


STATE OF NEW MEXICO
OFFICE OF THE
STATE TREASURER
Financial Statements
for the Year Ended
June 30, 2007,
and Independent
Auditors' Report

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Table of Contents



Official Roster	1
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 - 12
Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Governmental Fund Financial Statements:	
Balance Sheet - Governmental Funds	16 - 17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	19 - 20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	21
Statement of Revenues and Expenditures - Major Governmental Funds - Budget and Actual (Non-GAAP Basis).....	22
Statement of Fiduciary Net Assets	23
Statement of Changes in Fiduciary Net Assets	24
Notes to the Financial Statements.....	25 - 59
Supplementary Information:	
Schedule 1 - Capital Assets Used in the Operation of Governmental Funds - Schedule of Changes by Asset Class and Source	61
Schedule 2 - Combining Balance Sheet - General Obligation Bonds - General Obligation Bond Debt Service Funds	62 - 63
Schedule 3 - Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - General Obligation Bond Debt Service Funds	64 - 66
Schedule 4 - Combining Balance Sheet - Severance Tax Bonds - Severance Tax Bond Debt Service Funds.....	67 - 69

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

Table of Contents - continued



Supplementary Information - continued:

Schedule 5 - Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances – Severance Tax Bond
Debt Service Funds 70 – 72

Schedule 6 - Summary of Long-term Debt Obligations –
Long-term Debt Rollforward 73 – 74

Schedule 6 - Summary of Long-term Debt Obligations –
Schedule of Debt Service Maturities 75 – 76

Schedule 6 - Summary of Long-term Debt Obligations –
Amortization of Bond Issuance Costs 77

Schedule 6 - Summary of Long-term Debt Obligations –
Additional Information 78 – 79

Schedule 7 - Schedule of Investments – Fiduciary Funds 80 – 86

Schedule 8 - Combining Statement of Fiduciary Net Assets 87

Schedule 9 - Combining Statement of Changes in Fiduciary Net Assets 88

Schedule 10 - Schedule of Collateral Pledged by Depository 89 – 92

Schedule of Findings and Responses:

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* 94 – 95

Schedule of Findings and Responses 97 – 116

Summary Schedule of Prior Year Audit Findings 117

Exit Conference 118

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

Official Roster

Year Ended June 30, 2007

Office of the State Treasurer

James B. Lewis, State Treasurer

Mark F. Valdes, Deputy State Treasurer

State Treasurer's Investment Committee

James B. Lewis, Chairman

Joelle Mevi, Vice-chairman, Chief Investment Officer

Steve Bohlin, Member

Paul Cassidy, Member

Olivia Padilla-Jackson, State Board of Finance Member

INDEPENDENT AUDITORS' REPORT

Honorable Bill Richardson, Governor
State Board of Finance
Honorable James B. Lewis, State Treasurer
Honorable Hector H. Balderas, 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, 2007, 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, 2007. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State Treasurer's internal control over financial reporting. Accordingly, we express no such opinion. 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 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, 2007, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

MEYERS + COMPANY, LLC



Certified Public Accountants/Consultants to Business

500 Marquette NW, Suite 800 Albuquerque, NM 87102

P 505/842-8290 F 505/842-1568 E epa@meyners.com

www.meyners.com

An Independent Member of the BDO Seidman Alliance

Honorable Bill Richardson, Governor
State Board of Finance
Honorable James B. Lewis, State Treasurer
Honorable Hector H. Balderas, 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, 2007, 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, 2007, 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 July 14, 2008, 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 12 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, 7 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, 7 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
July 14, 2008

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

**Management's Discussion and Analysis
Year Ended June 30, 2007**

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 State Treasurer's financial statements and notes which follow this section.

Significant Highlights

State Treasurer James B. Lewis took office on December 15, 2006, in the middle of the fiscal year 2007. Being aware of the major changes that had taken place in the State Treasurer prior to his election, Treasurer Lewis began reviewing many items such as current policies, organization structure, and staff training.

State Treasurer Lewis empanelled a "Blue Ribbon Commission" (Commission) to objectively review the operation and administration of the State Treasurer. The Commission was comprised of citizens from the governmental and private sector whose expertise reflected the organizational structure of the State Treasurer. This panel of experts reviewed technical equipment, policies, procedures, and the administration of the State Treasurer. They made objective observations and recommendations to maximize the current equipment and human resources available within the Office of the State Treasurer. The Commission presented their report to State Treasurer Lewis. The State Treasurer has implemented some of the recommendations, and work continues to move forward in making other changes.

The major concern was the implementation of the Statewide Human Resources, Accounting, and Management Reporting System, (SHARE) on July 1, 2006. Regardless of the reasons, the inability to access a usable system immediately created extreme difficulties in processing investment accounting transactions and completion of the book to bank reconciliation.

One of the main problems was the reconciliation of the investment activity in SHARE and the internal sub-system investment module, QED. New procedures need to be established for processing investment transactions in SHARE. This process will result in the development of the "State Treasurer Investment Transaction Matrix" by the State Treasurer and the Department of Finance & Administration, (DFA). The matrix will identify the procedures for processing all investment accounting transactions in SHARE. For the fiscal year 2008, the reconciliation of SHARE to the QED should be maintained current, and be completed timely.

This joint committee will evaluate the current procedures and processes being used by the State Treasurer's general accounting and investment accounting bureaus, and DFA. This matrix will identify the new requirements that are needed for input into the SHARE system and redefine the areas of responsibility for the State Treasurer and DFA to work in harmony in processing transactions.

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

**Management's Discussion and Analysis - continued
Year Ended June 30, 2007**

Significant Highlights - continued

Funding for an automated interface of the QED investment sub-system to SHARE will be requested during the 2008 legislature.

Treasurer Lewis also mandated that the internal policies be reviewed and revised as needed. This process will take over a year to complete to insure that his committee review and recommend changes. This process will include reviews from legal, the union, and State Personnel Office to ensure that there are no conflicts or issues.

Financial Highlights

- The State Treasurer's net assets increased by \$22,555,305, mainly due to an increase in interest income. The net assets of the State Treasurer's governmental activities increased by \$22,569,843 due to an increase in interest income and State General Fund appropriations.
- The General Fund's main revenue was appropriations, which amounted to 99 percent (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).

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

**Management's Discussion and Analysis - continued
Year Ended June 30, 2007**

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, General Obligation Bond Fund, Severance Tax Bond Fund, and the Tax and Revenue Anticipation Notes 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.

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.

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

**Management's Discussion and Analysis - continued
Year Ended June 30, 2007**

Fund Financial Statements - continued

Fiduciary Funds - continued:

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 25 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 61 of this report. Fiduciary schedules begin on page 80.

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
Year Ended June 30, 2007**

Government-wide Financial Analysis

Net Assets: Table A-1 summarizes the State Treasurer's net assets for the fiscal year ended June 30, 2007. Total State Treasurer net assets for fiscal year 2007 are \$349,890,592. 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	
	2007	2006
Assets:		
Cash, cash equivalents and repurchase agreements	\$ 308,355,701	289,469,620
Due from other agencies	41,419,554	39,385,885
Accrued interest and other receivables	51,005	1,595,197
Investment in NM Business Development Corp.	-	1,359,766
Capital assets, net	64,332	65,883
Total assets	\$ 349,890,592	331,876,351
Current liabilities:		
Accounts payable and other	\$ 128,249,200	132,823,251
Compensated absences, amounts due in one year	128,967	95,980
Compensated absences, amounts due beyond one year	-	-
Total liabilities	128,378,167	132,919,231
Net assets:		
Invested in capital assets	64,332	65,883
Restricted	221,500,961	199,253,120
Unrestricted	(52,868)	(361,883)
Total net assets	221,512,425	198,957,120
Total liabilities and net assets	\$ 349,890,592	331,876,351

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 \$221,512,425 at the close of the most recent fiscal year.

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.

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

**Management's Discussion and Analysis - continued
Year Ended June 30, 2007**

Government-wide Financial Analysis - continued

An additional portion of the State Treasurer's net assets, \$221,500,961, 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 \$26,531,985. Key elements of this increase are shown in Table A-2.

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

	Total	
	2007	2006
Revenues:		
Federal funds	\$ (4,768)	(8,936)
State appropriation	(4,236,000)	(3,822,500)
Interest income	(65,753,769)	(40,120,599)
Total revenues	(69,994,537)	(43,952,035)
Expenses:		
Current:		
Personnel services and employee benefits	2,809,380	2,502,020
Operating costs	1,061,628	918,122
Contractual services	356,833	185,622
Debt Service:		
Interest on long-term debt	431,918,294	59,237,511
Debt service activity	86,943,022	387,019,669
Other charges	1,415,504	2,709,501
Non-operating (revenue) and expense	(481,042,109)	(429,168,436)
Total expenses	43,462,552	23,404,009
Change in net assets	26,531,985	20,548,026
Net assets, beginning, restated	194,980,440	178,409,094
Net assets, ending	\$ 221,512,425	198,957,120

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

**Management's Discussion and Analysis - continued
Year Ended June 30, 2007**

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's 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 balances 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 \$221,577,060, an increase of \$22,589,843 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 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.

The fund balance of the State Treasurer's general fund decreased by \$2,574 during the current fiscal year. This was not a significant change from the prior year.

The fund balance of the State Treasurer's individual debt service funds increased in comparison to the prior year due to new bond issues and an increase in interest income as disclosed in Schedule 3 – Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – General Obligation Bond Debt Service Funds, and Schedule 5 – Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Severance Tax Bond Debt Service Funds.

