

STATE OF NEW MEXICO
OFFICE OF THE
STATE TREASURER
Financial Statements
for the Year Ended
June 30, 2006,
and Independent
Auditors' Report

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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Year Ended June 30, 2006

Office of the State Treasurer

Douglas Minge Brown, State Treasurer

Scott W. Stovall, Deputy State Treasurer

Mark S. Valdes, Asst. State Treasurer

State Treasurer's Investment Committee

Douglas Minge Brown, Chairman

Scott Stovall, Vice-chairman

Steve Bonlin, Member

Paul Cassidy, Member

Olivia Padilla Jackson, State Board of Finance Member



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INDEPENDENT AUDITORS' REPORT

Honorable Bill Richardson, Governor
 State Board of Finance
 Honorable Douglas Minge 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, 2006, which collectively comprise the State Treasurer's basic financial statements as listed in the table of contents. 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, 2006. These financial statements are the responsibility of the State Treasurer's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the 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 entire State of New Mexico as of June 30, 2006, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the State Treasurer as of and for the year ended June 30, 2006, 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 State Treasurer and the long-term debt obligations of the State of New Mexico as of and for the year ended June 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006, on our consideration of the State Treasurer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 11 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the State Treasurer's basic financial statements. Schedules 1 and 10, 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 10, 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.

Meyers + Company, LLC
December 8, 2006

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Management's Discussion and Analysis



The State of New Mexico Office of the State Treasurer's (State Treasurer) Management's Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues, provide an overview of the State Treasurer's financial activity, identify changes in the State Treasurer's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

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

Financial Highlights

- The General Fund's main revenue was appropriations, which amounted to 99% of all revenue.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview 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 State Treasurer's assets and liabilities, the difference between the two being 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 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 State Treasurer can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds:

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

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

The 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 of these governmental funds is provided in the form of combining statements elsewhere in this report.

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.



Fund Financial Statements - continued

Fiduciary Funds:

Fiduciary funds are used to account for resources held for the benefit of parties outside the State Treasurer. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support 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 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 to the financial statements provide additional information that is essential to a user's full understanding of the data provided in the government-wide and fund financial statements, and begin on page 22 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 62 of this report. Fiduciary schedules begin on page 77.

Required Supplementary Information (Other than MD&A)

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

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

Management's Discussion and Analysis - continued



Government-wide Financial Analysis

Net Assets: Table A-1 summarizes the State Treasurer's net assets for the fiscal year ending June 30, 2006. Total State Treasurer net assets for fiscal year 2006 are \$331,876,351. However, most of those net assets are restricted as to the purposes for which they can be used.

**Table A-1
The State Treasurer's Net Assets**

	Total	
	2006	2005
Assets:		
Cash, cash equivalents and repurchase agreements	\$ 289,469,620	153,041,655
Due from other agencies	39,385,885	36,638,001
Accrued interest and other receivables	1,595,197	43,319
Investment in NM Business Development Corp.	1,359,766	1,357,139
Capital assets, net	65,883	97,725
Total assets	\$ 331,876,351	191,177,839
Current liabilities:		
Accounts payable and other	\$ 132,823,251	12,729,873
Compensated absences, amounts due in one year	95,980	100,000
Compensated absences, amounts due beyond one year	-	1,251
Total liabilities	132,919,231	12,831,124
Net assets:		
Invested in capital assets	65,883	97,725
Restricted	199,253,120	178,421,080
Unrestricted	(361,883)	(172,090)
Total net assets	198,957,120	178,346,715
Total liabilities and net assets	\$ 331,876,351	191,177,839

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State Treasurer, assets exceeded liabilities by \$198,957,120 at the close of the most recent fiscal year.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Management's Discussion and Analysis - continued



Government-wide Financial Analysis - continued

Net Assets - continued: By far the largest portion 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 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 State Treasurer anticipates the future tax revenues generated will be adequate to service the debt obligations.

An additional portion of the State Treasurer's net assets, \$199,253,120, represents resources that are subject to external restrictions on their use.

Changes in Net Assets: Governmental activities increased the State Treasurer's net assets in the governmental financial statements by \$20,548,026. Key elements of this increase are shown in Table A-2.

Table A-2
Changes in the State Treasurer's Net Assets

	Total	
	2006	2005
Revenues:		
Federal funds	\$ (8,936)	(13,883)
State appropriation	(3,822,500)	(3,426,400)
Interest income	(40,120,599)	(16,259,668)
Total revenues	(43,952,035)	(19,699,951)
Expenses:		
Current:		
Personnel services and employee benefits	2,502,020	2,480,492
Operating costs	918,122	963,432
Contractual services	185,622	232,063
Debt Service:		
Interest on long-term debt	59,237,511	51,349,828
Debt service activity	387,019,669	389,032,224
Other charges	2,709,501	4,116,899
Non-operating (revenue) and expense	(429,168,436)	(439,914,466)
Total expenses	23,404,009	8,260,472



Government-wide Financial Analysis - continued

Table A-2 - continued
Changes in the State Treasurer's Net Assets

	Total	
	2006	Restated 2005
Change in net assets	\$ 20,548,026	24,284,436
Net assets, beginning, restated	178,409,094	154,124,658
Net assets, ending	\$ 198,957,120	178,409,094

Financial Analysis of the Government's Funds

As noted earlier, the State Treasurer uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At the end of the current fiscal year, the State Treasurer's governmental funds reported combined ending fund balances of \$198,987,217, an increase of \$20,754,598 in comparison with the prior year. The primary reason for the significant increase in the overall change in net assets is the increase in severance tax receipts of \$98,734,435 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 \$123,217,261 reverted to the permanent fund.

The fund balance of the State Treasurer general fund decreased by \$14,786 during the current fiscal year.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Management's Discussion and Analysis - continued



General Fund Budgetary Highlights

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

- \$375,200 in increases for personnel costs, contractual services and operating costs.

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. The only significant variances between final budget amounts and actual budget results for the General Fund were for contractual services, which were 50 percent less than actual expenditures.

Capital Assets and Debt Administration

Capital Assets. The State Treasurer's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$65,883, net of accumulated depreciation. This investment in capital assets includes equipment.

Additional information on the State Treasurer's capital assets can be found in Note 4 of this report.

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

Long-Term Debt. At the end of the current fiscal year, the State Treasurer was responsible for administering debt service payments on total bonded debt outstanding of \$1,009,378,786, all of which is secured by pledged tax revenues. More detailed information about the State Treasurer's long-term debt is presented in Note 5 to the financial statements and Schedule 6.

	<u>Total</u>	
	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$ 325,707,588	318,055,000
Severance Tax Bonds	<u>683,671,198</u>	<u>512,180,000</u>
Total principal balances	\$ <u>1,009,378,786</u>	<u>830,235,000</u>



Economic Factors and Next Year's Budgets and Rates

- Additional resources were added to improve the investment function. A portfolio manager was added to manage the new bond proceeds portfolio. Additionally, a new financial analyst will be added to provide analytical and accounting support. A new electronic trading platform (Trade Web) was initiated to allow transparent, competitive investment trades. The Local Government Investment Pool received its maiden rating (AAAm) from Standard & Poors. These additional resources greatly benefited the investment function of the State Treasurer.
- The State Treasurer contracted for a higher level of legal services to assist with investment and other internal policy updates, provide legal counsel for various personnel lawsuits and grievance hearings, and draft proposed legislation and other miscellaneous legal advice.
- Added resources to implement numerous recommendations included in the forensic audit prepared by Deloitte.
- Initiated personnel, system and facility, and security recommendations made by the Office of the Chief Information Officer.
- Reduced IT budget based on decommissioning of TRACS and recognized staffing efficiencies in banking operations due to SHARE implementation.

These factors were considered in preparing the State Treasurer's budget for FY2007.

Contacting the State Treasurer's Financial Management

This financial report is designed to provide a general overview of the State Treasurer's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to

Douglas Minge Brown, State Treasurer
Office of the State Treasurer
P.O. Box 608
Santa Fe, New Mexico 87504-0608

FINANCIAL STATEMENTS

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Statement of Net Assets



AS OF JUNE 30, 2006

		<u>Governmental Activities</u>
ASSETS		
Cash and cash equivalents	\$	961,405
Repurchase agreements		288,508,215
Due from other agencies		39,385,885
Accrued interest receivable		1,594,736
Other receivables		461
Investment in New Mexico Business Development Corporation		1,359,766
Capital assets, net of accumulated depreciation (Note 4):		
Equipment		<u>65,883</u>
TOTAL ASSETS	\$	<u>331,876,351</u>
LIABILITIES AND NET ASSETS		
Accounts payable and other current liabilities	\$	593,859
Due to State General Fund		848,428
Due to Severance Tax Permanent Fund		123,217,261
Due to other agencies		8,163,703
Non-current liabilities:		
Due within one year		95,980
Due in more than one year		<u>-</u>
TOTAL LIABILITIES		132,919,231
NET ASSETS:		
Invested in capital assets		65,883
Restricted for:		
Debt service		195,338,689
Debt service-arbitrage		2,554,665
New Mexico Business Development Corporation		1,359,766
Unrestricted		<u>(361,883)</u>
TOTAL NET ASSETS		<u>198,957,120</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>331,876,351</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Statement of Activities

YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenue	Net (Expenses) Revenue and Changes in Net Assets Primary Government
PRIMARY GOVERNMENT:			
GOVERNMENTAL ACTIVITIES:			
Personnel services and employee benefits	\$ 2,502,020	8,936	(2,493,084)
Operating costs	918,122	-	(918,122)
Interest on long-term debt	59,237,511	-	(59,237,511)
Contractual services	185,622	-	(185,622)
Other charges	<u>2,709,501</u>	<u>-</u>	<u>(2,709,501)</u>
TOTAL GOVERNMENTAL ACTIVITIES	65,552,776	8,936	(65,543,840)
GENERAL REVENUES:			
State general fund appropriations			3,822,500
State property tax levy			48,079,757
Severance taxes			498,602,285
Other taxes			765,706
Capital projects, reversions in			5,204,979
Severance tax permanent fund, reversions out			(123,217,261)
Miscellaneous			(267,030)
UNRESTRICTED INVESTMENT EARNINGS			40,120,599
BOND ACTIVITY:			
Bond proceeds			980,698,375
Bond premiums			14,383,373
Bond principal payments			(963,964,337)
Bond appropriations expense			(431,832,807)
TRANSFER FROM OTHER STATE AGENCY			<u>13,695,727</u>
TOTAL GENERAL REVENUES AND TRANSFERS			<u>86,091,866</u>
CHANGE IN NET ASSETS			20,548,026
NET ASSETS, BEGINNING			178,346,715
PRIOR PERIOD ADJUSTMENTS			<u>62,379</u>
NET ASSETS, BEGINNING, restated			<u>178,409,094</u>
NET ASSETS, ENDING			\$ <u>198,957,120</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Balance Sheet - Governmental Funds

AS OF JUNE 30, 2006

	Major Funds							Total Governmental Funds
	General Fund	NM Business Development Corp. Fund	Bond Issuance Fund	General Obligation Bond Fund	Severance Tax Bond Fund	Tax & Revenue Anticipation Notes	Gaming Suspense Fund	
ASSETS:								
Cash and cash equivalents	\$ 380,127	-	-	-	-	-	581,278	961,405
Repurchase agreements	-	-	-	46,049,693	234,458,522	8,000,000	-	288,508,215
Investment in NM Business Development Corp.	-	1,359,766	-	-	-	-	-	1,359,766
Other receivables	461	-	-	-	-	-	-	461
Due from other agencies	-	-	-	2,444,281	36,941,604	-	-	39,385,885
Interest receivable	-	-	-	17,792	1,576,944	-	-	1,594,736
TOTAL ASSETS	\$ 380,588	1,359,766	-	48,511,766	272,977,070	8,000,000	581,278	331,810,468
LIABILITIES AND FUND BALANCES:								
LIABILITIES:								
Accounts payable	\$ 102,964	-	-	-	214,518	180,278	-	497,760
Due to Severance Tax Permanent Fund	-	-	-	-	123,217,261	-	-	123,217,261
Due to other agencies	-	-	-	-	163,703	8,000,000	-	8,163,703
Due to State General Fund	267,150	-	-	-	-	-	581,278	848,428
Accrued payroll	96,099	-	-	-	-	-	-	96,099
Other payables	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	466,213	-	-	-	123,595,482	8,180,278	581,278	132,823,251
FUND BALANCES:								
Reserved for:								
New Mexico Business Development Corp.	-	1,359,766	-	-	-	-	-	1,359,766
Debt service	-	-	-	47,131,980	148,206,709	-	-	195,338,689
Arbitrage	-	-	-	1,379,786	1,174,879	-	-	2,554,665
Unreserved, reported in general fund	(85,625)	-	-	-	-	-	-	(85,625)
Unreserved, reported in:								
Taxation & Revenue Anticipation Notes	-	-	-	-	-	(180,278)	-	(180,278)
TOTAL FUND BALANCES	(85,625)	1,359,766	-	48,511,766	149,381,588	(180,278)	-	198,987,217
TOTAL LIABILITIES AND FUND BALANCES	\$ 380,588	1,359,766	-	48,511,766	272,977,070	8,000,000	581,278	331,810,468

See Notes to Financial Statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

YEAR ENDED JUNE 30, 2006

Total Fund Balance - Governmental Funds
(Governmental Fund Balance Sheet) \$ 198,987,217

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

Capital assets used in governmental activities are not current financial
resources and, therefore, are not reported in this fund financial
statement, but are reported in the governmental activities of the
Statement of Net Assets. 65,883

Some liabilities (compensated absences) are not due and payable
in the current period and are not included in the fund financial
statement, but are included in the governmental activities
of the Statement of Net Assets. (95,980)

