system maintenance and data recovery are all performed routinely and will be included in the overall disaster recovery plan which is currently being developed.

2005-15: Reporting of Additions and Deductions to Fiduciary Funds

Condition:

The Office of the State Treasurer did not segregate gross total additions to and deductions from fiduciary funds for the financial statement presentation. The information regarding additions to and deductions from individual accounts is available, but the information is not readily available in total.

Criteria:

GASB Statement 34.109 requires that additions and deductions from fiduciary funds be reported as gross rather than net numbers.

Cause:

The current accounting system does not provide the information required to report gross total additions and deductions from fiduciary funds for financial statement presentation, although the information is available on an account by account basis. Segregating the information is time and cost prohibitive to the Office of the State Treasurer.

Effect:

The Office of the State Treasurer is not reporting the additions to and deductions from fiduciary funds as gross amounts for financial statement presentation.

Recommendation:

We recommend that the Office perform a reconciliation of the gross total additions to and deductions from fiduciary funds in preparation for presenting their June 30, 2006 financial statements. In addition, we recommend that as the Office converts its accounting to the SHARE system, it use two separate general ledger account numbers for additions to and deletions from fiduciary accounts so the information is readily available for future financial statement presentations.

Response:

The Office agrees with the finding. The accounting information in the Statement of Changes in Fiduciary Net Assets should be reported as gross total additions and deductions and not as net information. The financial statements prepared for FY 2006 will report this information as recommended in this finding. In addition, investment information entered into the SHARE system as of July 3, 2006 is recorded as individual transactions and not as a net number. This information will be reconciled to QED investment accounting software.