General Fund Budgetary Highlights

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

- \$120,000 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 2.40 percent (2.40%). There were no significant variances between final budget amounts and actual budget results for the General Fund.

Capital Assets and Debt Administration

Capital Assets. The State Treasurer's investment in capital assets for its governmental activities as of June 30, 2007, amounts to \$64,332, net of accumulated depreciation. This investment in capital assets includes equipment. The State Treasurer's capital assets decreased by \$1,551, mainly due to depreciation expense.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Management's Discussion and Analysis - continued
Year Ended June 30, 2007

Capital Assets and Debt Administration - continued

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 and traffic signals. The State Treasurer does not own any infrastructure assets.

Long-Term Debt. For the year ended June 30, 2007, the State Treasurer was responsible for administering debt service payments on total bonded debt outstanding of \$1,223,073,545, 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. Long-term debt increased by \$213,694,759 from the prior year due to two new bonds issued in fiscal year ended June 30, 2007.

	<u>Total</u>	
	<u>2007</u>	<u>2006</u>
General Obligation Bonds	\$ 438,756,876	325,707,588
Severance Tax Bonds	<u>784,316,669</u>	<u>683,671,198</u>
Total principal balances	\$ <u>1,223,073,545</u>	<u>1,009,378,786</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 & Poor's. 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.
- The State Treasurer added resources to implement numerous recommendations included in the forensic audit prepared by Deloitte.
- The State Treasurer initiated personnel, system, facility and security recommendations made by the Office of the Chief Information Officer.

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

**Management's Discussion and Analysis - continued
Year Ended June 30, 2007**

Economic Factors and Next Year's Budgets and Rates - continued

- The State Treasurer 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 fiscal year 2008.

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:

James B. Lewis, 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, 2007

	Governmental Activities
ASSETS:	
Investment in State General Fund Investment Pool	\$ 587,343
Repurchase agreements	307,768,358
Due from other agencies	41,419,554
Accrued interest receivable	50,544
Other receivables	461
Investment in New Mexico Business Development Corporation	-
Capital assets, net of accumulated depreciation (Note 4):	
Equipment	64,332
TOTAL ASSETS	\$ <u>349,890,592</u>
LIABILITIES AND NET ASSETS:	
Accounts payable	\$ 119,608,011
Accrued payroll	63,701
Accrued payroll taxes	156,115
Due to State General Fund	25,183
Due to Severance Tax Permanent Fund	-
Due to other agencies	8,396,190
Non-current liabilities:	
Due within one year - compensated absences	128,967
Due in more than one year	-
TOTAL LIABILITIES	128,378,167
NET ASSETS:	
Invested in capital assets	64,332
Restricted for:	
Debt service	220,093,379
Debt service-arbitrage	1,407,582
New Mexico Business Development Corporation	-
Unrestricted	(52,868)
TOTAL NET ASSETS	<u>221,512,425</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>349,890,592</u>

See Independent Auditors' Report and Notes to Financial Statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Statement of Activities

YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenue	Net (Expenses) Revenue and Changes in Net Assets Primary Government
PRIMARY GOVERNMENT:			
GOVERNMENTAL ACTIVITIES:			
General government	\$ 29,239,849	4,768	(29,235,081)
Interest on long-term debt	431,918,294	-	(431,918,294)
Depreciation	<u>24,856</u>	<u>-</u>	<u>(24,856)</u>
TOTAL GOVERNMENTAL ACTIVITIES	461,182,999	4,768	(461,178,231)
GENERAL REVENUES:			
State general fund appropriations			4,236,000
State property tax levy			51,787,275
Severance taxes			452,901,377
Other taxes			-
Capital projects, reversions in			-
Severance tax permanent fund, reversions out			-
Reversions to State General Fund			(25,183)
Miscellaneous			65,753,769
UNRESTRICTED INVESTMENT EARNINGS			
BOND ACTIVITY:			
Bond proceeds			28,876,978
Bond premiums			-
Bond principal payments			(115,820,000)
Bond appropriations expense			-
TRANSFER FROM OTHER STATE AGENCY			<u>-</u>
TOTAL GENERAL REVENUES AND TRANSFERS			<u>487,710,216</u>
CHANGE IN NET ASSETS			26,531,985
NET ASSETS, BEGINNING			198,957,120
PRIOR PERIOD ADJUSTMENTS			<u>(3,976,680)</u>
NET ASSETS, BEGINNING, restated			<u>194,980,440</u>
NET ASSETS, ENDING		\$	<u><u>221,512,425</u></u>

AS OF JUNE 30, 2007

	<u>General Fund</u>	<u>NM Business Development Corp. Fund</u>
ASSETS:		
Investment in State General Fund Investment Pool	\$ 587,343	-
Repurchase agreements	-	-
Investment in NM Business Development Corp.	-	-
Other receivables	461	-
Due from other agencies	-	-
Interest receivable	-	-
TOTAL ASSETS	\$ 587,804	-
LIABILITIES AND FUND BALANCES:		
LIABILITIES:		
Accounts payable	\$ 196,706	-
Due to Severance Tax Permanent Fund	-	-
Due to other agencies	70,000	-
Due to State General Fund	25,183	-
Accrued payroll	63,701	-
Accrued payroll taxes	156,115	-
TOTAL LIABILITIES	511,705	-
FUND BALANCES:		
Reserved for:		
New Mexico Business Development Corp.	-	-
Debt service	-	-
Arbitrage	-	-
Unreserved, reported in general fund	76,099	-
Unreserved, reported in:		
Gaming Suspense Fund	-	-
Taxation & Revenue Anticipation Notes	-	-
TOTAL FUND BALANCES	76,099	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 587,804	-

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Balance Sheet - Governmental Funds

Major Funds			
<u>General Obligation Bond Fund</u>	<u>Severance Tax Bond Fund</u>	<u>Tax & Revenue Anticipation Notes</u>	<u>Total Governmental Funds</u>
-	-	-	587,343
49,053,314	250,715,044	8,000,000	307,768,358
-	-	-	-
-	-	-	461
2,099,482	39,320,072	-	41,419,554
<u>17,791</u>	<u>32,753</u>	<u>-</u>	<u>50,544</u>
<u>51,170,587</u>	<u>290,067,869</u>	<u>8,000,000</u>	<u>349,826,260</u>
-	119,411,305	-	119,608,011
-	-	-	-
-	326,190	8,000,000	8,396,190
-	-	-	25,183
-	-	-	63,701
<u>-</u>	<u>-</u>	<u>-</u>	<u>156,115</u>
-	119,737,495	8,000,000	128,249,200
-	-	-	-
49,763,005	170,330,374	-	220,093,379
1,407,582	-	-	1,407,582
-	-	-	76,099
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>51,170,587</u>	<u>170,330,374</u>	<u>-</u>	<u>221,577,060</u>
<u>51,170,587</u>	<u>290,067,869</u>	<u>8,000,000</u>	<u>349,826,260</u>

YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>NM Business Development Corp. Fund</u>
REVENUES:		
Federal funds	\$ 4,768	-
Other income	-	-
Interest income	-	-
Interest income - debt service	-	-
Interest income - arbitrage	-	-
TOTAL REVENUES	<u>4,768</u>	-
EXPENDITURES:		
Current:		
Personnel services and employee benefits	2,776,393	-
Operating costs:		
Contractual services	356,833	-
Other administrative expenditures	1,061,628	-
Debt service:		
Principal and interest on long-term debt	-	-
Arbitrage	-	-
Other charges	-	-
Capital outlay	<u>23,305</u>	-
TOTAL EXPENDITURES	<u>4,218,159</u>	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,213,391)	-
OTHER FINANCING SOURCES (USES):		
State general fund appropriations	4,127,000	-
Special appropriation	109,000	-
Reversions to State General Fund	(25,183)	-
Severance taxes	-	-
State property tax levy	-	-
Bond proceeds	-	-
Bond premiums (discounts)	-	-
Other taxes	-	-
Capital projects, reversions in	-	-
Payment to escrow agent	-	-
Miscellaneous other sources	-	-
Severance tax permanent fund, reversions out	-	-
Transfers in (out)	-	-
Transfer to other state agency	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,210,817</u>	-
NET CHANGE IN FUND BALANCES	(2,574)	-
FUND BALANCES, June 30, 2006	(85,625)	1,359,766
PRIOR PERIOD ADJUSTMENTS	<u>164,298</u>	<u>(1,359,766)</u>
FUND BALANCES, JUNE 30, 2006, restated	<u>78,673</u>	-
FUND BALANCES, June 30, 2007	<u>\$ 76,099</u>	-

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

Major Funds			
General Obligation Bond Fund	Severance Tax Bond Fund	Tax & Revenue Anticipation Notes	Total Governmental Funds
-	-	-	4,768
-	-	-	-
-	-	-	-
9,113,856	56,639,913	-	65,753,769
-	-	-	-
9,113,856	56,639,913	-	65,758,537
-	-	-	2,776,393
-	-	-	356,833
-	-	-	1,061,628
57,481,963	490,256,331	-	547,738,294
-	-	-	-
266,215	1,149,289	-	1,415,504
-	-	-	23,305
57,748,178	491,405,620	-	553,371,957
(48,634,322)	(434,765,707)	-	(487,613,420)
-	-	-	4,127,000
-	-	-	109,000
-	-	-	(25,183)
-	452,901,377	-	452,901,377
51,787,275	-	-	51,787,275
275,553	28,601,425	-	28,876,978
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	(23,596,504)	-	(23,596,504)
-	-	-	-
52,062,828	457,906,298	-	514,179,943
3,428,506	23,140,591	-	26,566,523
48,511,766	149,381,588	(180,278)	198,987,217
(769,685)	(2,191,805)	180,278	(3,976,680)
47,742,081	147,189,783	-	195,010,537
51,170,587	170,330,374	-	221,577,060