Net assets of governmental activities (Statement of Net Assets) \$ 198,957,120

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

YEAR ENDED JUNE 30, 2006

	Major Funds							Total Governmental Funds
	General Fund	NM Business Development Corp. Fund	Bond Issuance Fund	General Obligation Bond Fund	Severance Tax Bond Fund	Tax & Revenue Anticipation Notes	Gaming Suspense Fund	
REVENUES:								
Federal funds	\$ 8,936	-	-	-	-	-	-	8,936
State general fund appropriations	3,447,300	-	-	-	-	-	-	3,447,300
Special appropriation	375,200	-	-	-	-	-	-	375,200
Other income	120	-	-	-	-	-	-	120
Interest income	-	2,627	-	-	-	-	-	2,627
Interest income - debt service	-	-	-	6,923,172	31,883,308	-	-	38,806,480
Interest income - arbitrage	-	-	-	665,132	646,360	-	-	1,311,492
TOTAL REVENUES	3,831,556	2,627	-	7,588,304	32,529,668	-	-	43,952,155
EXPENDITURES:								
Current								
Personnel services and employee benefits	2,502,020	-	-	-	-	-	-	2,502,020
Operating costs	-	-	-	-	-	-	-	-
Contractual services	185,622	-	-	-	-	-	-	185,622
Other administrative expenditures	881,581	-	-	-	-	-	-	881,581
Debt service								
Principal and interest on long-term debt	-	-	-	57,433,250	389,614,432	576,154,166	-	1,023,201,848
Arbitrage	-	-	-	-	-	-	-	-
Other charges	-	-	346,002	4,250	1,734,471	624,778	-	2,709,501
Capital outlay	9,969	-	-	-	-	-	-	9,969
TOTAL EXPENDITURES	3,579,192	-	346,002	57,437,500	391,348,903	576,778,944	-	1,029,490,541
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	252,364	2,627	(346,002)	(49,849,196)	(358,819,235)	(576,778,944)	-	(985,538,386)
OTHER FINANCING SOURCES (USES):								
Reversions	(267,150)	-	-	-	-	-	-	(267,150)
Severance taxes	-	-	-	-	498,602,285	-	-	498,602,285
State property tax levy	-	-	-	48,079,757	-	-	-	48,079,757
Bond proceeds	-	-	430,698,375	-	-	550,000,000	-	980,698,375
Bond premiums (discounts)	-	-	1,480,434	-	-	12,902,939	-	14,383,373
Other taxes	-	-	-	765,706	-	-	-	765,706
Capital projects, reversions in	-	-	-	732,594	4,472,385	-	-	5,204,979
Payment to escrow agent	-	-	-	-	-	-	-	-
Miscellaneous other sources	-	-	-	-	-	-	-	-
Severance tax permanent fund, reversions out	-	-	-	-	(123,217,261)	-	-	(123,217,261)
Transfers in	-	-	-	-	-	-	-	-
Transfer to other state agency	-	-	(431,832,807)	-	-	13,695,727	-	(418,137,080)
TOTAL OTHER FINANCING SOURCES (USES)	(267,150)	-	346,002	49,578,057	379,857,409	576,598,606	-	1,006,112,984
NET CHANGE IN FUND BALANCES	(14,786)	2,627	-	(271,139)	21,038,174	(180,278)	-	20,574,598
FUND BALANCES, June 30, 2005	(70,839)	1,357,139	-	48,794,061	128,269,879	-	-	178,350,240
PRIOR PERIOD ADJUSTMENTS	-	-	-	(11,156)	73,535	-	-	62,379
FUND BALANCES, JUNE 30, 2006, restated	(70,839)	1,357,139	-	48,782,905	128,343,414	-	-	178,412,619
FUND BALANCES, June 30, 2006	\$ (85,625)	1,359,766	-	48,511,766	149,381,588	(180,278)	-	198,987,217

See Notes to Financial Statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

YEAR ENDED JUNE 30, 2006

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ 20,574,598

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which depreciation of \$41,811 exceeded capital outlay of \$9,969 in the current period: (31,842)

Some expenses reported in the statement of activities do not require the use of current financial resources, and these are not reported as expenditures in governmental funds: 5,271

Rounding _____ (1)

Change in net assets of governmental activities \$ 20,548,026

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Statement of Revenues and Expenditures -
Major Governmental Funds -
Budget and Actual (Non-GAAP Basis)

YEAR ENDED JUNE 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
State General Fund appropriation	\$ 3,408,300	3,447,300	3,447,300	-
Special appropriation	39,000	375,200	375,200	-
Other grants	25,400	25,400	8,936	(16,464)
Other	-	-	120	120
TOTAL REVENUES	\$ 3,472,700	3,847,900	3,831,556	(16,344)
EXPENDITURES:				
Current:				
Personnel services and benefits	\$ 2,540,600	2,553,600	2,502,020	51,580
Contractual services	174,600	441,900	224,772	217,128
Operating costs	757,500	852,400	852,400	-
TOTAL EXPENDITURES	3,472,700	3,847,900	3,579,192	268,708
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FUNDING SOURCES (USES)	\$ -	-	252,364	252,364

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Statement of Fiduciary Net Assets

AS OF JUNE 30, 2006

	<u>Investment Trust Fund</u>
ASSETS:	
Cash and investments:	
Certificates of Deposit	\$ 255,350,000
Commercial Paper	191,653,910
U.S. Government securities	2,218,721,438
Corporate Bonds	4,992,600
Municipal Bonds	37,000,000
Repurchase agreements	<u>2,104,326,583</u>
Total cash and investments	4,812,044,531
Other assets:	
Accrued interest receivable	<u>13,618,667</u>
TOTAL ASSETS	\$ <u>4,825,663,198</u>
LIABILITIES:	
Bank overdraft	\$ <u>(394,180,837)</u>
TOTAL LIABILITIES	(394,180,837)
NET ASSETS HELD IN TRUST	<u>5,219,844,035</u>
TOTAL LIABILITIES AND NET ASSETS HELD IN TRUST	\$ <u>4,825,663,198</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Statement of Changes in Fiduciary Net Assets

AS OF JUNE 30, 2006

	<u>Investment Trust Fund</u>
INVESTMENT INCOME	\$ 224,951,933
EXPENSES:	
Management fees	<u>(384,000)</u>
NET INVESTMENT INCOME	224,567,933
NET PROCEEDS OF DEPOSITS (WITHDRAWALS)	42,700,515
NET ASSETS, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2005	<u>4,558,394,750</u>
NET ASSETS, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2006	\$ <u>4,825,663,198</u>



NATURE OF ORGANIZATION

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.



NATURE OF ORGANIZATION – continued

- (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.
- (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



NATURE OF ORGANIZATION – continued

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

The State Treasurer is responsible 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 and the related debt 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 the Supplementary Information section of this report and the statewide Comprehensive Annual Financial Report (CAFR).

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



NATURE OF ORGANIZATION – continued

Oversight by the State Board of Finance - continued

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

◆ ***Financial Reporting Entity***

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 State Treasurer's Office. The State Treasurer receives funding from state and federal sources and must comply with the requirements of these funding source entities. However, the State Treasurer is not included in any other governmental "reporting entity" as defined by GASB pronouncements, since the State Treasurer is elected by the public and has decision making authority, the power to designate management, and the ability to significantly influence operations and have primary financial accountability for fiscal matters. In addition, there are no component units as defined in GASB 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.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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 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.



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

◆ ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation – continued***

The government reports the following Debt Service Funds:

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

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

The *Taxation and Revenue Fund* was established to account for the transactions related to the issuance of Taxation and Revenue Notes.

The *Gaming Suspense Fund* was established to collect monies owed to the state from gaming establishments.

Additionally, the government reports the following fiduciary funds:

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

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

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



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

◆ **Measurement Focus, Basis of Accounting, and Financial Statement Presentation – continued**

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

◆ **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.

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

◆ **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 \$5,000 (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 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 service. 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.



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

◆ **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 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 State Treasurer 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 debt proceeds received, are reported as debt service expenditures.

Since the State Treasurer 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 State Treasurer 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 the down as needed.

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



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

◆ ***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.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

◆ ***Budgets and Budgetary Accounting***

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

1. By September 1, 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.



2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued

◆ ***Budgets and Budgetary Accounting – continued***

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 General Appropriations 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, 2006 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.

3. DEPOSITS AND INVESTMENTS

◆ ***Fiscal Agent Bank***

The State Board of Finance and Bank of America in Albuquerque (Bank) entered into an agreement whereby the Bank would provide banking services as Fiscal Agent for the State of New Mexico through April 3, 2006, with the option to renew for two additional years at the option of the State Board of Finance, not to extend beyond April 12, 2010.

◆ ***Correspondent Bank***

The State Board of Finance and Northern Trust entered into an agreement whereby BTC would provide banking services as Correspondent Bank for the State of New Mexico through January 31, 2008, with the option to renew for two additional years at the option of the State Board of Finance.



3. DEPOSITS AND INVESTMENTS - continued

◆ Investment Trust Fund

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

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

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

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

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

The 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 institution's operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50% of the average investment balance.



3. DEPOSITS AND INVESTMENTS - continued

◆ Investment Trust Fund – continued

At June 30, 2006, collateral pledged to public money deposits was as follows:

	<u>Fiscal Agent Account</u>	<u>Certificates of Deposit</u>
Cash in bank	\$ (48,308,513)	255,350,000
Less FDIC insurance coverage	-	<u>(1,000,000)</u>
Total unsecured public funds	<u>\$ (48,308,513)</u>	<u>254,350,000</u>
Collateral requirement (50% of uninsured public funds)	\$ -	127,175,000
Collateral pledged:		
US Government securities	<u>37,752,587</u>	<u>165,185,264</u>
(Over) under collateralized	<u>\$ 37,752,587</u>	<u>38,010,264</u>

The book balance in the Fiscal Agent Account was a deficit of \$394,180,837 at June 30, 2006. See Schedule 10 for detail of pledged collateral.

◆ Brokered Transactions

The State Treasurer initiated purchase trades with the following brokers during the year ended June 30, 2006:

<u>Broker Name</u>	<u>Number of Transactions</u>
Merrill Lynch	106
Citigroup	79
Morgan Stanley	57
Bank of America	47
Goldman Sachs	41
Wachovia Securities	20
LPL Financial	20
UBS	5



3. *DEPOSITS AND INVESTMENTS - continued*

◆ *Brokered Transactions - continued*

<u>Broker Name</u>	<u>Number of Transactions</u>
Avests, Inc.	4
Raymond James	4
Bear Stearns	3
RBS	1
Sutter Securities	1
Capital Markets	1
Southwest	1

◆ *Direct Transactions*

The State Treasurer made the following direct purchases:

<u>Security</u>	<u>Number of Transactions</u>
CS First Boston	22
Lehman Brothers	18
Ants Abbey	5
AIG	5
Caylon	4
San Paolo	4
Intessa	4
Prudential	3
Natexis	2
HSBC	2
Dexia	2
Union Banc	2
La Salle	1
Royal Bank	1

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued

3. DEPOSITS AND INVESTMENTS - continued

◆ **Investment Balances**

The fair value of investments administered by the State Treasurer at June 30, 2006 follows:

	Amortized Cost	Carrying Amount Fair Value
U.S. Government Securities	\$ 2,189,980,781	2,218,721,438
Corporate Bonds	5,125,744	4,992,600
Commercial Paper	191,653,910	191,653,910
Flex Repurchase Agreements	<u>2,392,834,798</u>	<u>2,392,834,798</u>
	\$ <u>4,779,595,233</u>	<u>4,808,202,746</u>

The fair value of investments administered by the State Treasurer at June 30, 2006 follows:

	Amortized Cost	Carrying Amount Fair Value
U.S. Government Securities	\$ 2,189,980,781	2,218,721,438
Corporate Bonds	5,125,744	4,992,600
Commercial Paper	191,653,910	191,653,910
Flex Repurchase Agreements	<u>2,392,834,798</u>	<u>2,392,834,798</u>
	\$ <u>4,779,595,233</u>	<u>4,808,202,746</u>

The fair value includes repurchase agreements of \$288,508,215 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 remaining \$4,519,694,531 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 \$1,359,766 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 (Note 11). This investment is reflected in the New Mexico Business Development Corporation Special Revenue Fund.

◆ **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



3. DEPOSITS AND INVESTMENTS - continued

◆ ***Local Government Investment Pool - continued***

participant balances remain at their carrying cost. At June 30, 2006, the Local Government Investment Pool carrying cost approximated the fair value.

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 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; and



3. DEPOSITS AND INVESTMENTS - continued

◆ ***Investment Guidelines and Limitations - continued***

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.”

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.



3. DEPOSITS AND INVESTMENTS - continued

◆ ***Investments Permitted by Policy – continued***

2. Commercial Paper – Unsecured obligations with a maturity up to 270 days at time of purchase issued by corporations organized and operating with 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, 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.



3. DEPOSITS AND INVESTMENTS - continued

◆ Investments Permitted by Policy – continued

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, 2006.
8. Variable Rate Notes – Variable rate notes (VRN) 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 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.

◆ 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:



3. DEPOSITS AND INVESTMENTS - continued

◆ ***Unauthorized Investments/Investment Actions - continued***

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, 2006, the State Treasurer's bank balances were not exposed to custodial credit risk.

◆ ***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, 2006, are as follows:



3. DEPOSITS AND INVESTMENTS - continued

◆ **Credit Risk - continued**

Quality Rating	Fair Value	Percentage of Portfolio
AAA:	\$ 953,567,705	
U.S. Government Agency Obligations	953,567,705	
A-1+:	161,674,910	3.36%
Commercial Paper	161,674,910	3.36%
A-1:	29,979,000	0.62%
Commercial Paper	29,979,000	0.62%
BB:	4,992,600	.10%
Corporate Bonds	4,992,600	.10%
Not rated and other:	3,657,988,529	76.09%
Flex Overnight Pool	1,937,000,000	40.29%
Short-term Government Bonds and Notes	1,265,153,733	26.32%
Flex Repurchase Agreements	455,834,798	9.48%
Grand Total	\$ 4,808,202,746	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. DEPOSITS AND INVESTMENTS - continued

◆ **Concentration of Credit Risk – continued**

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.
4. Investments in commercial paper, corporate bonds and asset-backed obligations shall not exceed 40 percent of assets of a fund. Investments in corporate bonds shall not exceed 10 percent 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 five percent with a single issuer include the following:

Quality Rating	Fair Value	Percentage of Portfolio
US Government Agency Obligations:	\$ 953,567,705	19.83%
Federal Home Loan Bank	563,013,005	11.72%
U.S. Government Agency Obligations	335,856,800	6.99%
FNMA	54,697,900	1.12%
Other issuers::		
Flex Repurchase Agreements:	455,834,797	9.48%
Cantor Fitzgerald	181,005,224	3.76%
Morgan Stanley	153,858,452	3.20%
Citibank/Citicorp	120,971,122	2.52%
Flex Overnight Pool	1,937,000,000	40.29%
Corporate Bonds	4,992,600	0.10%
Commercial Paper	191,653,910	3.99%
Short-term Government Bonds and Notes	1,265,153,733	26.31%
Grand Total	\$ 4,808,202,746	100.00%



3. DEPOSITS AND INVESTMENTS - continued

◆ **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 (e.g., 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.