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, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
State General Fund appropriation	\$ 4,067,000	4,127,000	4,127,000	-
Special appropriation	109,000	109,000	109,000	-
Supplemental appropriation	-	60,000	-	(60,000)
Other grants	26,300	26,300	4,768	(21,532)
Other	-	-	-	-
TOTAL REVENUES	\$ 4,202,300	4,322,300	4,240,768	(81,532)
EXPENDITURES:				
Current:				
Personnel services and benefits	\$ 2,902,300	2,781,300	2,776,393	4,907
Contractual services	429,600	424,600	356,833	67,767
Operating costs	870,400	1,116,400	1,084,933	31,467
TOTAL EXPENDITURES	4,202,300	4,322,300	4,218,159	104,141
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)	\$ -	-	22,609	22,609

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

Statement of Fiduciary Net Assets

AS OF JUNE 30, 2007

	Investment Trust Fund
ASSETS:	
Cash and investments:	
Cash	\$ 50,693,723
Certificates of Deposit	245,000,000
Institutional Money Market	852,700,000
Commercial Paper	773,148,983
U.S. Government Securities	2,040,881,350
Corporate Bonds	10,000,000
Municipal Bonds	36,000,000
Flex Repurchase Agreements	13,876,318
Repurchase agreements	<u>883,231,642</u>
Total cash and investments	4,905,532,016
Other assets	<u>-</u>
TOTAL ASSETS	\$ <u>4,905,532,016</u>
LIABILITIES:	
Other liabilities	\$ <u>-</u>
TOTAL LIABILITIES	-
NET ASSETS HELD IN TRUST	<u>4,905,532,016</u>
TOTAL LIABILITIES AND NET ASSETS HELD IN TRUST	\$ <u>4,905,532,016</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Statement of Changes in Fiduciary Net Assets

AS OF JUNE 30, 2007

	<u>Investment Trust Fund</u>
INVESTMENT INCOME	\$ 242,310,909
EXPENSES:	
Management fees	<u>(384,000)</u>
NET INVESTMENT INCOME	241,926,909
NET PROCEEDS OF DEPOSITS (WITHDRAWALS)	(556,238,928)
NET ASSETS, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2006	<u>5,219,844,035</u>
NET ASSETS, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2007	\$ <u>4,905,532,016</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 terms 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 6-10-10 (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.
- (6) Section 6-12A-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.

NATURE OF ORGANIZATION – continued

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

NATURE OF ORGANIZATION – continued

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

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

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

Oversight by the State Board of Finance

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

The Board has the responsibility for the issuance of the general obligation and severance tax bonds and for the investment and distribution of the proceeds from such bonds. In that regard, the Board approves the issuance of all such bonds, and provides information for bond prospectuses in order to ensure compliance with financial disclosure requirements and to present information concerning bond issues in a meaningful and informative format. Debt Service Funds are maintained by the State Treasurer 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 an office 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.

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.

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

• **Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued**

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.

Federal grant revenue 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. All other revenue items are considered to be measurable and available when cash is received by the government.

The government reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund is funded through the 2006 General Appropriation Act (Laws of 2006, Chapter 109, Section 6) and is subject to reversion.

The government reports the following **Debt Service Funds**:

The New Mexico Business Development Corporation Fund (Fund not established in SHARE) 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 is Sections 53-7-18 through 53-7-46 NMSA 1978. On July 1, 2005, the New Mexico Legislature repealed Sections 53-7-18 through 53-7-46 NMSA 1978. The fund does not receive State General Fund appropriations that are subject to reversion.

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 fund does not receive State General Fund appropriations that are subject to reversion.

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 fund does not receive State General Fund appropriations that are subject to reversion.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

Debt Service Funds - continued:

The Taxation and Revenue Anticipation Notes (TRANS) Fund (SHARE Fund 32300) was established to account for the transactions related to the issuance of Taxation and Revenue Notes. The fund does not receive State General Fund appropriations that are subject to reversion.

The Gaming Suspense Fund (SHARE Fund 02000) was established to collect monies owed to the State from gaming establishments. The fund does not receive State General Fund appropriations that are subject to reversion.

Additionally, the government reports the following **Fiduciary Funds**:

The Short-Term Investment Pool (SHARE Fund 68599) accounts for cash, securities and other investments identified and held in custody only for the Local Government Investment Pool (LGIP).

The Consolidated Investment Pool (SHARE Fund 10199) accounts for cash and short-term securities, such as overnight repurchase contracts, held in custody for State agencies.

The State Funds Investment Pool (SHARE Fund 10099) accounts for securities and other investments identified and held in custody only for State agencies.

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

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

• **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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Receivables and Payables**

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

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

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

• **Capital Assets**

Capital assets, which include equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **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 percent (50%) of each employee's hourly rate for accumulated sick leave over 600 hours up to 120 hours. Payment may be made only once per fiscal year at an employee-specified pay period in either January or July.

• **Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are not reported as liabilities in the applicable governmental activities. The 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 State Treasurer 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Long-term Obligations - continued**

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 down as needed.

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

- **Fiduciary Net Assets**

The combining statement of changes in fiduciary net assets reports the deposits and withdrawals made by the participants in the Investment Trust Funds. 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.

- **Net Assets**

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investments in capital assets (net of related debt), restricted and unrestricted.

Investments in capital assets is intended to reflect the portion of net assets which is associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is debt less the outstanding liquid assets and any associated unamortized cost.

Restricted assets are liquid assets (generated from revenues and not bond proceeds) which have third-party (statutory or granting agency) limitation on their use. When there is an option, the State Treasurer spends restricted resources first. Net assets are restricted by the bond indenture for debt service. Restricted net assets total \$221,500,961.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Net Assets - continued**

Unrestricted assets are all other assets that do not meet the definition of “restricted assets” or “investments in capital assets”.

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.
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, 2007, 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.

2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued**

• **Budgets and Budgetary Accounting - continued**

The New Mexico Business Development Corporation, a debt service fund, is 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, 2008, 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.

• **Custody Bank**

The State Board of Finance and Northern Trust entered into an agreement whereby Northern Trust would provide banking services as Custody 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.

• **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 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 State Treasurer 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

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued

3. DEPOSITS AND INVESTMENTS - continued

• **Investment Trust Fund – continued**

and is required in amounts ranging from fifty percent (50%) to one hundred two percent (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 percent (50%) of the average investment balance.

At June 30, 2007, collateral pledged to public money deposits was as follows:

	Fiscal Agent Account	Certificates of Deposit
Cash in bank	\$ 4,892,548	245,000,000
Less FDIC insurance coverage	100,000	1,000,000
Total unsecured public funds	\$ 4,792,548	244,000,000
Collateral requirement (50% of uninsured public funds)	\$ 2,396,274	122,000,000
Collateral pledged:		
US Government securities	33,555,100	109,337,426
Surety Bond	-	45,500,000
(Over) under collateralized	\$ (31,158,826)	(32,837,426)

• **Brokered Transactions**

The State Treasurer initiated electronic purchase trades with the following brokers during the year ended June 30, 2007:

Broker Name	Number of Transactions
Merrill Lynch	64
CS First Boston	54
Citigroup	53
Lehman Bros.	47
Morgan Stanley	40
Bank of America	32
Goldman Sachs	31
JP Morgan Chase	22
Cantor Fitzgerald	16
FTN	12
Bear Stearns	10
UBS	8

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

Notes to Financial Statements - continued

3. DEPOSITS AND INVESTMENTS - continued

• **Direct Transactions**

The State Treasurer made the following direct purchases:

<u>Security</u>	<u>Number of Transactions</u>
Abbey National	7
Intessa	6
AIG	4
Citigroup	2
HSBC	2
New Center	2
San Paolo	2
Caylon	1
Fortis	1
M & I	1
Natixis	1

• **Investment Balances**

The fair value of investments administered by the State Treasurer at June 30, 2007 follows:

	<u>Amortized Cost</u>	<u>Carrying Amount Fair Value</u>
Cash in Banks	\$ 50,693,723	50,693,723
Certificates of Deposit	245,000,000	245,000,000
Institutional Money Market	852,700,000	852,700,000
Commercial Paper	764,987,205	773,148,983
U.S. Government Securities	2,048,394,475	2,040,881,350
Corporate Bonds	10,000,000	10,000,000
Municipal Bonds	36,000,000	36,000,000
Flex Repurchase Agreements	13,876,318	13,876,318
Overnight Repurchase Agreements	<u>1,191,000,000</u>	<u>1,191,000,000</u>
	<u>\$ 5,212,651,721</u>	<u>5,213,300,374</u>

3. DEPOSITS AND INVESTMENTS – continued

The fair value includes repurchase agreements of \$307,768,358 of debt service funds reported in the Statement of Net Assets – Governmental Activities and Governmental Funds Activity for general obligation funds, severance tax bond funds, and taxation and revenue anticipation notes fund. The remaining \$4,855,475,427 represents the investment portion of the investment trust fund reported in the Statement of Fiduciary Net Assets.

• **Local Government Investment Pool**

Cities, counties, and other non-state agencies invest monies in the State Treasurer external investment pool (Local Government Investment Pool). The investments are recorded at fair value based on quoted market prices as of the valuation date in the financial statements; however, the individual participant balances remain at their carrying cost. At June 30, 2007, 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:

3. DEPOSITS AND INVESTMENTS – continued

• **Investment Guidelines and Limitations - continued**

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. 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 6-14-10.1, 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:

3. DEPOSITS AND INVESTMENTS – continued

• **Investments Permitted by Policy - continued**

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 five (5) years at time of purchase, except securities for any advanced refunding escrow with a duration of more than five (5) years.
2. Commercial Paper – Unsecured obligations with a maturity up to 270 days at time of purchase issued by corporations organized and operating within the United States. The commercial paper shall have short-term credit ratings of A-1, P-1 or equivalent or better by two national rating services. If the rating declines below A-1, P-1, then the State Treasurer's Investment Committee (STIC) 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 five (5) 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 A- or A3, then the STIC 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 five (5) 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 STIC 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 (102%) 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 a maximum maturity of thirty (30) days, 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.

3. DEPOSITS AND INVESTMENTS – continued

• **Investments Permitted by Policy – continued**

6. Bank, Savings and Loan Association or Credit Union Deposits – Deposits are allowed in certified and designated New Mexico financial institutions whose deposits are insured by an agency of the United States. All deposits will comply with the Interest Rate and Collateral Policies adopted by the State Board of Finance. Deposits shall be limited to a maximum maturity of three (3) years. A deposit in any credit union shall be limited to the amount insured by an agency of the United States.
7. 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.
8. 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 (3) years. If the rating declines below A, then the STIC will meet to evaluate a course of action.
9. Money Market 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 five percent (5%) 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(O) 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, 2007, 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 & Poor's) at June 30, 2007, are as follows:

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

Notes to Financial Statements - continued

3. DEPOSITS AND INVESTMENTS – continued

• **Credit Risk – continued**

Quality Rating	Fair Value	Percentage of Portfolio
AAA:		
U.S. Government Agency Obligations	\$ 2,040,881,350	39.50%
Institutional Money Market Funds	852,700,000	16.50%
A-1+:		
Commercial Paper	323,418,694	6.30%
A-1:		
Commercial Paper	449,730,289	8.70%
AA:		
Corporate Bonds	10,000,000	0.20%
Not rated and other:		
Overnight Repurchase Pool	1,191,000,000	23.10%
Short-term Government Notes and CDs	281,000,000	5.40%
Cash in Bank	50,693,723	0.00%
Flex Repurchase Agreements	13,876,318	0.30%
Grand Total	\$ 5,212,651,721	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), and such pension and permanent fund monies with respect to which the State Treasurer is the investing authority.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued

3. DEPOSITS AND INVESTMENTS - continued

• Concentration of Credit Risk – continued

3. The maximum level of CD deposits for the entire portfolio shall be \$350 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 forty percent (40%) of assets of a fund. Commercial paper and corporate bonds shall be limited, per issuer, to five percent (5%) of each portfolio.
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.
6. Investment in US Agency securities issued by any single agency shall be limited to thirty-five percent (35%) of the combined portfolios and investment in repurchase agreements from any single provider shall be limited to twenty-five percent (25%) of the combined portfolios.
7. Investment in rule 2a-7 compliant money market mutual funds shall be limited to five percent (5%) of that money market mutual fund.

Investments greater than five percent (5%) with a single issuer include the following:

Quality Rating	Fair Value	Percentage of Portfolio
US Government Agency Obligations:		
FHLB	\$ 614,702,735	11.90%
FHLMC	580,815,099	11.30%
FNMA	609,495,334	11.80%
FFCB	31,805,905	0.60%
US Treasuries	204,062,277	3.90%
Other issuers:		
Flex Repurchase Agreements:		
Citigroup	13,876,318	0.30%
Overnight Repurchase Pool	1,191,000,000	23.00%
Corporate Bonds	10,000,000	0.20%

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

Notes to Financial Statements - continued

3. DEPOSITS AND INVESTMENTS - continued

• **Concentration of Credit Risk – continued**

Quality Rating	Fair Value	Percentage of Portfolio
Commercial Paper	\$ 773,148,983	15.00%
Institutional Money Market	852,700,000	16.50%
Short-term Government Notes & CDs	281,000,000	5.50%
Cash in Bank	50,693,723	0.00%
Grand Total	\$ 5,212,651,721	100.00%

• **Interest Rate Risk**

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

1. **Relative Yield to Maturity:** Comparison of return available from alternative investment media for comparable maturity dates.
2. **Marketability:** Analysis of relative marketability of alternate investments in case of forced sale and/or possibility of future trades.
3. **Intermarket Yield Analysis:** Analysis of the spread relationship between sectors of the market (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.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued

3. DEPOSITS AND INVESTMENTS - continued

- Interest Rate Risk – continued

Maturities on investment are as follows:

Quality Rating	Fair Value	Maturities	
		Less Than 1 Year	1 – 5 Years
AAA:			
U.S. Government Agency Obligations	\$ 2,040,881,350	951,815,860	1,089,065,490
Institutional Money Market	852,700,000	852,700,000	-
A-1+:			
Commercial Paper	323,418,694	323,418,694	-
A-1:			
Commercial Paper	449,730,289	449,730,289	-
AA:			
Corporate Bonds	10,000,000	10,000,000	-
Not rated and other:			
Overnight Repurchase Pool	1,191,000,000	1,191,000,000	-
Short-term Government Notes & CDs	281,000,000	281,000,000	-
Cash in Bank	50,693,723	50,693,723	-
Flex Repurchase Agreements	13,876,318	13,876,318	-
Grand Total	\$ 5,212,651,721	4,123,586,231	1,089,065,490

- 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, 2007, were denominated in United States Dollars.

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

Notes to Financial Statements - continued

3. DEPOSITS AND INVESTMENTS - continued

• **Securities Collateral**

Securities collateral relates to Flex Repurchase Agreements. At June 30, 2007, investments in repurchase agreements were \$13,876,318. Collateral required by State statute at June 30, 2007, was \$14,153,844. The investments in repurchase agreements were collateralized by US Government Mortgage Backed Securities valued at \$14,491,569, held at Northern Trust Company in the State Treasurer's name. A mortgage-backed security is a type of asset-backed security that is secured by a mortgage or collection of mortgages.

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 one hundred two percent (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 one hundred two percent (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
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 one hundred two percent (102%) to compensate for market risk.

Credit ratings and concentration of risk on collateral securities are as follows:

Quality Rating	Fair Value	Percentage of Portfolio
AAA:		
US Government Agency Obligations	\$ 5,374,316	37.00%
US Treasury Notes	9,117,253	63.00%
Grand Total	\$ 14,491,569	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		
		1-5 Years	1-10 Years	11-20 Years
AAA:				
US Government Mortgage Backed Securities	\$ 5,374,316	-	-	5,374,316
US Treasury Notes	9,117,253	-	-	9,117,253
Grand Total	\$ 14,491,569	-	-	14,491,569

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance <u>June 30, 2006</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	Balance <u>June 30, 2007</u>
Governmental activities:				
Depreciable assets:				
Equipment	\$ 278,286	23,305	24,381	277,210
Less accumulated depreciation	<u>212,403</u>	<u>24,856</u>	<u>24,381</u>	<u>212,878</u>
Total	\$ <u>65,883</u>	<u>(1,551)</u>	<u>-</u>	<u>64,332</u>

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

Governmental activities:	
General government	\$ <u>24,856</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 June 30, 2007:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amounts Due</u> <u>Within</u> <u>One Year</u>
Compensated absences	\$ <u>95,980</u>	<u>158,927</u>	<u>125,940</u>	<u>128,967</u>	<u>128,967</u>

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

Notes to Financial Statements - continued

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, 2007, are as follows:

ASSETS:	
Investments	\$ 4,905,532,016
Interest receivable	<u>-</u>
TOTAL ASSETS	\$ <u>4,905,532,016</u>
LIABILITY:	
Other liabilities	\$ -
NET ASSETS:	
External Participant account balances	970,485,773
Other Internal Participant account balances:	
Primary government	3,934,397,590
Undistributed reserves and unrealized gains (losses)	<u>648,653</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>4,905,532,016</u>

INVESTMENT INCOME

At June 30, 2007, the State Treasurer's investment income earnings were as follows:

Local Governmental Investment Pool	\$ 40,802,645
Consolidated Investment Pool	52,158,529
State Funds Investment Pool	149,349,735
Unrealized loss	<u>-</u>
	\$ <u>242,310,909</u>

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

Notes to Financial Statements - continued

7. APPROPRIATIONS

The State Treasurer received the following appropriations for the year ended June 30, 2007:

<u>General Fund</u>	
General appropriation, (General Appropriation Act)	\$ 4,127,000
Special appropriation	<u>109,000</u>
Total appropriations	\$ <u>4,236,000</u>

The State Treasurer's Office received a special appropriation, Law 2006, Chapter 109, Section 6, to fund compensation for fiscal year 2007.

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. No balance remained in the Severance Tax Bonding Fund that was due and payable to the Severance Tax Permanent Fund for the fiscal year ended June 30, 2007.