Maturities on investment are as follows:

Quality Rating	Maturities		
	Fair Value	Less Than 1 Year	1 – 5 Years
AAA:	\$ 953,567,705	830,515,550	123,052,155
U.S. Government Agency Obligations	953,567,705	830,515,550	123,052,155
A-1+:	161,674,910	161,674,910	-
Commercial Paper	161,674,910	161,674,910	-
A-1:	29,979,000	29,979,000	-
Commercial Paper	29,979,000	29,979,000	-

3. DEPOSITS AND INVESTMENTS - continued

◆ *Interest Rate Risk - continued*

Quality Rating	Fair Value	Maturities	
		Less Than 1 Year	1 – 5 Years
BB:	\$ 4,992,600	4,992,600	-
Corporate Bonds	4,992,600	4,992,600	-
Not rated and other:	3,657,988,529	3,544,465,787	113,522,742
Flex Overnight Pool	1,937,000,000	1,937,000,000	-
Short-term Government Bonds and Notes	1,265,153,733	1,265,153,733	-
Flex Repurchase Agreements	455,834,798	342,312,056	113,522,742
Grand Total	\$ 4,808,202,746	4,571,627,849	236,574,897

◆ *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, 2006, were denominated in United States Dollars.

◆ *Securities Collateral*

Securities collateral relates to Flex Repurchase Agreements. At June 30, 2006, investments in repurchase agreements were \$2,392,834,798. Collateral required by State statute at June 30, 2006 was \$2,440,691,491. The investments in repurchase agreements were collateralized by US Government Mortgage Backed Securities valued at \$2,515,156,560, 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 (102%) 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



3. DEPOSITS AND INVESTMENTS - continued

◆ **Securities Collateral - 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:	\$ 2,515,156,560	100.00%
US Government Agency Obligations	1,242,922,706	49.42%
US Treasury Notes	<u>1,272,233,854</u>	50.58%
Grand Total	\$ 2,515,156,560	100.00%

Concentrations of risk on collateral are as follows:

Quality Rating	Fair Value	Percentage of Portfolio
US Government Agency Obligations:	\$ 2,515,156,560	100.00%
US Government Agency Obligations	1,242,922,706	49.42%
US Treasury Notes	<u>1,272,233,854</u>	50.58%
Grand Total	\$ 2,515,156,560	100.00%

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ **Securities Collateral - continued**

Maturities on collateral are as follows:

Quality Rating	Fair Value	Maturities		
		1-10 Years	11-20 Years	1 - 5 Years
AAA:	\$ 2,515,156,560	1,272,233,854	101,528,618	1,141,394,088
US Government Mortgage Backed Securities	1,242,922,706	-	101,528,618	1,141,394,088
US Treasury Notes	<u>1,272,233,854</u>	<u>1,272,233,854</u>	-	-
Grand Total	\$ 2,515,156,560	1,272,233,854	101,528,618	1,141,394,088

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

<u>Enterprise Funds</u>	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2006</u>
Governmental activities:				
Depreciable assets:				
Equipment	\$ 306,659	9,969	(38,342)	278,286
Less accumulated depreciation	<u>(208,934)</u>	<u>(41,811)</u>	<u>(38,342)</u>	<u>212,403</u>
Total	\$ <u>97,725</u>	<u>(31,842)</u>	<u>-</u>	<u>65,883</u>

Depreciation expense was charged to functions/programs of the State Treasurer's Office as follows:

Governmental activities:	
General government	\$ <u>41,811</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



5. *LONG-TERM OBLIGATIONS*

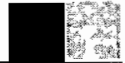
◆ *Compensated Absences*

As in prior years, the general fund is used to liquidate compensated absences. Following are the changes in compensated absences for the year ended December 31, 2006:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts Due</u>
	<u>June 30, 2005</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>June 30, 2006</u>	<u>Within</u>
					<u>One Year</u>
Compensated absences	\$ <u>101,251</u>	<u>125,463</u>	<u>(130,734)</u>	<u>95,980</u>	<u>95,980</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

State Treasurer's Investment Trust Fund - Balance Sheet



6. **CONDENSED FINANCIAL STATEMENTS**

Condensed financial statements of the Investment Trust Fund, inclusive of external and internal participants for the fiscal year ended June 30, 2006, are as follows:

ASSETS

Investments	\$ 4,812,044,531
Interest receivable	<u>13,618,667</u>
TOTAL ASSETS	\$ <u>4,825,663,198</u>

LIABILITY

Cash overdraft	\$ (394,180,837)
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NET ASSETS

External Participant account balances	713,297,552
Other Internal Participant account balances:	
Primary government	4,514,938,971
Undistributed reserves and unrealized gains (losses)	<u>(8,392,488)</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>4,825,663,198</u>

INVESTMENT INCOME

At June 30, 2006, the State Treasurer's investment income earnings were as follows:

Local Governmental Investment Pool	\$ 31,867,057
Consolidated Investment Pool	95,567,244
State Funds Investment Pool	97,517,632
Unrealized loss	<u>-</u>
	\$ <u>224,951,933</u>



7. APPROPRIATIONS

The State Treasurer received the following appropriations for the year ended June 30, 2006:

<u>General Fund</u>	
General appropriation, (General Appropriation Act)	\$ 3,447,300
Special appropriation	<u>375,200</u>
Total appropriations	\$ <u>3,822,500</u>

The State Treasurer's Office received a special appropriation, Law 2006, Chapter 109, Section 6, to fund compensation for FY2006.

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.

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 \$123,217,261 remains in the Severance Tax Bonding Fund, payable to the Severance Tax Permanent Fund that was transferred in July 2006.

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.



10. ARBITRAGE ON TAX EXEMPT BONDS - continued

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: 1) 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 2) 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:

	First Computation Date	First Payment Due to IRS	First Computation of Arbitrage Completed
General Obligation Capital Projects Bonds Series 1999	9/1/2004	10/1/2004	X
General Obligation Bonds Series 2001	3/21/2006	5/20/2006	X
General Obligation Bonds Refunding Series 2001A	9/1/2004	10/1/2004	X
General Obligation Bonds Refunding Series 2001B	9/1/2006	10/1/2006	X
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	7/1/1998	8/1/1998	X
Severance Tax Bonds Series 1994B	7/1/1999	8/1/1999	X
Severance Tax Bonds Series 1995A	7/1/2000	8/1/2000	X
Severance Tax Bonds Series 1995B	7/1/2000	8/1/2000	X
Severance Tax Bonds Series 1996A	12/20/2001	2/20/2002	X
Severance Tax Refunding Bonds Series 1997A	7/1/2001	8/1/2002	X
Severance Tax Refunding Bonds Series 1998A	7/1/2003	8/1/2003	X



10. ARBITRAGE ON TAX EXEMPT BONDS - continued

	Bond Year-End of First Rebate Computation	First Arbitrage Rebate Due Date	First Computation of Arbitrage Completed
Severance Tax Bonds Series 1999B	7/1/2004	8/1/2004	X
Severance Tax Bonds Series 1999A Supplemental	11/17/2004	1/17/2005	X
Severance Tax Bonds Series 2000	7/1/2005	8/1/2005	X
Severance Tax Bonds 2000C Supplemental	11/16/2005	1/16/2006	X
Severance Tax Bonds Refunding Series 2001A	12/20/2006	2/20/2007	
Severance Tax Bonds Series 2002A Supplemental	1/16/2007	3/16/2007	
Severance Tax Bonds Series 2002A	6/19/2007	8/18/2007	
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	
Severance Tax Bonds Series 2006A	6/20/2011	8/16/2011	
Enhanced 911 Revenue Bonds Series 2000	9/12/2005	10/12/2005	X

Interest earnings on invested bond proceeds through June 30, 2006 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.

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

11. NEW MEXICO BUSINESS DEVELOPMENT CORPORATION (BDC) - continued

Agreement." Payment of interest on the remaining outstanding debt ceased as of the call date. Accordingly, no interest income is being accrued in the accompanying financial statements. There are outstanding accounts receivable for BDC; however, since the collectibility is not known, the accounts receivable or corresponding bad debt has not been recognized. The balance at June 30, 2006 is the fair market value at that date.

12. TRANSFERS

◆ **Bond Proceeds**

The Bond Issuance Fund transferred the net proceeds of the 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, 2006 financial statements:

CAS Number		Transfer From Amount	Transfer To Amount
	Bond Issuance Fund:	\$ 431,832,807	-
963	Series 2006A Supplemental	-	136,134,432
410	Series 2006S-A	-	85,310,095
410	Series 2006S-B	-	38,195,000
410	Series 2005S-F	-	155,359,230
410	Series 2005S-E	-	16,834,050
Total		\$ <u>431,832,807</u>	<u>431,832,807</u>

◆ **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	\$ 77,028,246	-
Severance Tax Bond – 2006A Debt Service	963	-	3,185,000
Severance Tax Bond – 2005B2 Debt Service	571	-	1,035,000

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



12. *TRANSFERS - continued*

◆ *Interfund Transfers - continued*

	Fund	Transfer From	Transfer To
Severance Tax Bond – 1998A Rebate	486	\$ -	-
Severance Tax Bond – 2004A Debt Service	492	-	6,600,000
Severance Tax Bond – 1999A Debt Service	184	-	2,013,959
Severance Tax Bond – 2000 Rebate	391	1,288,713	-
Severance Tax Bond – 2004B Debt Service	183	-	850,000
Severance Tax Bond – 2005B1 Debt Service	388	-	1,760,000
Severance Tax Bond – 2005A Debt Service	412	-	18,500,000
Severance Tax Bond – 2000C Debt Service	405	-	1,800,000
Severance Tax Bond – 2001A Debt Service	408	-	21,400,000
Severance Tax Bond – 2002A Debt Service	699	-	5,800,000
Severance Tax Bond – 2002 Supplemental Debt Service	095	-	6,068,000
Severance Tax Bond – 2002B Supplemental Debt Service	390	-	1,100,000
Severance Tax Bond – 2003A Debt Service	884	-	7,200,000
Severance Tax Bond – 2003B Debt Service	484	-	<u>1,005,000</u>
 Total		 \$ <u>78,316,959</u>	 <u>78,316,959</u>

			031 GO 2003 Debt Service	414 GO 2001 Debt Service	418 GO 2003B Ref Debt Service	482 GO 2001B Refunding	Total
CAS #	Transfer From:						
031	GO 2003 Debt Service	\$	-	-	-	3,776,347	3,776,347
414	CO 2001 Series Debt Service		-	-	3,081,765	-	3,081,765
418	GO 2003B Ref Debt Service		2,361,555	-	-	-	2,361,555
482	GO 2001B Refunding		-	1,657,595	-	-	1,657,595
	DFA		707,594	-	25,000	-	732,594
	Total	\$	<u>3,069,149</u>	<u>1,657,595</u>	<u>3,106,765</u>	<u>3,776,347</u>	<u>11,609,856</u>



12. TRANSFERS - continued

\$13,695,727 was transferred from DFA to the Tran Debt Service for the purpose of paying interest on the Tax and Revenue Anticipation Notes.

13. EMPLOYEE RETIREMENT PLAN – STATE OF NEW MEXICO

◆ **Plan Description**

Substantially all of the State Treasurer'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 State Treasurer are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Office's contributions to PERA for the years ending June 30, 2006, 2005, and 2004, were \$292,265, \$408,129 and \$374,200, respectively, equal to the amount of the required contributions for each year.

14. POST EMPLOYEMENT 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



**14. POST EMPLOYEMENT BENEFITS – RETIREE HEALTH CARE ACT CONTRIBUTIONS
- continued**

Retirement Act, Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

Eligible retirees are: (1) retirees who made contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf unless that person retires 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, and (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. 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 Albuquerque State Government Center, 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, NM 87109.

For the fiscal year ended June 30, 2006, the State Treasurer remitted \$22,297 in employer contributions and \$11,149 in employee contributions to the Retiree Health Care Authority.



15. DEFICIT FUND BALANCE

As of June 30, 2006, the State Treasurer reported a deficit fund balance of \$85,625 in its general fund. The primary cause of the deficit fund balance was accrued payroll for \$96,099 that was paid for in FY07. The Taxation and Revenue Fund had a deficit of \$180,278. The \$180,278 related to cost of issuance for a note that was issued July 7, 2006.

16. RISK MANAGEMENT

The State Treasurer is exposed to various risks of loss for which the State Treasurer 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, 2005 to June 30, 2006. The limit of coverage is \$5,000,000, with \$1,000 deductible per occurrence. All State Treasurer employees are covered by this bond.

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, 2006 is \$848,428, which relates to the fiscal year ended June 30, 2006.

Amounts reverted to the State General Fund during 2006 were as follows:

		<u>Appropriation</u>	<u>Reversion</u>
Reversion to State General Fund FY05	\$	<u>3,379,300</u>	<u>4,255</u>



18. SUBSEQUENT EVENTS

◆ *State Treasurer*

On September 16, 2005, the Federal Bureau of Investigation took then State Treasurer Robert Vigil into custody as a result of an investigation regarding alleged kickbacks received by Mr. Vigil from certain investment brokers. Mr. Vigil was subsequently indicted by a federal grand jury on charges of extortion and racketeering, and resigned as State Treasurer on October 26, 2005.

On September 30, 2006, Mr. Vigil was acquitted on 23 counts of extortion and racketeering, and found guilty of one count of attempted extortion by a federal jury. The conviction does not affect the financial position of the State Treasurer's Office for the year ended June 30, 2006.

Mr. James Lewis was elected to the Office of the State Treasurer by public election on November 7, 2006, and will begin his term on December 15, 2006.

◆ *Local Government Investment Pool (LGIP)*

On August 10, 2006, the LGIP was rated by Standard & Poors rating service and received an AAAm rating.

19. SHORT-TERM DEBT – TAXATION AND REVENUE ANTICIPATION NOTES

The State Treasurer issues six month, fixed-rate tax 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.

Short-term debt activity for the year ended June 30, 2006 was as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Issuance</u> <u>Cost</u>	<u>Balance</u> <u>June 30, 2006</u>
Tax and Revenue					
Anticipation Notes	\$ _____	550,000,000	550,000,000	(180,278)	(180,278)

The issuance cost represents services rendered in FY06 related to tax and revenue anticipation notes that were issued July 7, 2006.



20. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were recorded as of June 30, 2006:

Fund Balance	Amount	Purpose
640 GO Debt Service	\$11,156	An accrual to Due from State Agency was erroneously recorded. This entry decreased the fund balance by \$11,156.
884 STB Debt Service	\$73,535	An accrual to Due to State Agency was erroneously recorded. This entry increased the fund balance by \$73,535.

SUPPLEMENTARY INFORMATION

Schedule 1

Capital Assets Used in the Operation of Governmental Funds -
Schedule of Changes by Asset Class and Source

YEAR ENDED JUNE 30, 2006

	Balance June 30, 2005	Additions	Actual Amounts Deletions	Balance June 30, 2006
GOVERNMENTAL FUNDS CAPITAL ASSETS:				
Equipment, furniture and fixtures	\$ 306,659	9,969	(38,342)	278,286
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	\$ 306,659	9,969	(38,342)	278,286
INVESTMENTS IN GOVERNMENTAL FUNDS				
CAPITAL ASSETS BY SOURCE:				
General Fund revenues	\$ 306,659	9,969	(38,342)	278,286
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	\$ 306,659	9,969	(38,342)	278,286

STATE OF NEW MEXICO
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Schedule 2

Combining Balance Sheet - General Obligation and Revenue Bonds -
General Obligation Bond Debt Service Funds

YEAR ENDED JUNE 30, 2006

	CAS Fund #	Assets			Total Assets	Liabilities	Fund Equity			Total Liabilities & Fund Equity
		Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable		Accrued Arbitrage Interest Payable	Unreserved- Designated for Debt Service	Unreserved- Designated for Arbitrage	Total Fund Equity	
1999 Series - Debt Service	640	-	-	-	-	-	-	-	-	-
2003 Series - Debt Service	031	\$ 11,459,457	476,157	4,181	11,939,795	-	11,939,795	-	11,939,795	11,939,795
2005 Series - Debt Service	032	13,420,595	365,490	3,907	13,789,992	-	13,789,992	-	13,789,992	13,789,992
2001 Series - Debt Service	414	5,381,635	235,581	2,395	5,619,611	-	5,619,611	-	5,619,611	5,619,611
2003B Series - Refunding	418	6,977,702	1,231,904	3,551	8,213,157	-	8,213,157	-	8,213,157	8,213,157
2001B Series - Refunding	482	6,776,495	19,961	3,258	6,799,714	-	6,799,714	-	6,799,714	6,799,714
1999 Series - Debt Service	640	-	-	26	26	-	26	-	26	26
E911	018	769,685	-	-	769,685	-	769,685	-	769,685	769,685
Total Debt Service		44,785,569	2,329,093	17,318	47,131,980	-	47,131,980	-	47,131,980	47,131,980
2003 Series - Rebate	413	90,975	10,564	62	101,601	-	-	101,601	101,601	101,601
2001 Series - Rebate	415	670,129	13,807	263	684,199	-	-	684,199	684,199	684,199
2003 Refunding Series - Rebate	419	102,588	24,411	49	127,048	-	-	127,048	127,048	127,048
2005 Series - Rebate	426	73,857	16,185	34	90,076	-	-	90,076	90,076	90,076
2001B Series - Rebate	463	63,365	15,321	30	78,716	-	-	78,716	78,716	78,716
911 - Rebate	488	92,151	760	36	92,947	-	-	92,947	92,947	92,947
2001A Series - Rebate	712	171,059	34,140	-	205,199	-	-	205,199	205,199	205,199
Total Rebate Accounts		1,264,124	115,188	474	1,379,786	-	-	1,379,786	1,379,786	1,379,786
2003 Series - Cost of Issuance	416	-	-	-	-	-	-	-	-	-
Total cost of issuance		-	-	-	-	-	-	-	-	-
Combined total		\$ 46,049,693	2,444,281	17,792	48,511,766	-	47,131,980	1,379,786	48,511,766	48,511,766

See Independent Auditors' Report.

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Schedule 3

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances -
General Obligation Bond Debt Service Funds

YEAR ENDED JUNE 30, 2006

	CAS Fund #	Revenues		Expenditures		Excess (Deficiency) of Revenues Over Expenditures
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures	
1999 Series - Debt Service	640	-	-	-	-	-
2003 Series - Debt Service	031	\$ 913,833	16,197,000	-	16,197,000	(15,283,167)
2005 Series - Debt Service	032	5,231,748	13,859,000	-	13,859,000	(8,627,252)
2001 Series - Debt Service	414	469,677	7,769,838	4,250	7,774,088	(7,304,411)
2003B Series - Refunding	418	127,645	10,302,750	-	10,302,750	(10,175,105)
2001B Series - Refunding	482	155,291	8,549,000	-	8,549,000	(8,393,709)
2001A Series - Refunding	487	-	-	-	-	-
1999 Series - Debt Service	640	26	-	-	-	26
E911	18	24,952	755,662	-	755,662	(730,710)
Total debt service		6,923,172	57,433,250	4,250	57,437,500	(50,514,328)
1999 Series - Rebate	409	-	-	-	-	-
2003 Series - Rebate	413	101,601	-	-	-	101,601
2001 Series - Rebate	415	57,716	-	-	-	57,716
2003 Refunding Series - Rebate	419	127,048	-	-	-	127,048
2005 Series - Rebate	426	90,074	-	-	-	90,074
2001B Series - Rebate	463	78,716	-	-	-	78,716
911 - Rebate	488	4,778	-	-	-	4,778
2001A Series - Rebate	712	205,199	-	-	-	205,199
1997 Series - Rebate	959	-	-	-	-	-
Total Rebate Accounts		665,132	-	-	-	665,132
2003 Series - Cost of Issuance	416	-	-	-	-	-
Total cost of issuance		-	-	-	-	-
Combined total		\$ 7,588,304	57,433,250	4,250	57,437,500	(49,849,196)

See Independent Auditors' Report.

STATE OF NEW MEXICO
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Schedule 3

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances -
General Obligation Bond Debt Service Funds - continued

YEAR ENDED JUNE 30, 2006

	CAS Fund #	Other Financing Sources (Uses)				Interfund Transfers
		State Property Tax Levy	Other Taxes	Bond Proceeds	Capital Projects Reversions	
1999 Series - Debt Service	640	-	-	-	-	-
2003 Series - Debt Service	031	\$ 12,452,005	-	-	707,594	(1,414,792)
2005 Series - Debt Service	032	11,182,192	-	-	-	-
2001 Series - Debt Service	414	5,996,214	-	-	25,000	(1,424,170)
2003B Series - Refunding	418	10,536,144	-	-	-	720,210
2001B Series - Refunding	482	7,913,202	-	-	-	2,118,752
2001A Series - Refunding	487	-	-	-	-	-
1999 Series - Debt Service	640	-	-	-	-	-
E911	18	-	765,706	-	-	-
Total debt service		48,079,757	765,706	-	732,594	-
1999 Series - Rebate	409	-	-	-	-	-
2003 Series - Rebate	413	-	-	-	-	-
2001 Series - Rebate	415	-	-	-	-	-
2003 Refunding Series - Rebate	419	-	-	-	-	-
2005 Series - Rebate	426	-	-	-	-	-
2001B Series - Rebate	463	-	-	-	-	-
911 - Rebate	488	-	-	-	-	-
2001A Series - Rebate	712	-	-	-	-	-
1997 Series - Rebate	959	-	-	-	-	-
Total Rebate Accounts		-	-	-	-	-
2003 Series - Cost of Issuance	416	-	-	-	-	-
Total cost of issuance		-	-	-	-	-
Combined total		\$ 48,079,757	765,706	-	732,594	-

STATE OF NEW MEXICO
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Schedule 3

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances -
General Obligation Bond Debt Service Funds - continued

YEAR ENDED JUNE 30, 2006

	CAS Fund #	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	Restated * Fund Balances June 30, 2005	Fund Balances June 30, 2006
1999 Series - Debt Service	640	-	-	-
2003 Series - Debt Service	031	\$ (3,538,360)	15,478,155	11,939,795
2005 Series - Debt Service	032	2,554,940	11,235,052	13,789,992
2001 Series - Debt Service	414	(2,707,367)	8,326,978	5,619,611
2003B Series - Refunding	418	1,081,249	7,131,908	8,213,157
2001B Series - Refunding	482	1,638,245	5,161,469	6,799,714
2001A Series - Refunding	487	-	-	-
1999 Series - Debt Service	640	26	-	26
E911	18	34,996	734,689	769,685
Total debt service		(936,271)	48,068,251	47,131,980
1999 Series - Rebate	409	-	-	-
2003 Series - Rebate	413	101,601	-	101,601
2001 Series - Rebate	415	57,716	626,483	684,199
2003 Refunding Series - Rebate	419	127,048	-	127,048
2005 Series - Rebate	426	90,074	2	90,076
2001B Series - Rebate	463	78,716	-	78,716
911 - Rebate	488	4,778	88,169	92,947
2001A Series - Rebate	712	205,199	-	205,199
1997 Series - Rebate	959	-	-	-
Total Rebate Accounts		665,132	714,654	1,379,786
2003 Series - Cost of Issuance	416	-	-	-
Total cost of issuance		-	-	-
Combined total		\$ (271,139)	48,782,905	48,511,766

See Independent Auditors' Report.

STATE OF NEW MEXICO
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Schedule 4

Combining Balance Sheet - Severance Tax Bonds -
Severance Tax Bond Debt Service Funds

YEAR ENDED JUNE 30, 2006

	CAS Fund #	Assets				Liabilities			
		Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	Total Assets	Due to Severance Tax Permanent Fund	Due to Other State Agencies	Accounts Payable	Total Liabilities
2002A Supp Series - DS	095	\$ 6,813,154	27,807	2,635	6,843,596	-	-	-	-
2004B Series Debt Service	183	1,091,867	13,080	263	1,105,210	-	-	-	-
199A Series Debt Service	184	2,029,313	7,913	946	2,038,172	-	-	-	-
2005B1 Series Debt Service	388	894,191	6,293	4	900,488	-	-	-	-
2000 Series Debt Service	389	-	-	-	-	-	-	-	-
2002B Supp. Series - DS	390	4,628	14,935	1,878	21,441	-	-	-	-
2000C Series Debt Service	405	2,120,154	31,467	829	2,152,450	-	-	-	-
2001A Series Refunding	408	22,340,260	59,166	8,628	22,408,054	-	-	-	-
Severance Tax Bonding	410	150,618,610	36,071,704	1,544,186	188,234,500	123,217,261	-	214,518	123,431,779
2005A Series Debt Service	412	19,825,624	311,515	7,825	20,144,964	-	-	-	-
2003B Series Debt Service	484	1,010,439	2,612	390	1,013,441	-	-	-	-
2004A Series Debt Service	492	8,711,756	28,870	3,367	8,743,993	-	-	-	-
2005B2 Series Debt Service	571	520,864	1,330	-	522,194	-	-	-	-
2002A Series Debt Service	699	6,832,695	28,132	2,641	6,863,468	-	-	-	-
2003A Series Debt Service	884	7,572,796	17,213	2,924	7,592,933	-	163,703	-	163,703
2006A Series Debt Service	963	3,185,000	32,287	-	3,217,287	-	-	-	-
Total debt service		233,571,351	36,654,324	1,576,516	271,802,191	123,217,261	163,703	214,518	123,595,482
2006A Series Rebate	019	-	162,487	-	162,487	-	-	-	-
1999A Series Rebate	185	246,698	1,571	96	248,365	-	-	-	-
2000 Series Rebate	391	-	-	-	-	-	-	-	-
2002B Series Rebate	392	55,487	8,619	25	64,131	-	-	-	-
2000C Series Rebate	406	314,162	3,727	122	318,011	-	-	-	-
2004B Series Rebate	411	18,939	7,154	10	26,103	-	-	-	-
2003BA Series Rebate	420	9,011	1,550	4	10,565	-	-	-	-
2004A Series Rebate	427	16,560	7,252	11	23,823	-	-	-	-
2005A Series Rebate	483	126,292	78,253	117	204,662	-	-	-	-
2005B1 Series Rebate	570	7,917	1,320	-	9,237	-	-	-	-
2002A Series Rebate	700	-	-	4	4	-	-	-	-
2003A Series Rebate	873	87,457	14,574	39	102,070	-	-	-	-
2005B2 Series Rebate	960	4,648	773	-	5,421	-	-	-	-
Total rebate accounts		887,171	287,280	428	1,174,879	-	-	-	-
Combined total		\$ 234,458,522	36,941,604	1,576,944	272,977,070	123,217,261	163,703	214,518	123,595,482

See Independent Auditors' Report.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 4

Combining Balance Sheet - Severance Tax Bonds -
Severance Tax Bond Debt Service Funds - continued

YEAR ENDED JUNE 30, 2006

	CAS Fund #	Fund Equity			Total Liabilities & Fund Equity
		Unreserved- Designated for Debt Service	Unreserved- Designated for Arbitrage	Total Fund Equity	
2002A Supp. Series - DS	095	\$ 6,843,596	-	6,843,596	6,843,596
2004B Series Debt Service	183	1,105,210	-	1,105,210	1,105,210
199A Series Debt Service	184	2,038,172	-	2,038,172	2,038,172
2005B1 Series Debt Service	388	900,488	-	900,488	900,488
2000 Series Debt Service	389	-	-	-	-
2002B Supp. Series - DS	390	21,441	-	21,441	21,441
2000C Series Debt Service	405	2,152,450	-	2,152,450	2,152,450
2001A Series Refunding	408	22,408,054	-	22,408,054	22,408,054
Severance Tax Bonding	410	64,802,721	-	64,802,721	188,234,500
2005A Series Debt Service	412	20,144,964	-	20,144,964	20,144,964
2003B Series Debt Service	484	1,013,441	-	1,013,441	1,013,441
2004A Series Debt Service	492	8,743,993	-	8,743,993	8,743,993
2005B2 Series Debt Service	571	522,194	-	522,194	522,194
2002A Series Debt Service	699	6,863,468	-	6,863,468	6,863,468
2003A Series Debt Service	884	7,429,230	-	7,429,230	7,592,933
2006A Series Debt Service	963	3,217,287	-	3,217,287	3,217,287
Total debt service		148,206,709	-	148,206,709	271,802,191
2006A Series Rebate	019	162,487	-	162,487	162,487
1999A Series Rebate	185	248,365	-	248,365	248,365
2000 Series Rebate	391	-	-	-	-
2002B Series Rebate	392	64,131	-	64,131	64,131
2000C Series Rebate	406	318,011	-	318,011	318,011
2004B Series Rebate	411	26,103	-	26,103	26,103
2003BA Series Rebate	420	10,565	-	10,565	10,565
2004A Series Rebate	427	23,823	-	23,823	23,823
2005A Series Rebate	483	204,662	-	204,662	204,662
2005B1 Series Rebate	570	9,237	-	9,237	9,237
2002A Series Rebate	700	4	-	4	4
2003A Series Rebate	873	102,070	-	102,070	102,070
2005B2 Series Rebate	960	5,421	-	5,421	5,421
Total rebate accounts		1,174,879	-	1,174,879	1,174,879
Combined total		\$ 149,381,588	-	149,381,588	272,977,070

See Independent Auditors' Report.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 5

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances -
Severance Tax Bond Debt Service Funds

YEAR ENDED JUNE 30, 2006

CAS Fund #	Revenues		Expenditures			Excess (Deficiency) of Revenues Over Expenditures
	Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures		
2002A Supp. Series - DS	095	\$ 260,017	7,229,838	-	7,229,838	(6,969,821)
2004R Series Debt Service	183	170,660	1,251,238	-	1,251,238	(1,080,578)
199A Series Debt Service	184	67,144	2,038,394	-	2,038,394	(1,971,250)
2005B1 Series Debt Service	388	37,080	896,592	-	896,592	(859,512)
2000 Series Debt Service	389	55,892	10,326,875	859,183	11,186,058	(11,130,166)
2002B Supp. Series - DS	390	174,623	10,314,450	-	10,314,450	(10,139,827)
2000C Series Debt Service	405	306,809	2,051,406	-	2,051,406	(1,744,597)
2001A Series Refunding Severance Tax Bonding	408	568,968	25,236,250	-	25,236,250	(24,667,282)
2005A Series Debt Service	410	23,943,097	295,734,071	875,288	296,609,359	(272,666,262)
2003B Series Debt Service	412	3,801,425	2,265,461	-	2,265,461	1,535,964
2004A Series Debt Service	484	30,929	1,113,033	-	1,113,033	(1,082,104)
2004A Series Debt Service	492	2,090,880	15,151,000	-	15,151,000	(13,060,120)
2005B2 Series Debt Service	571	16,305	529,111	-	529,111	(512,806)
2002A Series Debt Service	699	236,630	6,964,038	-	6,964,038	(6,727,408)
2003A Series Debt Service	884	90,562	8,512,675	-	8,512,675	(8,422,113)
2006A Series Debt Service	963	32,287	-	-	-	32,287
Total debt service		31,883,308	389,614,432	1,734,471	391,348,903	(359,465,595)
2006A Series Rebate	019	162,487	-	-	-	162,487
1999A Series Rebate	185	11,004	-	-	-	11,004
2000 Series Rebate	391	9,482	-	-	-	9,482
2002B Series Rebate	392	64,131	-	-	-	64,131
2000C Series Rebate	406	17,371	-	-	-	17,371
2004B Series Rebate	411	26,103	-	-	-	26,103
2003BA Series Rebate	420	10,565	-	-	-	10,565
2004A Series Rebate	427	23,823	-	-	-	23,823
2005A Series Rebate	483	204,662	-	-	-	204,662
2005B1 Series Rebate	570	9,237	-	-	-	9,237
2002A Series Rebate	700	4	-	-	-	4
2003A Series Rebate	873	102,070	-	-	-	102,070
2005B2 Series Rebate	960	5,421	-	-	-	5,421
Total Rebate Accounts		646,360	-	-	-	646,360
Combined total		\$ 32,529,668	389,614,432	1,734,471	391,348,903	(358,819,235)

See Independent Auditors' Report.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 5

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances -
Severance Tax Bond Debt Service Funds - continued

YEAR ENDED JUNE 30, 2006

CAS Fund #	Other Financing Sources (Uses)					
	Severance Taxes	Bond Proceeds	Capital Projects Reversions	Interfund Transfers	Payment to Escrow Agent	Severance Tax Permanent Fund Reversions
2002A Supp. Series - DS	095	\$ -	-	-	6,068,000	-
2004B Series Debt Service	183	-	-	-	850,000	-
199A Series Debt Service	184	-	-	-	2,013,959	-
2005B1 Series Debt Service	388	-	-	-	1,760,000	-
2000 Series Debt Service	389	-	-	-	-	-
2002B Supp. Series - DS	390	-	-	-	1,100,000	-
2000C Series Debt Service	405	-	-	-	1,800,000	-
2001A Series Refunding	408	-	-	-	21,400,000	-
Severance Tax Bonding	410	498,602,285	-	4,472,385	(77,028,246)	(123,217,261)
2005A Series Debt Service	412	-	-	-	18,500,000	-
2003B Series Debt Service	484	-	-	-	1,005,000	-
2004A Series Debt Service	492	-	-	-	6,600,000	-
2005B2 Series Debt Service	571	-	-	-	1,035,000	-
2002A Series Debt Service	699	-	-	-	5,800,000	-
2003A Series Debt Service	884	-	-	-	7,200,000	-
2006A Series Debt Service	963	-	-	-	3,185,000	-
Total debt service		498,602,285	-	4,472,385	1,288,713	(123,217,261)
2006A Series Rebate	019	-	-	-	-	-
1999A Series Rebate	185	-	-	-	-	-
2000 Series Rebate	391	-	-	-	(1,288,713)	-
2002B Series Rebate	392	-	-	-	-	-
2000C Series Rebate	406	-	-	-	-	-
2004B Series Rebate	411	-	-	-	-	-
2003BA Series Rebate	420	-	-	-	-	-
2004A Series Rebate	427	-	-	-	-	-
2005A Series Rebate	483	-	-	-	-	-
2005B1 Series Rebate	570	-	-	-	-	-
2002A Series Rebate	700	-	-	-	-	-
2003A Series Rebate	873	-	-	-	-	-
2005B2 Series Rebate	960	-	-	-	-	-
Total Rebate Accounts		-	-	-	(1,288,713)	-
Combined total	\$	498,602,285	-	4,472,385	-	(123,217,261)

See Independent Auditors' Report.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 5

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances -
Severance Tax Bond Debt Service Funds - continued

YEAR ENDED JUNE 30, 2006

GAS Fund #	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	Restated *	Fund	
		Fund Balances June 30, 2005	Balances June 30, 2006	
2002A Supp. Series - DS	095	\$ (901,821)	7,745,417	6,843,596
2004B Series Debt Service	183	(230,578)	1,335,788	1,105,210
199A Series Debt Service	184	42,709	1,995,463	2,038,172
2005B1 Series Debt Service	388	900,488	-	900,488
2000 Series Debt Service	389	(11,130,166)	11,130,166	-
2002B Supp. Series - DS	390	(9,039,827)	9,061,268	21,441
2000C Series Debt Service	405	55,403	2,097,047	2,152,450
2001A Series Refunding Severance Tax Bonding	408	(3,267,282)	25,675,336	22,408,054
2005A Series Debt Service	412	30,162,901	34,639,820	64,802,721
2005A Series Debt Service	412	20,035,964	109,000	20,144,964
2003B Series Debt Service	484	(77,104)	1,090,545	1,013,441
2004A Series Debt Service	492	(6,460,120)	15,204,113	8,743,993
2005B2 Series Debt Service	571	522,194	-	522,194
2002A Series Debt Service	699	(927,408)	7,790,876	6,863,468
2003A Series Debt Service	884	(1,222,113)	8,651,343 *	7,429,230
2006A Series Debt Service	963	3,217,287	-	3,217,287
Total debt service		21,680,527	126,526,182	148,206,709
2006A Series Rebate	019	162,487	-	162,487
1999A Series Rebate	185	11,004	237,361	248,365
2000 Series Rebate	391	(1,279,231)	1,279,231	-
2002B Series Rebate	392	64,131	-	64,131
2000C Series Rebate	406	17,371	300,640	318,011
2004B Series Rebate	411	26,103	-	26,103
2003BA Series Rebate	420	10,565	-	10,565
2004A Series Rebate	427	23,823	-	23,823
2005A Series Rebate	483	204,662	-	204,662
2005B1 Series Rebate	570	9,237	-	9,237
2002A Series Rebate	700	4	-	4
2003A Series Rebate	873	102,070	-	102,070
2005B2 Series Rebate	960	5,421	-	5,421
Total Rebate Accounts		(642,353)	1,817,232	1,174,879
Combined total	\$	21,038,174	128,343,414	149,381,588

See Independent Auditors' Report.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 6

Summary of Long-term Debt Obligations -
Long-term Debt Rollforward

YEAR ENDED JUNE 30, 2006

Issue	Date	Amount	Interest Rate	Unpaid Balance June 30, 2005	New Bonds	Reductions			Unpaid Balance June 30, 2006	Interest to Maturity	Debt Service Requirements	
						Refunded Debt	Principal Payments	Total Reductions				
General Obligation and Revenue Bonds:												
Capital Projects - Series 2001	414	03/01/01	\$ 62,550,000	4.00-5.00%	41,210,000	-	-	6,075,000	6,075,000	35,135,000	4,546,875	39,681,875
Enhanced 911 Revenue Bonds - Series 2000	488	08/01/00	4,545,000	4.35-6.75%	2,130,000	-	-	675,000	675,000	1,455,000	66,263	1,521,263
2001-B Refunding	482	11/01/01	23,830,000	1.80-3.04%	16,345,000	-	-	7,930,000	7,930,000	8,415,000	210,375	8,625,375
Capital Projects - Series 2003	031	03/01/03	130,900,000	3.00-5.00%	109,245,000	-	-	11,590,000	11,590,000	97,655,000	16,451,700	114,106,700
Refunding Series 2003-B	418	04/01/03	44,955,000	2.00-5.00%	37,275,000	-	-	8,700,000	8,700,000	28,575,000	2,190,125	30,765,125
Series 2005 Debt Service	032	03/01/05	<u>111,850,000</u>	4.00-5.00%	<u>111,850,000</u>	-	-	<u>8,350,000</u>	<u>8,350,000</u>	<u>103,500,000</u>	<u>27,507,250</u>	<u>131,007,250</u>
Total General Obligation Bonds			378,630,000		318,055,000	-	-	43,320,000	43,320,000	274,735,000	50,972,588	325,707,588
Severance Tax Bonds:												
Series 1999-A Supplemental	184	10/01/99	12,000,000	4.25-5.50%	3,860,000	-	-	1,885,000	1,885,000	1,975,000	54,313	2,029,313
Series 2000C	389	06/01/00	59,650,000	5.00-5.50%	10,075,000	-	-	10,075,000	10,075,000	-	-	-
Series 2000-C Supplemental	405	07/01/00	12,000,000	4.50-5.00%	5,750,000	-	-	1,820,000	1,820,000	3,930,000	195,409	4,125,409
Series 2001-A Refunding	408	11/01/01	115,380,000	1.85-3.60%	84,890,000	-	-	21,530,000	21,530,000	63,360,000	5,020,750	68,380,750
Series 2002-A	699	05/01/02	67,000,000	4.00-5.00%	25,310,000	-	-	5,870,000	5,870,000	19,440,000	1,474,338	20,914,338
Series 2002-A Supplemental	095	12/01/01	65,000,000	4.00-5.00%	25,770,000	-	-	6,115,000	6,115,000	19,655,000	1,497,625	21,152,625
Series 2002-B Supplemental	390	11/01/02	45,000,000	2.50-5.00%	37,665,000	-	-	3,945,000	3,945,000	33,720,000	5,069,550	38,789,550
Series 2003-A	884	06/01/03	89,660,000	2.50-5.00%	68,025,000	-	-	6,170,000	6,170,000	61,855,000	8,648,888	70,503,888
Series 2003-B Supplemental	484	11/01/03	10,000,000	2.00-3.70%	9,270,000	-	-	845,000	845,000	8,425,000	1,200,001	9,625,001
Series 2004-A	492	06/15/04	76,430,000	5.00%	76,430,000	-	-	11,620,000	11,620,000	64,810,000	15,394,250	80,204,250
Series 2004-B Supplemental	183	11/17/04	10,000,000	2.00-5.00%	10,000,000	-	-	850,000	850,000	9,150,000	1,881,350	11,031,350
Series 2005-A	412	06/15/05	97,000,000	4.00-5.50%	97,000,000	-	-	-	-	97,000,000	19,588,225	116,588,225
Series 2005B-1 Refunding	388	06/28/05	37,040,000	3.00-5.00%	37,040,000	-	-	-	-	37,040,000	8,084,819	45,124,819
Series 2005B-2 Supplemental	571	06/28/05	21,095,000	3.25-5.00%	21,095,000	-	-	-	-	21,095,000	4,712,438	25,807,438
Series 2006-A		06/20/06	<u>135,000,000</u>	4.00-5.00%	-	<u>135,000,000</u>	-	-	-	<u>135,000,000</u>	<u>34,394,242</u>	<u>169,394,242</u>
Total Severance Tax Bonds			<u>852,255,000</u>		<u>512,180,000</u>	<u>135,000,000</u>	-	<u>70,725,000</u>	<u>70,725,000</u>	<u>576,455,000</u>	<u>107,216,198</u>	<u>683,671,198</u>
Total General Long-Term Debt		\$	<u>1,230,885,000</u>		<u>830,235,000</u>	<u>135,000,000</u>	-	<u>114,045,000</u>	<u>114,045,000</u>	<u>851,190,000</u>	<u>158,188,786</u>	<u>1,009,378,786</u>
Current year bond premiums:			Premium/Discount									
STB Series 2006A		\$	<u>1,480,434</u>									

See Independent Auditors' Report.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 6 - continued

Summary of Long-term Debt Obligations - continued
Schedule of Debt Service Maturities