10. ARBITRAGE ON TAX EXEMPT BONDS

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

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

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

Notes to Financial Statements - continued

10. ARBITRAGE ON TAX EXEMPT BONDS - continued

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	10/31/2004	X
General Obligation Bonds Refunding Series 2001B	9/1/2006	10/31/2006	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	8/31/1998	X
Severance Tax Bonds Series 1994B	7/1/1999	8/31/1999	X
Severance Tax Bonds Series 1995A	7/1/2000	8/31/2000	X
Severance Tax Bonds Series 1995B	7/1/2000	8/31/2000	X
Severance Tax Bonds Series 1996A	12/20/2001	2/20/2002	X
Severance Tax Refunding Bonds Series 1997A	7/1/2001	8/31/2002	X
Severance Tax Refunding Bonds Series 1998A	7/1/2003	8/31/2003	X
Severance Tax Bonds Series 1999B	7/1/2004	8/31/2004	X
Severance Tax Bonds Series 1999A Supplemental	11/17/2004	1/17/2005	X
Severance Tax Bonds Series 2000	7/1/2005	8/31/2005	X
Severance Tax Bonds 2000C Supplemental	11/16/2005	1/16/2006	X

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

Notes to Financial Statements - continued

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 Refunding Series 2001A	12/20/2006	2/20/2007	X
Severance Tax Bonds Series 2002A Supplemental	1/16/2007	3/16/2007	X
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	11/11/2005	X

Interest earnings on invested bond proceeds through June 30, 2007 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 Agreement." The 2005 New Mexico Legislature repealed the Business Development Corporation Act effective July 1, 2005. Per House Bill 1053, the dissolution of trust balances for the New Mexico Business Development Corporation were as follows:

Balance per Wells Fargo Bank (trustee), July 1, 2005	\$ 1,359,767
Transfer to New Mexico Economic Development Department	(500,000)
Transfer to State General Fund	<u>(859,767)</u>
Balance remaining, June 30, 2006	\$ <u> -</u>

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

Notes to Financial Statements - continued

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

The transfer of funds was made by the State Treasurer on July 12, 2005.

12. TRANSFERS

• **Bond Proceeds**

The Bond Issuance Fund transferred the net proceeds of the General Obligation 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, 2007, financial statements:

SHARE Fund	Transfer From	Amount	SHARE Fund	Transfer To	Amount
	Bond Issuance Fund (DFA):			State Treasurer's Debt Service Funds:	
66300	STB – 2007A Debt Service	\$ 165,266,100	53700	STB – 2007A Debt Service	\$ 165,266,100
02700	GO Bond 2007 Debt Service	<u>142,799,983</u>	28800	GO Bond 2007 Debt Service	<u>142,799,983</u>
Total		\$ <u>308,066,083</u>			\$ <u>308,066,083</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.

Debt Service:

Severance Tax Bonds:

SHARE Fund	Transfer From	Amount	SHARE Fund	Transfer To	Amount
41000	Severance Tax Bonding Fund	\$ 84,590,300	96300	STB – 2006A Debt Service	\$ 9,800,000
			57100	STB – 2005B2 Debt Service	\$ 1,500,000
			49200	STB – 2004A Debt Service	7,700,000
			18300	STB – 2004B Debt Service	1,100,000
			38800	STB – 2005B1 Debt Service	1,700,000
			41200	STB – 2005A Debt Service	8,500,000
			40500	STB – 2000C Debt Service	1,700,000
			40800	STB – 2001A Debt Service	23,000,000
			69900	STB – 2002A Debt Service	6,800,000

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

Notes to Financial Statements - continued

12. TRANSFERS - continued

• **Interfund Transfers – continued**

SHARE Fund	Transfer From	Amount	SHARE Fund	Transfer To	Amount
			09500	STB – 2002 Supplemental Debt Service	\$ 7,000,000
			39000	STB – 2002B Supplemental Debt Service	5,400,000
			88400	STB – 2003A Debt Service	8,500,000
			48400	STB – 2003B Debt Service	1,200,000
			53800	STB – 2007A Refunding	690,300
18400	STB – 1999A Debt Service	\$ 8,535	41000	Severance Tax Bonding Fund	8,535
40800	STB – 2001A Debt Service	523,133	41000	Severance Tax Bonding Fund	523,133
69900	STB – 2002A Debt Service	167,166	41000	Severance Tax Bonding Fund	167,166
18500	STB – 1999A Debt Service	<u>249,382</u>	41000	Severance Tax Bonding Fund	<u>249,382</u>
	Total	\$ <u>85,538,516</u>		Total	\$ <u>85,538,516</u>

General Obligation Bonds:

SHARE Fund	Transfer From	Amount	SHARE Fund	Transfer To	Amount
03100	GO 2003 Debt Service	\$ 2,000,000	48200	GO 2001B Refunding	\$ 2,000,000
03200	GO 2003 Debt Service	3,000,000	41800	GO 2003B Refunding	3,000,000
41800	GO 2003B Refunding	1,300,000	03100	GO 2003 Debt Service	1,300,000
46300	GO 2001B Rebate	80,100	41400	GO 2001 Debt Service	80,100
48200	GO 2001B Refunding	<u>266,910</u>	41400	GO 2001 Debt Service	<u>266,910</u>
	Total	\$ <u>6,647,010</u>		Total	\$ <u>6,647,010</u>

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 percent (7.42%) of their gross salary. The State Treasurer is required to contribute 16.59 percent (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 State Treasurer's contributions to PERA for the years ending June 30, 2007, 2006 and 2005 were \$324,931, \$292,265 and \$408,129, respectively, equal to the amount of the required contributions for each year.

14. POST EMPLOYMENT BENEFITS – RETIREE HEALTH CARE ACT CONTRIBUTIONS

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

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

Eligible retirees are: (1) retirees who made contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Act on the person's behalf unless that person retires before the employer's RHCA 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.

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

• **Fund Contributions**

Each participating employer makes contributions to the fund in the amount of 1.3 percent (1.3%) of each participating employer's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65 percent (.65%) 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 RHCA 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, Albuquerque, NM 87107.

For the fiscal year ended June 30, 2007, the State Treasurer remitted \$24,981 in employer contributions and \$12,478 in employee contributions to the Retiree Health Care Authority.

The State Treasurer will implement GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*, in 2008. The impact of the implementation of the new GASB standard is unknown.

15. 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, 2006 to June 30, 2007. The limit of coverage is \$5,000,000, with \$1,000 deductible per occurrence. All State Treasurer employees are covered by this bond.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued

16. 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 shall revert by September 30 to the general fund. The division may adjust the reversion 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, 2007, is \$25,183.

Amounts reverted to the State General Fund during 2007 were as follows:

		<u>Appropriation</u>		<u>Reversion</u>
Reversion to State General Fund fiscal year 2007	\$	4,127,000		25,183

17. 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, 2007, was as follows:

		<u>Balance July 1, 2006</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Issuance Cost</u>	<u>Balance June 30, 2007</u>
Tax and Revenue Anticipation Notes	\$	-	750,000,000	750,000,000	-	-

18. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were recorded as of June 30, 2007:

	<u>SHARE Fund</u>		<u>Amount</u>	<u>Purpose</u>
01800	GO Bond E911	\$	769,685	This fund is reported in the Department of Finance and Administration financial statements. Due to this fund being reported by another State agency, this fund was not established in the SHARE accounting system as a State Treasurer fund. This entry decreased fund balance by \$769,685.

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

Notes to Financial Statements - continued

18. PRIOR PERIOD ADJUSTMENTS - continued

SHARE Fund	Amount	Purpose
01900 Severance Tax Bond Fund 2006A Series Rebate	\$ 162,487	This fund is reported in the Department of Finance and Administration financial statements. Due to this fund being reported by another State agency, this fund was not established in the SHARE accounting system as a State Treasurer fund. This entry decreased fund balance by \$162,487.
18200 General	\$ 164,298	The amount recorded as due to the State general fund was overstated due to an error in calculating the amount to be reverted for fiscal year ended June 30, 2006. This entry increased the fund balance by \$164,298.
18400 Severance Tax Bond Fund 1999A Series – Supplemental	\$ 2,029,318	A debt service payment (principal and interest) was recorded twice. This entry decreased final balance by \$2,029,318.
32300 Taxation & Revenue Anticipation Notes	\$ 180,278	The amount recorded as accounts payable was overstated. The bond costs were paid by fiscal year ended June 30, 2006. This entry increased the fund balance by \$180,278.
76200 New Mexico Business Development Corporation Fund	\$ 1,359,766	This fund was dissolved and funds were transferred to other State agencies in July 2005. This entry decreased fund balance by \$1,359,766.