YEAR ENDED JUNE 30, 2006

Issue	Year Ending June 30.						Total
	2007	2008	2009	2010	2011	2012 - 2015	
General Obligation Bonds:							
Capital Projects - Series 2001	\$ 7,821,838	7,882,038	7,939,638	7,995,475	8,042,886	-	39,681,875
Enhanced 911 Revenue Bonds - Series 2000	759,500	761,763	-	-	-	-	1,521,263
2001B Refunding	8,625,375	-	-	-	-	-	8,625,375
Capital Projects - Series 2003	16,157,500	16,111,000	16,193,400	16,277,200	16,366,400	33,001,200	114,106,700
Refunding Series 2003-B	10,262,250	10,252,875	10,250,000	-	-	-	30,765,125
Series 2005	<u>14,615,000</u>	<u>14,603,000</u>	<u>14,588,000</u>	<u>14,574,000</u>	<u>14,559,750</u>	<u>58,067,500</u>	<u>131,007,250</u>
Total General Obligation Bonds	58,241,463	49,610,676	48,971,038	38,846,675	38,969,036	91,068,700	325,707,588
Severance Tax Bonds:							
Series 1999-A Supplemental	2,029,313	-	-	-	-	-	2,029,313
Series 2000	2,060,034	2,065,375	-	-	-	-	4,125,409
Series 2000-C Supplemental	23,179,875	23,157,875	17,307,500	4,735,500	-	-	68,380,750
Series 2001-A Refunding	7,144,750	7,048,125	6,959,750	-	-	-	21,152,625
Series 2002-A Supplemental	6,967,463	6,976,875	6,970,000	-	-	-	20,914,338
Series 2002-A	5,470,200	5,467,950	5,482,900	5,525,700	5,569,100	11,273,700	38,789,550
Series 2002-B Supplemental	8,501,550	8,494,675	8,557,575	8,697,975	8,842,350	27,409,763	70,503,888
Series 2003-A	1,129,683	1,154,376	1,175,633	1,195,720	1,217,483	3,752,108	9,625,003
Series 2003-B Supplemental	9,397,625	9,208,625	9,047,250	8,911,750	8,805,250	34,833,750	80,204,250
Series 2004-A	1,244,300	1,243,575	1,240,075	1,243,500	1,243,650	4,816,250	11,031,350
Series 2004-B	19,890,050	12,289,175	10,353,325	10,335,475	10,378,000	53,342,200	116,588,225
Series 2005-A	1,763,788	1,763,788	7,531,088	9,742,700	8,119,056	16,204,400	45,124,820
Series 2005-B1	1,040,875	1,040,875	1,040,875	7,634,063	7,559,688	7,491,063	25,807,439
Series 2005-B2	<u>3,185,223</u>	<u>16,401,938</u>	<u>16,570,688</u>	<u>16,557,188</u>	<u>16,544,438</u>	<u>100,134,763</u>	<u>169,394,238</u>
Total Severance Tax Bonds	<u>93,004,729</u>	<u>96,313,227</u>	<u>92,236,659</u>	<u>74,579,571</u>	<u>68,279,015</u>	<u>259,257,997</u>	<u>683,671,198</u>
Total Debt Service Requirements	\$ <u>151,246,192</u>	<u>145,923,903</u>	<u>141,207,697</u>	<u>113,426,246</u>	<u>107,248,051</u>	<u>350,326,697</u>	<u>1,009,378,786</u>

See Independent Auditors' Report.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 6 - continued

Summary of Long-term Debt Obligations - continued
Amortization of Bond Issuance Costs

YEAR ENDED JUNE 30, 2006

	Date	Original Cost	Amortization		Accumulated Amortization June 30, 2006	Net Book Value June 30, 2006
			Accumulated Amortization June 30, 2005	Current Amortization Expense		
GENERAL OBLIGATION:						
Capital Projects - Series 1999	3/1/1999	\$ 184,559	116,888	18,456	135,344	49,215
Capital Projects - Series 2001	03/01/01	142,706	61,841	14,271	76,112	66,594
Refunding Series 2001-A	09/01/01	76,692	24,499	6,391	30,890	45,802
Enhanced 911 Revenue Bonds - Series 2000	08/01/00	10,369	6,372	1,296	7,668	2,701
2001-B Refunding	11/01/01	156,167	95,436	26,028	121,464	34,703
Capital Projects - Series 2003	03/01/03	898,030	190,491	81,639	272,130	625,900
2003-B Refunding	04/01/03	187,165	84,224	37,433	121,657	65,508
Series 2005	01/11/05	801,503	80,150	80,150	160,300	641,203
SEVERANCE:						
Series 1999-A Supplemental	10/01/99	27,378	19,677	3,422	23,099	4,279
Series 1999-B	06/15/99	115,597	100,460	15,137	115,597	-
Series 2000	06/01/00	136,090	86,473	17,011	103,484	32,606
Series 2000-C Supplemental	07/01/00	27,378	17,110	3,422	20,532	6,846
Series 2001-A Refunding	11/01/01	491,432	200,214	54,604	254,818	236,614
Series 2002-A	05/01/02	201,625	58,045	18,330	76,375	125,250
Series 2002-A Supplemental	12/01/01	323,200	115,813	32,320	148,133	175,067
Series 2003-A Refunding	06/01/03	229,530	43,471	20,866	64,337	165,193
Series 2002-B Supplemental	11/01/02	206,444	50,048	18,768	68,816	137,628
Series 2003-B Supplemental	11/01/03	33,445	3,345	3,345	6,690	26,755
Series 2004-A	06/15/04	158,974	15,897	15,897	31,794	127,180
Series 2004-B	11/17/04	127,805	12,781	12,781	25,562	102,243
Series 2005-A	05/12/05	565,863	56,586	56,586	113,172	452,691
Series 2005-B1 Refunding	06/28/05	399,646	57,092	57,092	114,184	285,462
Series 2005-B2 Supplemental	06/28/05	110,254	18,376	18,376	36,752	73,502
Series 2006A	06/20/06	346,002	-	34,601	34,601	311,401
		<u>5,957,854</u>	<u>1,515,289</u>	<u>648,222</u>	<u>2,163,511</u>	<u>3,794,343</u>
BALANCES, JUNE 30, 2006		\$ <u>5,957,854</u>	<u>1,515,289</u>	<u>648,222</u>	<u>2,163,511</u>	<u>3,794,343</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 6 – continued

Summary of Long-term Debt Obligations - continued
Additional Information



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.

No General Obligation Bonds were issued during the fiscal year ended June 30, 2006.

The annual requirements to amortize the combined General Obligation Bond issues outstanding as of June 30, 2006, including interest payments, are as follows (see details on Schedule 6):

Years ending June 30:

2007	\$	58,241,463
2008		49,610,676
2009		48,971,038
2010		38,846,675
2011		38,969,036
2012 - 2014		<u>91,068,700</u>
	\$	<u>325,707,588</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, 2006:

Severance Tax Bonds Supplemental Series 2006A

On June 20, 2006, the State Board of Finance issued bonds with a principal amount of \$135,000,000 to finance public capital projects. Interest rates range from 4% to 5%, with principal payments due through 2016.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 6 – continued

Summary of Long-term Debt Obligations - continued
Additional Information - continued



ADDITIONAL INFORMATION RELATED TO LONG-TERM DEBT OBLIGATIONS - continued:

SEVERANCE TAX BONDS – continued:

The annual requirements to amortize the combined Severance Tax Bond issues outstanding as of June 30, 2006, including interest payments, are as follows (see details on Schedule 6, page 3):

Years ending June 30:

2007	\$ 93,004,729
2008	96,313,227
2009	92,236,659
2010	74,579,571
2011	68,279,015
2012 - 2014	<u>259,257,997</u>
	\$ <u>683,671,198</u>

ADVANCE AND CURRENT REFUNDINGS:

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

As of June 30, 2006, the amount of defeased debt still outstanding but removed from the government-wide statement of net assets was:

Severance Tax Bonds, Series 2005B-1 Refunding:

Severance Tax Bonds, Series 2001A Refunding	\$ 7,650,000
Severance Tax Bonds, Series 2002A	\$ 30,770,000

Severance Tax Bonds, Series 2005B-2 Supplemental:

Severance Tax Bonds, Series 2002A Supplemental	\$ 22,060,000
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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 7

Schedule of Investments - Fiduciary Funds

YEAR ENDED JUNE 30, 2006

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
GENERAL FUND:						
Flex				\$ 50,000,000	50,000,000	-
Overnight				<u>700,254,591</u>	<u>700,254,591</u>	-
Repurchase Agreements	Various	Various	Various	\$ <u>750,254,591</u>	<u>750,254,591</u>	-
Certificates of Deposit	Various	Various	Various	\$ <u>243,850,000</u>	<u>243,850,000</u>	-
Fixed Income Governmental Obligations:						
City of Albuquerque Municipal Bond	4.980%	6/30/2006	7/3/2006	\$ 37,000,000	37,000,000	-
FMCDN	5.009%	6/7/2006	7/5/2006	49,805,945	49,985,000	179,055
Federal Home Loan Banks	2.020%	7/7/2003	7/7/2006	40,000,000	39,987,600	(12,400)
Federal Home Loan Mortgage Corp.	2.690%	8/7/2003	8/7/2006	20,000,000	19,947,400	(52,600)
Federal Home Loan Banks D	5.090%	6/7/2006	8/9/2006	49,558,519	49,735,000	176,481
Federal Home Loan Mrg	5.004%	4/28/2006	8/21/2006	49,213,368	49,650,000	436,632
Federal Home Loan Banks	4.140%	8/10/2005	9/1/2006	15,000,000	14,967,150	(32,850)
Federal Home Loan Mtg	5.145%	6/7/2006	9/11/2006	36,608,764	36,732,468	123,704
Federal Home Loan Mtg Co	5.145%	6/7/2006	9/12/2006	12,771,931	12,815,625	43,694
Federal Home Loan Mtg Co	5.033%	4/28/2006	9/25/2006	48,972,917	49,390,000	417,083
Federal Home Loan Banks	2.885%	9/9/2004	9/29/2006	25,000,000	24,851,500	(148,500)
Federal National Mortgage Association DN	5.162%	6/7/2006	10/11/2006	49,112,750	49,275,000	162,250
Federal National Mortgage Association DN	5.289%	6/15/2006	10/23/2006	29,437,750	29,511,000	73,250
Federal National Mortgage Association DN	5.065%	4/28/2006	10/25/2006	48,765,000	49,170,000	405,000
Federal Home Loan Banks	3.000%	10/29/2004	10/30/2006	30,000,000	29,765,700	(234,300)
Federal National Mortgage Association D	5.209%	6/7/2006	11/8/2006	23,030,352	23,106,082	75,230
Federal National Mortgage Association	5.209%	6/7/2006	11/15/2006	26,385,383	26,470,800	85,417
Federal National Mortgage Assn Mdrtrn NT	2.930%	9/21/2004	11/21/2006	30,000,000	29,718,900	(281,100)
Federal National Mortgage Association	5.360%	6/15/2006	11/29/2006	29,272,158	29,349,000	76,842
Federal Home Loan Mtg Co	5.261%	6/7/2006	12/5/2006	25,622,318	25,705,620	83,302
Federal National Mortgage Association D	5.261%	6/7/2006	12/6/2006	23,775,595	23,853,938	78,343
Federal National Mortgage Assn Mdrtrn NT	2.890%	10/26/2004	12/28/2006	40,000,000	39,500,000	(500,000)
Federal National Mortgage Assn Mdrtrn NT	3.350%	12/28/2004	12/28/2006	25,000,000	24,734,500	(265,500)
Federal Home Loan Mtg Co DN	5.250%	6/15/2006	12/29/2006	29,138,125	29,217,000	78,875
Federal National Mortgage Association	4.010%	7/18/2005	1/18/2006	25,000,000	24,797,000	(203,000)
Federal Home Loan Banks	3.150%	1/30/2004	1/30/2007	15,046,970	14,798,400	(248,570)
Federal Home Loan Banks	4.070%	8/2/2005	2/2/2007	25,000,000	24,789,000	(211,000)
Federal Home Loan Banks	2.800%	2/5/2004	2/5/2007	30,000,000	29,521,800	(478,200)
Federal Home Loan Banks	3.250%	2/6/2004	2/6/2007	25,177,500	24,664,000	(513,500)
Federal National Mortgage Assoc. Mdrtrn NT	2.980%	2/20/2004	2/20/2007	25,000,000	24,601,500	(398,500)
Federal National Mortgage Assoc. Mdrtrn NT	2.920%	3/2/2004	3/2/2007	30,000,000	29,493,900	(506,100)
Federal Home Loan Banks	2.645%	3/15/2004	3/15/2007	25,000,000	24,507,750	(492,250)
Federal Home Loan Banks	2.700%	4/27/2004	4/27/2007	25,000,000	24,437,500	(562,500)
Federal Home Loan Banks	3.000%	7/30/2003	4/30/2007	5,000,000	4,898,450	(101,550)

See Independent Auditors' Report.

Schedule 7

Schedule of Investments - Fiduciary Funds - continued

YEAR ENDED JUNE 30, 2006

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
GENERAL FUND:						
Fixed Income Governmental Obligation - continueds:						
Federal Home Loan Banks	2.990%	4/30/2004	4/30/2007	\$ 25,000,000	24,492,250	(507,750)
Federal Home Loan Banks	4.290%	8/22/2005	5/1/2007	30,000,000	29,700,000	(300,000)
Federal Home Loan Banks	3.125%	5/7/2004	5/7/2007	25,000,000	24,507,750	(492,250)
Federal National Mortgage Assoc. Mdtrm NT	3.750%	8/9/2005	5/17/2007	9,903,757	9,850,000	(53,757)
Federal National Mortgage Assoc. Mdtrm NT	3.375%	5/18/2005	5/18/2007	30,000,000	29,671,800	(328,200)
Federal National Mortgage Assoc. Mdtrm NT	4.000%	5/23/2005	5/23/2007	10,000,000	9,868,800	(131,200)
Federal Farm CR BKS	3.000%	5/9/2005	6/6/2007	9,824,000	9,775,000	(49,000)
Federal Home Loan Banks	3.330%	11/17/2004	6/15/2007	25,000,000	24,500,000	(500,000)
Federal Home Loan Mtg Co	5.586%	6/30/2006	6/26/2007	94,695,306	94,800,000	104,694
Federal Home Loan Mtg Co	5.592%	6/30/2006	6/26/2007	179,867,050	180,075,444	208,394
Federal Home Loan Mtg Co	5.564%	6/30/2006	6/26/2007	56,829,217	56,880,000	50,783
Federal Home Loan Banks	4.100%	6/28/2005	6/28/2007	30,000,000	29,587,500	(412,500)
Federal National Mortgage Assoc. Mdtrm NT	4.125%	6/29/2005	6/29/2007	20,000,000	19,725,000	(275,000)
Federal National Mortgage Association	4.250%	2/11/2005	7/15/2007	10,161,230	9,871,900	(289,330)
Federal National Mortgage Association	4.100%	7/20/2005	7/20/2007	25,000,000	24,781,250	(218,750)
Federal National Mortgage Assoc. Mdtrm NT	4.300%	8/9/2005	8/9/2007	25,000,000	24,679,750	(320,250)
Federal Home Loan Banks	3.750%	2/25/2005	8/15/2007	10,001,100	9,809,400	(191,700)
Federal Home Loan Banks	3.750%	3/4/2005	8/15/2007	9,979,988	9,814,305	(165,683)
Federal Home Loan Banks Bullet	4.060%	4/20/2005	9/26/2007	10,000,000	9,828,100	(171,900)
Federal Home Loan Banks	4.435%	10/11/2005	10/1/2007	25,000,000	24,679,750	(320,250)
Federal Home Loan Banks	3.375%	6/20/2005	10/5/2007	19,746,200	19,487,600	(258,600)
Federal National Mortgage Assoc. Mdtrm NT	3.375%	11/19/2004	11/9/2007	14,930,700	14,587,500	(343,200)
Federal Home Loan Banks	3.500%	10/4/2005	11/15/2007	24,519,000	24,343,750	(175,250)
Federal Home Loan Banks	5.680%	10/13/2005	12/3/2007	25,427,308	25,089,250	(338,058)
Total Fixed Income Governmental Obligations				1,769,580,701	1,761,354,682	(8,226,019)

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 7 - continued

Schedule of Investments - Fiduciary Funds - continued

YEAR ENDED JUNE 30, 2006

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
GENERAL FUND - continued:						
Corporate Obligations - Non-Oil Industrials:						
General Motors Accept Corp.	6.125%	9/8/2003	9/15/2006	\$ 5,125,744	4,992,600	(133,144)
Total Non-Oil Industrials				5,125,744	4,992,600	(133,144)
Municipal Bonds	4.980%	6/30/2006	7/3/2006	37,000,000	37,000,000	-
Total Financial Obligations:				37,000,000	37,000,000	-
TOTAL - ALL SECURITIES - GENERAL FUND				\$ 2,805,811,036	2,797,451,873	(8,359,163)
LOCAL GOVERNMENT INVESTMENT POOL:						
Flex				\$ 50,000,000	50,000,000	-
Overnight				1,471,029	1,471,029	-
Repurchase Agreements	Various	Various	Various	51,471,029	51,471,029	-
Certificates of Deposit	Various	Various	Various	11,500,000	11,500,000	-
Fixed Income Governmental Obligations:						
Federal Home Loan Banks	3.400%	7/11/2005	7/11/2006	25,000,000	24,992,250	(7,750)
Federal Home Loan Banks	3.600%	7/13/2005	7/13/2006	25,000,000	24,992,250	(7,750)
Federal Home Loan Mortgage Corp	4.922%	5/11/2006	7/18/2006	49,876,950	49,895,000	18,050
Federal Farmer Discount Note	4.920%	5/11/2006	7/20/2006	11,967,200	11,971,200	4,000
Federal Farmer Discount Note	4.920%	5/11/2006	7/20/2006	13,064,193	13,068,560	4,367
Federal Home Loan Mortgage Corp	3.750%	6/28/2005	7/24/2006	25,000,000	24,975,500	(24,500)
Federal Home Loan Banks	4.960%	5/24/2006	7/26/2006	10,960,596	10,963,700	3,104
Federal National Mortgage Assoc DN	5.130%	6/30/2006	8/1/2006	41,808,480	41,823,600	15,120
Federal National Mortgage Assoc Mdrum NT	4.000%	7/20/2005	8/8/2006	20,000,000	19,975,000	(25,000)
Federal Home Loan Banks DN	4.930%	5/11/2006	8/9/2006	16,049,600	16,052,469	2,869
Freddie Mac Disc	4.765%	3/23/2006	8/29/2006	24,801,458	24,795,000	(6,458)
Federal National Mortgage Assoc DN	5.230%	6/30/2006	9/6/2006	49,506,056	49,530,000	23,944
Federal Home Loan Banks DN	5.080%	6/12/2006	9/8/2006	34,654,278	34,660,500	6,222
Federal National Mortgage Assoc DN	4.775%	3/16/2006	9/13/2006	74,253,906	74,212,500	(41,406)
Federal Home Loan Mortgage Corp DN	5.080%	6/12/2006	9/20/2006	12,752,710	12,753,627	917
Federal Home Loan Banks DN	5.080%	6/12/2006	9/29/2006	22,704,654	22,705,600	946
Total Fixed Income Governmental Obligations				457,400,081	457,366,756	(33,325)

See Independent Auditors' Report.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 7 - continued

Schedule of Investments - Fiduciary Funds - continued

YEAR ENDED JUNE 30, 2006

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
LOCAL GOVERNMENT INVESTMENT POOL - continued:						
Financial Obligations:						
Nordea North	5.280%	6/30/2006	7/3/2006	\$ 12,244,610	12,244,610	-
Greyhawk Fndg	5.040%	5/25/2006	7/5/2006	29,979,000	29,979,000	-
Nieuw Amsterdam	5.040%	5/25/2006	7/7/2006	29,970,600	29,970,600	-
Millston Fndg	5.300%	6/30/2006	8/3/2006	29,849,833	29,849,833	-
APRECO	5.290%	6/23/2006	8/16/2006	25,850,227	25,850,227	-
CIESCO	5.300%	6/23/2006	8/17/2006	12,175,349	12,175,349	-
Sedna Finance	5.320%	6/23/2006	8/21/2006	13,892,418	13,892,418	-
Eureka	5.320%	6/23/2006	8/22/2006	29,765,033	29,765,033	-
Atlantis One	5.310%	6/23/2006	8/31/2006	<u>7,926,840</u>	<u>7,926,840</u>	-
Total Financial Obligations:				<u>191,653,910</u>	<u>191,653,910</u>	-
TOTAL - ALL SECURITIES - LOCAL GOVERNMENT INVESTMENT POOL				\$ <u>712,025,020</u>	<u>711,991,695</u>	<u>(33,325)</u>
CONSOLIDATED:						
Flex				\$ 355,834,798	355,834,798	-
Overnight				<u>1,235,274,380</u>	<u>1,235,274,380</u>	-
Repurchase Agreements	Various	Various	Various	\$ <u>1,591,109,178</u>	<u>1,591,109,178</u>	-
Summary of Flex and Repurchase Agreements:						
Repurchase Agreements - Flex				\$ 455,834,798	455,834,798	-
Repurchase Agreements - Overnight				<u>1,937,000,000</u>	<u>1,937,000,000</u>	-
Total Repurchase Agreements				2,392,834,798	2,392,834,798	-
Certificates of Deposit				255,350,000	255,350,000	-
Fixed Income Governmental Obligations				2,226,980,781	2,218,721,438	(8,259,343)
Corporate Obligations - Non-Oil Industrials				5,125,744	4,992,600	(133,144)
Financial Obligations				191,653,910	191,653,910	-
Municipal Bonds				<u>37,000,000</u>	<u>37,000,000</u>	-
Grand Total of All Funds				\$ <u>5,108,945,233</u>	<u>5,100,552,746</u>	<u>(8,392,487)</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 8

Combining Statement of Fiduciary Net Assets

AS OF JUNE 30, 2006

	Investment Trust Funds			Total (Memorandum Only)
	Short-term Investment Pool	Consolidated Investment Pool	State Funds Investment Pool	
ASSETS:				
Cash and investments:				
Certificates of Deposit	\$ 11,500,000	-	243,850,000	255,350,000
Commercial Paper	191,653,910	-	-	191,653,910
U.S. Government securities	457,366,756	-	1,761,354,682	2,218,721,438
Corporate Bonds	-	-	4,992,600	4,992,600
Municipal Bonds	-	-	37,000,000	37,000,000
Repurchase agreements	<u>51,471,029</u>	<u>1,591,109,178</u>	<u>461,746,376</u>	<u>2,104,326,583</u>
Total cash and investments	711,991,695	1,591,109,178	2,508,943,658	4,812,044,531
Other assets:				
Accrued interest receivable	<u>1,305,857</u>	<u>2,699,004</u>	<u>9,613,806</u>	<u>13,618,667</u>
TOTAL ASSETS	\$ <u>713,297,552</u>	<u>1,593,808,182</u>	<u>2,518,557,464</u>	<u>4,825,663,198</u>
LIABILITIES:				
Bank overdraft	\$ -	-	(394,180,837)	(394,180,837)
NET ASSETS HELD IN TRUST	<u>713,297,552</u>	<u>1,593,808,182</u>	<u>2,912,738,301</u>	<u>5,219,844,035</u>
TOTAL LIABILITIES AND NET ASSETS HELD IN TRUST	\$ <u>713,297,552</u>	<u>1,593,808,182</u>	<u>2,518,557,464</u>	<u>4,825,663,198</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 9

Combining Statement of Changes in Fiduciary Net Assets

AS OF JUNE 30, 2006

	Investment Trust Fund			Total (Memorandum Only)
	Short-term Investment Pool	Consolidated Investment Pool	State Funds Investment Pool	
Investment income	\$ 31,867,057	95,567,244	97,517,632	224,951,933
Expenses - management fees	(384,000)	-	-	(384,000)
Net investment income	31,483,057	95,567,244	97,517,632	224,567,933
Net proceeds of desposits (withdrawals)	(506,223,582)	407,787,905	535,317,029	436,881,352
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>	<u>4,558,394,750</u>
Net assets, held in trust for pool participants, June 30, 2006	\$ <u>713,297,552</u>	<u>1,593,808,182</u>	<u>2,912,738,301</u>	<u>5,219,844,035</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 10

Schedule of Collateral Pledged by Depository

YEAR ENDED JUNE 30, 2006

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required	Collateral Pledged		Excess (under)
					Surety Bond Letter of Credit	Securities	
BANKS:							
Alamagordo							
(FHLB)	First National Bank	\$ 7,304,928	100,000	3,602,464	-	6,559,204	2,956,740
(FHLB)	Western Bank	5,650,000	100,000	2,775,000	-	2,898,606	123,606
Albuquerque							
(WFB)	Bank of America	31,944,847	100,000	15,922,424	-	26,546,478	10,624,054
(TIB)	Bank First	100,000	100,000	-	-	-	-
(WFB)	Bank of the West	31,719,067	100,000	15,809,534	-	42,557,998	26,748,464
(WFB)	Compass Bank	30,036,501	100,000	14,968,250	-	16,391,079	1,422,829
(FHLB)	First Community Bank	33,666,009	100,000	16,783,004	13,500,000	4,336,350	1,053,346
(WFB)	New Mexico Bank & Trust	235,981	100,000	67,991	-	200,000	132,009
(BA)	Wells Fargo Bank NM, N.A.	22,237,398	100,000	11,068,699	-	31,603,933	20,535,234
Artesia							
(FHLB)	First National Bank	50,953	50,953	-	-	-	-
(FHLB)	Western Bank	500,000	100,000	200,000	-	300,000	100,000
Belen							
(TIB)	Bank of Belen	194,784	100,000	47,392	-	110,400	63,008
Carlsbad							
(FHLB)	Carlsbad National Bank	5,005,104	100,000	2,452,552	-	2,546,434	93,882
(FHLB)	Western Commerce Bank	7,581,171	100,000	3,740,583	-	5,022,791	1,282,208
Clayton							
(FHLB)	Farmers & Stockmens Bank	3,110,086	100,000	1,505,043	-	1,688,250	183,207
(FHLB)	First National Bank of NM	3,217,083	100,000	1,558,542	-	1,928,132	369,590
Clovis							
(TIB)	Bank of Clovis	509,843	100,000	204,922	-	725,000	520,078
(TIB)	Citizens Bank	46,282	46,282	-	-	155,593	155,593
(FHLB)	Western Bank	600,000	100,000	250,000	-	308,762	58,762
Espanola							
(TIB)	Valley National Bank	29,000,500	100,000	14,450,250	-	15,409,510	959,260
 Gallup							
(FHLB)	Pinnacle Bank	3,050	3,050	-	-	-	-
Grants							
(TIB)	Grants State Bank	28,383	28,383	-	-	100,000	100,000
Hobbs							
(TIB)	Lea County State Bank	260,598	100,000	80,299	-	530,000	449,701
Las Cruces							
(WFB)	Bank of the Rio Grande	2,000,000	100,000	950,000	-	963,285	13,285
(TIB)	Citizens Bank	4,021,072	100,000	1,960,536	-	2,500,000	539,464
(FHLB)	Mesilla Valley Bank	-	-	-	2,000,000	6,413	2,006,413
Las Vegas							
(FHLB)	Bank of Las Vegas	1,830,846	100,000	865,423	-	1,985,155	1,119,732
(FHLB)	First National Bank	<u>254,050</u>	<u>100,000</u>	<u>77,025</u>	<u>-</u>	<u>2,459,270</u>	<u>2,382,245</u>
SUBTOTAL		221,108,536	2,428,668	109,339,933	15,500,000	167,832,643	73,992,710