19. BOND ISSUANCE ACTIVITY

During fiscal year 2007, there were two new bond issues as noted below;

- \$134,870,000 Capital Projects General Obligation Bond Series 2007
- \$162,840,000 Severance Tax Bond Series 2007A

Total activity related to the bonds were approximately as follows; costs \$789,516, premiums \$10,455,300, proceeds \$298,400,299, and total transfers to other State agencies of \$308,066,083.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

Schedule 1

YEAR ENDED JUNE 30, 2007

	Balance June 30, 2006	Additions	Actual Amounts Deletions	Balance June 30, 2007
GOVERNMENTAL FUNDS CAPITAL ASSETS:				
Equipment, furniture and fixtures	\$ 278,286	23,305	(24,381)	277,210
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	\$ 278,286	23,305	(24,381)	277,210
INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:				
General Fund revenues	\$ 278,286	23,305	(24,381)	277,210
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	\$ 278,286	23,305	(24,381)	277,210

Schedule 2

YEAR ENDED JUNE 30, 2007

	SHARE Fund	Assets			Total Assets
		Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	
2003 Series-Debt Service	03100	\$ 7,254,943	356,912	4,180	7,616,035
2005 Series Debt Service	03200	10,798,630	335,917	3,907	11,138,454
2007 Series-Debt Service	28800	9,529,188	-	-	9,529,188
2001 Series-Debt Service	41400	4,395,263	188,953	2,395	4,586,611
2003B Series - Refunding	41800	15,654,844	1,217,700	3,551	16,876,095
2001-B Series-Refunding	48200	-	-	3,258	3,258
1999 Series-Debt Service	64000	-	-	26	26
E911	18000	-	-	-	-
Total Debt Service		47,632,868	2,099,482	17,317	49,749,667
2003 Series - Rebate	41300	108,037	-	62	108,099
2001 Series - Rebate	41500	720,553	-	263	720,816
2003 Refunding Series - Rebate	41900	133,702	-	49	133,751
2005 Series - Rebate	42600	131,482	-	34	131,516
2001B Series - Rebate	46300	-	-	30	30
911 - Rebate	48800	97,815	-	36	97,851
2001A Series - Rebate	71200	215,519	-	-	215,519
Total Rebate Accounts		1,407,108	-	474	1,407,582
2007 Series-Cost of Issuance	28900	13,338	-	-	13,338
2003 Series - Cost of Issuance	41600	-	-	-	-
Total cost of issuance		13,338	-	-	13,338
Combined total	\$	49,053,314	2,099,482	17,791	51,170,587

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

<u>Liabilities</u>	<u>Fund Equity</u>			
<u>Accrued Arbitrage Interest Payable</u>	<u>Unreserved- Designated for Debt Service</u>	<u>Unreserved- Designated for Arbitrage</u>	<u>Total Fund Equity</u>	<u>Total Liabilities & Fund Equity</u>
-	7,616,035	-	7,616,035	7,616,035
-	11,138,454	-	11,138,454	11,138,454
-	9,529,188	-	9,529,188	9,529,188
-	4,586,611	-	4,586,611	4,586,611
-	16,876,095	-	16,876,095	16,876,095
-	3,258	-	3,258	3,258
-	26	-	26	26
-	-	-	-	-
-	49,749,667	-	49,749,667	49,749,667
-	-	108,099	108,099	108,099
-	-	720,816	720,816	720,816
-	-	133,751	133,751	133,751
-	-	131,516	131,516	131,516
-	-	30	30	30
-	-	97,851	97,851	97,851
-	-	<u>215,519</u>	<u>215,519</u>	<u>215,519</u>
-	-	1,407,582	1,407,582	1,407,582
-	13,338	-	13,338	13,338
-	-	-	-	-
-	<u>13,338</u>	-	<u>13,338</u>	<u>13,338</u>
-	<u>49,763,005</u>	<u>1,407,582</u>	<u>51,170,587</u>	<u>51,170,587</u>

Schedule 3

YEAR ENDED JUNE 30, 2007

	SHARE Fund	Revenues		Expenditures	
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures
2003 Series-Debt Service	03100	\$ 872,043	16,157,500	-	16,157,500
2005 Series Debt Service	03200	4,602,162	14,615,000	-	14,615,000
2007 Series Debt Service	28800	2,496,478	-	-	-
2001 Series-Debt Service	41400	432,575	7,821,838	4,000	7,825,838
2003-B Series - Refunding	41800	506,871	10,262,250	-	10,262,250
2001-B Series-Refunding	48200	95,827	8,625,375	-	8,625,375
1999 Series-Debt Service	64000	-	-	-	-
E911	18000	-	-	-	-
Total debt service		9,005,956	57,481,963	4,000	57,485,963
2003 Series-Rebate	41300	6,498	-	-	-
2001 Series-Rebate	41500	36,618	-	-	-
2003 Series-Refunding	41900	6,703	-	-	-
2005 Rebate	42600	41,442	-	-	-
2001-B Series-Rebate	46300	1,415	-	-	-
911-Rebate	48800	4,904	-	-	-
2001-A Series-Rebate	71200	10,320	-	-	-
Total Rebate Accounts		107,900	-	-	-
2007 Series - Cost of Issuance	28900	-	-	262,215	262,215
2003 Series - Cost of Issuance	41600	-	-	-	-
Total cost of issuance		-	-	262,215	262,215
Combined total		\$ 9,113,856	57,481,963	266,215	57,748,178

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

Excess (Deficiency) of Revenues over Expenditures	Other Financing Sources (Uses)				
	State Property Tax Levy	Other Taxes	Bond Proceeds	Capital Projects Reversions	Interfund Transfers
(15,285,457)	11,661,697	-	-	-	(700,000)
(10,012,838)	10,361,299	-	-	-	(3,000,000)
2,496,478	7,032,710	-	-	-	-
(7,393,263)	6,013,252	-	-	-	347,010
(9,755,379)	16,718,317	-	-	-	1,700,000
(8,529,548)	-	-	-	-	1,733,090
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(48,480,007)	51,787,275	-	-	-	80,100
6,498	-	-	-	-	-
36,618	-	-	-	-	-
6,703	-	-	-	-	-
41,442	-	-	-	-	-
1,415	-	-	-	-	(80,100)
4,904	-	-	-	-	-
10,320	-	-	-	-	-
<u>107,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,100)</u>
(262,215)	-	-	275,553	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(262,215)	-	-	275,553	-	-
<u>(48,634,322)</u>	<u>51,787,275</u>	<u>-</u>	<u>275,553</u>	<u>-</u>	<u>-</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances -

Schedule 3 - continued

General Obligation Bond Debt Service Funds - continued

YEAR ENDED JUNE 30, 2007

	SHARE	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	Beginning Fund Balance as Originally Reported	Restatement	Beginning Fund Balances as Restated	Fund Balances June 30, 2007
	Fund					
2003 Series-Debt Service	03100	\$ (4,323,760)	11,939,795	-	11,939,795	7,616,035
2005 Series Debt Service	03200	(2,651,539)	13,789,993	-	13,789,993	11,138,454
2007 Series Debt Service	28800	9,529,188	-	-	-	9,529,188
2001 Series-Debt Service	41400	(1,033,001)	5,619,612	-	5,619,612	4,586,611
2003-B Series - Refunding	41800	8,662,938	8,213,157	-	8,213,157	16,876,095
2001-B Series-Refunding	48200	(6,796,458)	6,799,716	-	6,799,716	3,258
1999 Series-Debt Service	64000	-	26	-	26	26
E911	18000	-	769,685	(769,685)	-	-
Total debt service		3,387,368	47,131,984	(769,685)	46,362,299	49,749,667
2003 Series-Rebate	41300	6,498	101,601	-	101,601	108,099
2001 Series-Rebate	41500	36,618	684,198	-	684,198	720,816
2003 Series-Refunding	41900	6,703	127,048	-	127,048	133,751
2005 Rebate	42600	41,442	90,074	-	90,074	131,516
2001-B Series-Rebate	46300	(78,685)	78,715	-	78,715	30
911-Rebate	48800	4,904	92,947	-	92,947	97,851
2001-A Series-Rebate	71200	10,320	205,199	-	205,199	215,519
Total Rebate Accounts		27,800	1,379,782	-	1,379,782	1,407,582
2007 Series - Cost of Issuance	28900	13,338	-	-	-	13,338
2003 Series - Cost of Issuance	41600	-	-	-	-	-
Total cost of issuance		13,338	-	-	-	13,338
Combined total	\$	3,428,506	48,511,766	(769,685)	47,742,081	51,170,587

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

Schedule 4

YEAR ENDED JUNE 30, 2007

	SHARE Fund	Assets			Total Assets
		Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	
2002-A Supp. Series - DS	09500	\$ 6,998,748	-	2,635	7,001,383
2004-B Series Debt Service	18300	1,158,939	-	263	1,159,202
1999-A Series-Debt Service	18400	-	-	946	946
2005-B1 Series Debt Service	38800	884,911	-	4	884,915
2000 Series-Debt Service	38900	10,767	-	-	10,767
2002-B Supp. Series - DS	39000	5,054,674	-	1,878	5,056,552
2000-C Series-Debt Service	40500	2,131,017	-	829	2,131,846
2001-A Series-Refunding	40800	22,671,765	-	8,628	22,680,393
Severance Tax Bonding	41000	126,395,099	39,320,072	-	165,715,171
2005-A Series Debt Service	41200	12,224,484	-	7,825	12,232,309
2003-B Series-Debt Service	48400	1,130,074	-	390	1,130,464
2004-A Series-Debt Service	49200	9,107,859	-	3,367	9,111,226
2007-A Debt Service	53700	55,631	-	-	55,631
2007-A Refunding	53800	28,895,100	-	-	28,895,100
2005-B2 Series Debt Service	57100	1,009,918	-	-	1,009,918
2002-A Series-Debt Service	69900	6,806,774	-	2,641	6,809,415
2003-A Series-Debt Service	88400	7,925,290	-	2,923	7,928,213
2006-A Series Debt Service	96300	<u>17,366,496</u>	<u>-</u>	<u>-</u>	<u>17,366,496</u>
Total debt service		249,827,546	39,320,072	32,329	289,179,947
2006A Series-Rebate	01900	-	-	-	-
1999-A Series-Rebate	18500	-	-	96	96
2002-B Supp-Rebate	39200	67,490	-	25	67,515
2000-C Series-Rebate	40600	334,666	-	122	334,788
2004-B Series-Rebate	41100	27,470	-	10	27,480
2003-B Supp-Rebate	42000	11,111	-	4	11,115
2004-A Series-Rebate	42700	56,147	-	11	56,158
1999-B Series-Rebate	46100	16,536	-	-	16,536
2005-A Series-Rebate	48300	217,239	-	117	217,356
2005-B1 Series-Rebate	57000	9,725	-	-	9,725
2003-A Series-Rebate	87300	107,416	-	39	107,455
2005-B2 Series-Rebate	96000	5,707	-	-	5,707
2006-A Series-Rebate	96400	<u>33,991</u>	<u>-</u>	<u>-</u>	<u>33,991</u>
Total rebate accounts		<u>887,498</u>	<u>-</u>	<u>424</u>	<u>887,922</u>
Combined total		\$ <u>250,715,044</u>	<u>39,320,072</u>	<u>32,753</u>	<u>290,067,869</u>

Schedule 4 - continued

YEAR ENDED JUNE 30, 2007

	SHARE Fund	Liabilities			Total Liabilities
		Due to Severance Tax Permanent Fund	Due to Other State Agencies	Accounts Payable	
2002-A Supp. Series - DS	09500	\$ -	-	-	-
2004-B Series Debt Service	18300	-	-	-	-
1999-A Series-Debt Service	18400	-	-	-	-
2005-B1 Series Debt Service	38800	-	-	-	-
2000 Series-Debt Service	38900	-	-	-	-
2002-B Supp. Series - DS	39000	-	-	-	-
2000-C Series-Debt Service	40500	-	-	-	-
2001-A Series-Refunding	40800	-	-	-	-
Severance Tax Bonding	41000	-	-	119,338,355	119,338,355
2005-A Series Debt Service	41200	-	-	-	-
2003-B Series-Debt Service	48400	-	-	-	-
2004-A Series-Debt Service	49200	-	-	-	-
2007-A Debt Service	53700	-	-	-	-
2007-A Refunding	53800	-	-	-	-
2005-B2 Series Debt Service	57100	-	-	-	-
2002-A Series-Debt Service	69900	-	-	-	-
2003-A Series-Debt Service	88400	-	163,703	-	163,703
2006-A Series Debt Service	96300	-	162,487	-	162,487
Total debt service		-	326,190	119,338,355	119,664,545
2006A Series-Rebate	01900	-	-	-	-
1999-A Series-Rebate	18500	-	-	-	-
2002-B Supp-Rebate	39200	-	-	-	-
2000-C Series-Rebate	40600	-	-	-	-
2004-B Series-Rebate	41100	-	-	-	-
2003-B Supp-Rebate	42000	-	-	-	-
2004-A Series-Rebate	42700	-	-	-	-
1999-B Series-Rebate	46100	-	-	72,950	72,950
2005-A Series-Rebate	48300	-	-	-	-
2005-B1 Series-Rebate	57000	-	-	-	-
2003-A Series-Rebate	87300	-	-	-	-
2005-B2 Series-Rebate	96000	-	-	-	-
2006-A Series-Rebate	96400	-	-	-	-
Total rebate accounts		-	-	72,950	72,950
Combined total		\$ -	326,190	119,411,305	119,737,495

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

Unreserved- Designated for Debt Service	Fund Equity Unreserved- Designated for Arbitrage	Total Fund Equity	Total Liabilities & Fund Equity
7,001,383	-	7,001,383	7,001,383
1,159,202	-	1,159,202	1,159,202
946	-	946	946
884,915	-	884,915	884,915
10,767	-	10,767	10,767
5,056,552	-	5,056,552	5,056,552
2,131,846	-	2,131,846	2,131,846
22,680,393	-	22,680,393	22,680,393
46,376,816	-	46,376,816	165,715,171
12,232,309	-	12,232,309	12,232,309
1,130,464	-	1,130,464	1,130,464
9,111,226	-	9,111,226	9,111,226
55,631	-	55,631	55,631
28,895,100	-	28,895,100	28,895,100
1,009,918	-	1,009,918	1,009,918
6,809,415	-	6,809,415	6,809,415
7,764,510	-	7,764,510	7,928,213
<u>17,204,009</u>	<u>-</u>	<u>17,204,009</u>	<u>17,366,496</u>
169,515,402	-	169,515,402	289,179,947
-	-	-	-
96	-	96	96
67,515	-	67,515	67,515
334,788	-	334,788	334,788
27,480	-	27,480	27,480
11,115	-	11,115	11,115
56,158	-	56,158	56,158
(56,414)	-	(56,414)	16,536
217,356	-	217,356	217,356
9,725	-	9,725	9,725
107,455	-	107,455	107,455
5,707	-	5,707	5,707
<u>33,991</u>	<u>-</u>	<u>33,991</u>	<u>33,991</u>
<u>814,972</u>	<u>-</u>	<u>814,972</u>	<u>887,922</u>
<u>170,330,374</u>	<u>-</u>	<u>170,330,374</u>	<u>290,067,869</u>

Schedule 5

YEAR ENDED JUNE 30, 2007

	SHARE Fund	Revenues		Expenditures	
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures
2002-A Supp. Series - DS	09500	\$ 302,537	7,144,750	-	7,144,750
2004-B Series Debt Service	18300	198,292	1,244,300	-	1,244,300
1999-A Series-Debt Service	18400	622	-	-	-
2005-B1 Series Debt Service	38800	48,215	1,763,788	-	1,763,788
2000 Series-Debt Service	38900	10,767	-	-	-
2002-B Supp. Series - DS	39000	248,461	613,350	-	613,350
2000-C Series-Debt Service	40500	339,431	2,060,035	-	2,060,035
2001-A Series-Refunding	40800	975,348	23,179,875	-	23,179,875
Severance Tax Bonding	41000	40,745,320	404,137,764	696,250	404,834,014
2005-A Series -Debt Service	41200	3,477,395	19,890,050	-	19,890,050
2003-B Series-Debt Service	48400	46,706	1,129,683	-	1,129,683
2004-A Series-Debt Service	49200	2,064,858	9,397,625	-	9,397,625
2007-A Series-Debt Service	53700	55,631	-	-	-
2007-A Refunding	53800	-	-	-	-
2005-B2 Series Debt Service	57100	28,599	1,040,875	-	1,040,875
2002-A Series-Debt Service	69900	280,576	6,967,463	-	6,967,463
2003-A Series-Debt Service	88400	336,830	8,501,550	-	8,501,550
2006-A Series Debt Service	96300	7,371,945	3,185,223	-	3,185,223
Total debt service		56,531,533	490,256,331	696,250	490,952,581
2006A Series-Rebate	01900	-	-	-	-
1999-A Series-Rebate	18500	1,113	-	-	-
2002-B Supp-Rebate	39200	3,384	-	-	-
2000-C Series Rebate	40600	16,777	-	-	-
2004-B Series-Rebate	41100	1,377	-	-	-
2003-B Supp-Rebate	42000	550	-	-	-
2004-A Series-Rebate	42700	32,335	-	-	-
1999-B Series-Rebate	46100	-	-	453,039	453,039
2005-A Series-Rebate	48300	12,694	-	-	-
2005-B1 Series-Rebate	57000	488	-	-	-
2003-A Series-Rebate	87300	5,385	-	-	-
2005-B2 Series-Rebate	96000	286	-	-	-
2006-A Series-Rebate	96400	33,991	-	-	-
Total Rebate Accounts		108,380	-	453,039	453,039
Combined total		\$ 56,639,913	490,256,331	1,149,289	491,405,620

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

Excess (Deficiency) of Revenues Over Expenditures	Other Financing Sources (Uses)					Severance Tax Permanent Fund Reversions
	Severance Taxes	Bond Proceeds	Transfers to Other State Agencies	Interfund Transfers	Payment to Escrow Agent	
(6,842,213)	-	-	-	7,000,000	-	-
(1,046,008)	-	-	-	1,100,000	-	-
622	-	-	-	(8,535)	-	-
(1,715,573)	-	-	-	1,700,000	-	-
10,767	-	-	-	-	-	-
(364,889)	-	-	-	5,400,000	-	-
(1,720,604)	-	-	-	1,700,000	-	-
(22,204,527)	-	-	-	22,476,867	-	-
(364,088,694)	452,901,377	-	(23,596,504)	(83,642,084)	-	-
(16,412,655)	-	-	-	8,500,000	-	-
(1,082,977)	-	-	-	1,200,000	-	-
(7,332,767)	-	-	-	7,700,000	-	-
55,631	-	-	-	-	-	-
-	-	28,204,800	-	690,300	-	-
(1,012,276)	-	-	-	1,500,000	-	-
(6,686,887)	-	-	-	6,632,834	-	-
(8,164,720)	-	-	-	8,500,000	-	-
4,186,722	-	-	-	9,800,000	-	-
(434,421,048)	452,901,377	28,204,800	(23,596,504)	249,382	-	-
-	-	-	-	-	-	-
1,113	-	-	-	(249,382)	-	-
3,384	-	-	-	-	-	-
16,777	-	-	-	-	-	-
1,377	-	-	-	-	-	-
550	-	-	-	-	-	-
32,335	-	-	-	-	-	-
(453,039)	-	396,625	-	-	-	-
12,694	-	-	-	-	-	-
488	-	-	-	-	-	-
5,385	-	-	-	-	-	-
286	-	-	-	-	-	-
33,991	-	-	-	-	-	-
(344,659)	-	396,625	-	(249,382)	-	-
(434,765,707)	452,901,377	28,601,425	(23,596,504)	-	-	-