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 10 - continued

Schedule of Collateral Pledged by Depository - continued

YEAR ENDED JUNE 30, 2006

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required	Collateral Pledged		Excess (under)
					Surety Bond Letter of Credit	Securities	
BANKS - continued:							
Lordsburg							
(FHLB)	Western Bank	\$ 5,147,593	100,000	2,523,796	-	3,133,261	609,465
Los Alamos							
(FHLB)	Los Alamos National Bank	30,017,981	100,000	14,958,991	18,750,000	-	3,791,009
Portales							
(TIB)	Portales National Bank	51,877	51,877	-	-	100,000	100,000
Raton							
(TIB)	International State Bank	864,862	100,000	382,431	-	399,283	16,852
Roswell							
(FHLB)	Bank of the Southwest	1,327,995	100,000	613,997	-	1,183,308	569,311
(TIB)	Valley Bank of Commerce	72,562	72,562	-	-	75,000	75,000
Ruidoso							
(FHLB)	First National Bank	5,000,000	100,000	2,450,000	-	2,880,559	430,559
(FHLB)	State National Bank	836,378	100,000	368,189	-	1,738,260	1,370,071
Santa Fe							
(FHLB)	Century Bank	-	-	-	-	-	-
(FHLB)	Community Bank	119,299	100,000	9,649	-	51,382	41,733
(WFB)	First National Bank	-	-	-	-	-	-
Silver City							
(FHLB)	AM Bank	-	-	-	-	-	-
Socorro							
(BA)	First State Bank	88,265	88,265	-	-	370,000	370,000
Taos							
(TIB)	Centinel Bank	88,492	88,492	-	-	149,985	149,985
(FHLB)	Peoples Bank	3,000,000	100,000	1,450,000	-	1,499,911	49,911
SAVINGS AND LOANS:							
Alamogordo							
(FHLB)	Alamogordo Federal S&L	105,177	100,000	2,588	-	68,582	65,994
Albuquerque							
(FHLB)	Union Savings Bank	10,000,000	100,000	4,950,000	-	5,264,394	314,394
Roswell							
(FHLB)	First Federal Bank	141,053	100,000	20,526	-	186,920	166,394
Santa Fe							
(FHLB)	Charter Bank for Savings	30,000,000	100,000	14,950,000	-	16,619,601	1,669,601
CREDIT UNION:							
Santa Fe	Guadalupe Credit Union	100,000	100,000	-	-	-	-
SUBTOTAL		86,961,534	1,601,196	42,680,167	18,750,000	33,720,446	9,790,279

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

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 10 - continued

Schedule of Collateral Pledged by Depository - continued

YEAR ENDED JUNE 30, 2006

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required	Collateral Pledged		Excess (under)
					Surety Bond Letter of Credit	Securities	
ANCILLARY RECEIVERSHIP ACCOUNTS:							
Albuquerque							
(BA)	Bank of America, N.A.	\$ 661,845	100,000	280,923	-	369,069	88,146
(FHLB)	First Community Bank	539,416	100,000	219,708	-	243,438	23,730
(WFB)	Wells Fargo Bank, N.A.	4,301	4,301	-	-	206,592	206,592
Espanola							
(TIB)	Valley National Bank	633,263	100,000	266,631	-	720,000	453,369
Santa Fe							
(WFB)	Century Bank	3,738,765	100,000	1,819,382	-	2,050,000	230,618
(WFB)	First National Bank	214,161	100,000	57,080	-	2,488,275	2,431,195
FISCAL AGENT BANK:							
(WFB)	Wells Fargo Bank NM, N.A.	811,446	100,000	648,407	-	11,090,079	10,441,672
(BA)	Bank of America	<u>(49,119,959)</u>	<u>100,000</u>	<u>20,410,811</u>	<u>-</u>	<u>26,662,508</u>	<u>6,251,697</u>
SUBTOTAL		<u>(42,516,762)</u>	<u>704,301</u>	<u>23,702,942</u>	<u>-</u>	<u>43,829,961</u>	<u>20,127,019</u>
TOTAL		\$ <u>265,553,308</u>	<u>4,734,165</u>	<u>175,723,042</u>	<u>34,250,000</u>	<u>245,383,050</u>	<u>103,910,008</u>
Reconciliation to Note 3:							
	Fiscal Agent Account	\$ (48,308,513)	200,000	21,059,218	-	37,787,818	16,693,369
	Certificates of Deposit	<u>255,350,000</u>	<u>1,000,000</u>	<u>127,225,000</u>	<u>34,250,000</u>	<u>130,900,033</u>	<u>37,960,264</u>
		207,041,487	1,200,000	148,284,218	34,250,000	168,687,851	54,653,633
Add:							
	Agency Deposits	52,720,070	2,829,864	24,795,100	-	70,617,825	45,822,725
	Ancillary Receivership Accounts	<u>5,791,751</u>	<u>704,301</u>	<u>2,643,724</u>	<u>-</u>	<u>6,077,374</u>	<u>3,433,650</u>
		<u>58,511,821</u>	<u>3,534,165</u>	<u>27,438,824</u>	<u>-</u>	<u>76,695,199</u>	<u>49,256,375</u>
		\$ <u>265,553,308</u>	<u>4,734,165</u>	<u>175,723,042</u>	<u>34,250,000</u>	<u>245,383,050</u>	<u>103,910,008</u>
Custodial Banks:							
(BA)	Bank of America						
(FHLB)	Fed. Home Loan Bank Dallas						
(WFB)	Wells Fargo Bank						
(TIB)	The Independent Bankers Bank						

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

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



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Honorable Bill Richardson, Governor
State Board of Finance
Honorable Douglas Minge 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 the State of New Mexico, Office of the State Treasurer (State Treasurer), as of and for the year ended June 30, 2006, which collectively comprise the State Treasurer's basic financial statements, and have issued our report thereon dated December 8, 2006. 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, 2006. 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 Treasurer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State Treasurer's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompany schedule of findings and recommendations as item 06-2. We noted other matters involving the internal control over financial reporting that are required to be reported per section 12-6-5 NMSA 1978, and are detailed in findings 06-1, 06-3, 06-4, 06-5 and 06-6.

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 in amounts caused by error or fraud that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

Internal Control Over Financial Reporting - continued

Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that finding 06-2 of the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 result 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 06-4, 06-6 and 06-7.

This report is intended solely for the information and use of management of the State Treasurer, the State of New Mexico 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.

Meyners + Company, LLC
December 8, 2006



A. FINDINGS - FINANCIAL STATEMENT AUDIT

06-1 (05-1) 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. During our investment testwork, we found that the State Treasurer reconciles QED based upon par value, not market value, 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. The QED generates accounting information for pricing, earnings accruals, bond amortization, realized gains and losses and other information regarding investments.

Cause: The State Treasurer has not implemented an accounting procedure that requires all the various items (pricing differences, amortization and accruals) to be completed as part of the reconciliation.

Effect: We were able to satisfy ourselves that the differences are immaterial as of June 30, 2006, 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.

Recommendation: We recommend the State Treasurer 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 State Treasurer ensure that the QED is recording transactions timely, completely and accurately.

Agency Response: The Office of the State Treasurer will develop and implement policies and procedures for the preparation, documentation and approval of a monthly reconciliation between Northern Trust and QED beyond the current reconciliation, which is prepared at par value.

For the following reasons, reconciling differences will continue to exist:

1. Northern Trust does not amortize or accrete the STO portfolios, a function performed by QED.
2. Northern Trust prices commercial paper and QED does not.



A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

06-1 (05-1) RECONCILIATION OF THE QED TO NORTHERN TRUST - continued

Agency Response - continued:

3. The differences in accrual on the flexible repurchase agreements are due to the method uses Northern Trust to tracks receipts. The State draws down on these investments and receives interest on a specified, semi-annual basis.
4. Northern Trust and QED use different pricing services.
5. The State Treasurer's Office downloads pricing only once a week (Mondays) for cost reasons, and Northern Trust prices daily.

In addition to the monthly par value reconciliation, the State Treasurer's Office staff analyzes, researches, and corrects any discrepancies from the reports generated from both Northern Trust and QED on a daily basis.

06-2 (05-2) 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:

- Numerous 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 were 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



A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

06-2 (05-2) TRACS SYSTEM - continued

Cause: The causes for this condition include:

- The TRACS system is outdated.
- Changes in the cashiering 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 State Treasurer as timely as they were in the past.
- 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.
- The Office did not commit an adequate amount of resources to ensure timely and accurate reconciliations of the fiscal bank account.
- Those persons assigned to reconcile the fiscal account were unskilled, in many cases untrained, and inadequately supervised.
- 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.
- Reverse positive pay, where warrants are cleared by the bank before approval by the State Treasurer, versus a system of positive pay, where the State Treasurer 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 State Treasurer's ability to provide timely, accurate cash balances to the individual agencies was significantly diminished. The former State Treasurer 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: In the past year 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



A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

06-2 (05-2) TRACS SYSTEM - continued

Recommendation – continued:

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

Agency Response: The Office concurs with this finding. However, a couple of major occurrences in the latter part of FY06 greatly impacted STO's ability to clear outstanding bank transactions in a timely fashion. First, on April 3, 2006, the State changed fiscal agent banks from Wells Fargo to Bank of America, and we were faced with reconciling two bank accounts. Secondly, on July 3, 2006, the State transitioned to the SHARE system, which replaced TRACS. STO is currently working with the new accounting system to properly record all bank transactions identified as outstanding at the end of FY06. With the new accounting system in place, STO is developing a more efficient and effective reconciliation process, and we will be implementing a set of internal controls, policies and procedures to ensure the timely and accurate reconciliation of all bank transactions. In addition, STO has segregated the reconciliation process for the Short-term Investment Pool, and we are developing a set of internal controls with regard to funds affecting the pool.

06-3 (05-12) 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. As of June 30, 2006 this equipment had not been returned. The capital asset listing did not have the proper location of items.

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.



B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

06-3 (05-12) MISSING FIXED ASSETS - continued

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 ensure 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 ensure that similar situations will not occur in the future.

Agency Response: The Office of the State Treasurer will implement the required control structure for monitoring and tracking all fixed assets. A fixed asset and control system has been purchased that will track and produce accurate information regarding all of the fixed assets of the agency.

06-4 (05-14) 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.

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.



A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

06-4 (05-14) CONTROL OVER INFORMATION SYSTEMS - continued

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.

Agency Response: Development of information technology (IT) systems controls, along with the documentation of the policies, procedures and security of information systems is currently being developed.

The first step in developing current policies, procedures and security over IT systems consists of an overall review of existing IT systems, which is being conducted.

The IT Bureau is currently working with the Office of the State Chief Information Officer, the State's General Services Division (GSD) and systems vendor and support staff to improve IT system security, controls, backup systems and policies and procedures.

The STO IT Bureau is committed to completing the required documents/policies and procedures within a reasonable timeframe to ensure minimal risk to the agency. In the interim, several draft policies and procedures are in place to ensure minimal risk to the agency. STO management will review and approve all completed IT documentation.

06-5 (05-15) 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.



A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

06-5 (05-15) REPORTING OF ADDITIONS AND DEDUCTIONS TO FIDUCIARY FUNDS - continued

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 of the State Treasurer 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 uses 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.

Agency 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. 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.

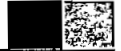
06-6 RECONCILIATION OF AFRAS TO DFA

Condition: During testwork on cash, it was noted that the June reconciliation between AFRAS and DFA had not been performed until October 2006.

Criteria: 2.20.5.8(C)(7) NMAC requires all state agencies to ensure that all accounting systems be recorded 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 implementation of the new state-wide software system, SHARE, has diminished the time employees have to adequately perform their daily functions.

Effect: Differences between the Office of the State Treasurer and DFA will not be identified timely.



A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

06-6 RECONCILIATION OF AFRAS TO DFA - continued

Recommendation: We recommend that the Office of the State Treasurer facilitates the employees' ability to continue to perform their daily duties during the SHARE implementation.

Agency Response: Implementation of SHARE on July 1, 2006, caused a number of delays in the timeliness of agencies receiving needed accounting reports. Additionally, external support agencies such as DFA and GSD and STO staff members were overwhelmed, closing out fiscal year 2006, opening up the new fiscal year (2007) and implementing the SHARE system for all financial and human resources transactions. The complexities and problems attributed to SHARE transactions in fiscal year 2007 prevented agency staff from reconciling AFRAS to DFA reports for the period ending June 30, 2006. This delay in reconciling is a one-time occurrence due to the circumstances identified. In the future, there will be no reconciliation between DFA and the agency, since SHARE is a state-wide agency accounting system.

06-7 CROSS-TRAINING

Condition: During the course of our audit, we noted critical positions that are heavily reliant on individual employees. An example of this was noted during audit field work, as only one employee had the institutional knowledge to answer questions concerning general ledger activity. This employee has since left the Office, leaving a critical accounting position vacant.

Criteria: Persons in key positions should have experience and adequate depth of knowledge to carry out their functions.

Cause: Turnover in personnel in several positions.

Effect: Institutional knowledge could be lost.

Recommendation: We recommend that the Office have adequate depth of knowledge and experience in key positions. The Office should cross-train employees.

Agency Response: The State Treasurer is in agreement with the recommendation to cross-train employees. A formal plan will be developed, scheduling cross-training of employees, to ensure the continuity of work in the event of an employee resignation, illness or other absence. The first priority will be cross-training for critical positions, followed by training for other position responsibilities.



A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

06-7 CROSS-TRAINING - continued

Agency Response - continued: Additionally, a staff development plan will be developed, providing additional education and training for the general staff to support the cross-training effort. The limited number of staff in some areas will present a challenge in developing a comprehensive cross-training plan for all the major functions of the agency. Cross-training activity will be done in compliance with State Personnel rules and the state employees' union contract. The plan will be established and the training will commence in February 2007.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Summary Schedule of Prior Year Audit Findings



2005-1	Reconciliation of the QED to Northern Trust – Repeated and Modified
2005-2	TRACS System – Repeated
2005-3	Reconciliation of the QED to LGIP Participant Account Balances – Cleared
2005-4	Notification of the State Auditor – Cleared
2005-5	Late Audit Report – Cleared
2005-6	Disbursements – Cleared
2005-7	Purchasing – Cleared
2005-8	Payroll Withholdings – Cleared
2005-9	Management’s Override of Controls – Cleared
2005-10	Inadequate Segregations of Duty – Cleared
2005-11	Improper Alteration of Employee Performance Reviews – Cleared
2005-12	Missing Fixed Assets – Repeated and Modified
2005-13	Control over Cash Management Improvement Act Documentation – Cleared
2005-14	Control over Information Systems – Repeated
2005-15	Reporting of Additions and Deductions to Fiduciary Funds – Repeated
2005-16	Fraud Risk Assessment – Cleared

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

Exit Conference



An exit conference was held with the State Treasurer on December 12, 2006. The conference was held at the State Treasurer's offices in Santa Fe, New Mexico. In attendance were:

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

Tomasita Gallegos, Bureau Chief, Investment Accounting
Joelle Mevi, Cash Manager
Steve Gonzales, Deputy Bureau Chief
Les Urioste, Procurement and Contracts Specialist
Larry Castillo, Transition Team
Ronald Crespín, Bureau Chief, Finance
Mark F. Valdes, Assistant State Treasurer
Scott W. Stovall, Deputy State Treasurer
Douglas M. Brown, State Treasurer

MEYNNERS + COMPANY, LLC

Patrick J. Wilkins, CPA, Assurance Principal
Georgie Ortiz, CPA, CGFM, Assurance Director

PREPARATION OF FINANCIAL STATEMENTS

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