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

Schedule 5 - continued

YEAR ENDED JUNE 30, 2007

	SHARE	Total Other	Excess (Deficiency)	Beginning		Beginning	Fund
	Fund	Financing	of Revenues and	Fund Balance	Restatement	Fund Balance	Balances
		Sources (Uses)	Other Financing	as Originally		as Restated	June 30, 2007
			Expenditures	Reported			
			and Other				
			Financing Uses				
2002-A Supp. Series - DS	09500	\$ 7,000,000	157,787	6,843,596	-	6,843,596	7,001,383
2004-B Series Debt Service	18300	1,100,000	53,992	1,105,210	-	1,105,210	1,159,202
1999-A Series-Debt Service	18400	(8,535)	(7,913)	2,038,177	(2,029,318)	8,859	946
2005-B1 Series Debt Service	38800	1,700,000	(15,573)	900,488	-	900,488	884,915
2000 Series-Debt Service	38900	-	10,767	-	-	-	10,767
2002-B Supp. Series - DS	39000	5,400,000	5,035,111	21,441	-	21,441	5,056,552
2000-C Series-Debt Service	40500	1,700,000	(20,604)	2,152,450	-	2,152,450	2,131,846
2001-A Series-Refunding	40800	22,476,867	272,340	22,408,053	-	22,408,053	22,680,393
Severance Tax Bonding	41000	345,662,789	(18,425,905)	64,802,721	-	64,802,721	46,376,816
2005-A Series -Debt Service	41200	8,500,000	(7,912,655)	20,144,964	-	20,144,964	12,232,309
2003-B Series-Debt Service	48400	1,200,000	117,023	1,013,441	-	1,013,441	1,130,464
2004-A Series-Debt Service	49200	7,700,000	367,233	8,743,993	-	8,743,993	9,111,226
2007-A Series-Debt Service	53700	-	55,631	-	-	-	55,631
2007-A Refunding	53800	28,895,100	28,895,100	-	-	-	28,895,100
2005-B2 Series Debt Service	57100	1,500,000	487,724	522,194	-	522,194	1,009,918
2002-A Series-Debt Service	69900	6,632,834	(54,053)	6,863,468	-	6,863,468	6,809,415
2003-A Series-Debt Service	88400	8,500,000	335,280	7,429,230	-	7,429,230	7,764,510
2006-A Series Debt Service	96300	9,800,000	13,986,722	3,217,287	-	3,217,287	17,204,009
Total debt service		457,759,055	23,338,007	148,206,713	(2,029,318)	146,177,395	169,515,402
2006A Series-Rebate	01900	-	-	162,487	(162,487)	-	-
1999-A Series-Rebate	18500	(249,382)	(248,269)	248,365	-	248,365	96
2002-B Supp-Rebate	39200	-	3,384	64,131	-	64,131	67,515
2000-C Series Rebate	40600	-	16,777	318,011	-	318,011	334,788
2004-B Series-Rebate	41100	-	1,377	26,103	-	26,103	27,480
2003-B Supp-Rebate	42000	-	550	10,565	-	10,565	11,115
2004-A Series-Rebate	42700	-	32,335	23,823	-	23,823	56,158
1999-B Series-Rebate	46100	396,625	(56,414)	-	-	-	(56,414)
2005-A Series-Rebate	48300	-	12,694	204,662	-	204,662	217,356
2005-B1 Series-Rebate	57000	-	488	9,237	-	9,237	9,725
2003-A Series-Rebate	87300	-	5,385	102,070	-	102,070	107,455
2005-B2 Series-Rebate	96000	-	286	5,421	-	5,421	5,707
2006-A Series-Rebate	96400	-	33,991	-	-	-	33,991
Total Rebate Accounts		147,243	(197,416)	1,174,875	(162,487)	1,012,388	814,972
Combined total		\$ 457,906,298	23,140,591	149,381,588	(2,191,805)	147,189,783	170,330,374

Schedule 6

YEAR ENDED JUNE 30, 2007

Issue	SHARE Fund	Date	Amount	Interest Rate	Unpaid Balance June 30, 2006
General Obligation and Revenue Bonds:					
Capital Projects - Series 2001	41400	03/01/01	\$ 62,550,000	4.00-5.00%	35,135,000
Enhanced 911 Revenue Bonds - Series 2000	48800	08/01/00	4,545,000	4.35-6.75%	1,455,000
2001-B Refunding	48200	11/01/01	23,830,000	1.80-3.04%	8,415,000
Capital Projects - Series 2003	03100	03/01/03	130,900,000	3.00-5.00%	97,655,000
Refunding Series 2003-B	41800	04/01/03	44,955,000	2.00-5.00%	28,575,000
Series 2005 Debt Service	03200	03/01/05	111,850,000	4.00-5.00%	103,500,000
Series 2007 Debt Service	28800	03/01/07	<u>134,870,000</u>	5.00%	<u>-</u>
Total General Obligation Bonds			513,500,000		274,735,000
Severance Tax Bonds:					
Series 2000-C Supplemental	40500	07/01/00	12,000,000	4.50-5.00%	3,930,000
Series 2001-A Refunding	40800	11/01/01	115,380,000	1.85-3.60%	63,360,000
Series 2002-A	69900	05/01/02	67,000,000	4.00-5.00%	19,440,000
Series 2002-A Supplemental	09500	12/01/01	65,000,000	4.00-5.00%	19,655,000
Series 2002-B Supplemental	39000	11/01/02	45,000,000	2.50-5.00%	33,720,000
Series 2003-A	88400	06/01/03	89,660,000	2.50-5.00%	61,855,000
Series 2003-B Supplemental	48400	11/01/03	10,000,000	2.00-3.70%	8,425,000
Series 2004-A	49200	06/15/04	76,430,000	5.00%	64,810,000
Series 2004-B Supplemental	18300	11/17/04	10,000,000	2.00-5.00%	9,150,000
Series 2005-A	41200	06/15/05	97,000,000	4.00-5.50%	97,000,000
Series 2005B-1 Refunding	38800	06/28/05	37,040,000	3.00-5.00%	37,040,000
Series 2005B-2 Supplemental	57100	06/28/05	21,095,000	3.25-5.00%	21,095,000
Series 2006-A	96400	06/20/06	135,000,000	4.00-5.00%	135,000,000
Series 2007-A	53700	06/28/07	<u>162,840,000</u>	4.00-5.00%	<u>-</u>
Total Severance Tax Bonds			<u>943,445,000</u>		<u>574,480,000</u>
Total General Long-Term Debt			\$ <u>1,456,945,000</u>		<u>849,215,000</u>
Current year bond premiums:			<u>Premium/Discount</u>		
GOB, Capital Projects, 2007 Series			\$ 8,393,790		
STB Series 2007A			<u>2,061,510</u>		
Total current year bond premiums			\$ <u>10,455,300</u>		

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

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

New Bonds	Reductions			Unpaid Balance June 30, 2007	Interest to Maturity	Debt Service Requirements
	Refunded Debt	Principal Payments	Total Reductions			
-	-	6,370,000	6,370,000	28,765,000	3,095,038	31,860,038
-	-	710,000	710,000	745,000	16,763	761,763
-	-	8,415,000	8,415,000	-	-	-
-	-	12,130,000	12,130,000	85,525,000	12,424,200	97,949,200
-	-	9,060,000	9,060,000	19,515,000	987,875	20,502,875
-	-	9,440,000	9,440,000	94,060,000	22,332,250	116,392,250
<u>134,870,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,870,000</u>	<u>36,420,750</u>	<u>171,290,750</u>
134,870,000	-	46,125,000	46,125,000	363,480,000	75,276,876	438,756,876
-	-	1,915,000	1,915,000	2,015,000	50,375	2,065,375
-	-	20,525,000	20,525,000	42,835,000	2,365,875	45,200,875
-	-	6,165,000	6,165,000	13,275,000	671,875	13,946,875
-	-	6,320,000	6,320,000	13,335,000	672,875	14,007,875
-	-	4,140,000	4,140,000	29,580,000	3,739,350	33,319,350
-	-	6,475,000	6,475,000	55,380,000	6,622,337	62,002,337
-	-	880,000	880,000	7,545,000	950,319	8,495,319
-	-	6,315,000	6,315,000	58,495,000	12,311,625	70,806,625
-	-	910,000	910,000	8,240,000	1,547,050	9,787,050
-	-	16,050,000	16,050,000	80,950,000	15,748,175	96,698,175
-	-	-	-	37,040,000	6,321,031	43,361,031
-	-	-	-	21,095,000	3,671,563	24,766,563
-	-	-	-	135,000,000	31,209,019	166,209,019
<u>162,840,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,840,000</u>	<u>30,810,200</u>	<u>193,650,200</u>
<u>162,840,000</u>	<u>-</u>	<u>69,695,000</u>	<u>69,695,000</u>	<u>667,625,000</u>	<u>116,691,669</u>	<u>784,316,669</u>
<u>297,710,000</u>	<u>-</u>	<u>115,820,000</u>	<u>115,820,000</u>	<u>1,031,105,000</u>	<u>191,968,545</u>	<u>1,223,073,545</u>

Schedule 6 - continued

YEAR ENDED JUNE 30, 2007

Issue	2008	2009	2010
General Obligation Bonds:			
Capital Projects - Series 2001	\$ 7,882,037	7,939,638	7,995,475
Enhanced 911 Revenue Bonds - Series 2000	761,763	-	-
Capital Projects - Series 2003	16,111,000	16,193,400	16,277,200
Refunding Series 2003-B	10,252,875	10,250,000	-
Series 2005	14,603,000	14,588,000	14,574,000
Series 2007	<u>14,096,750</u>	<u>17,467,250</u>	<u>17,464,250</u>
Total General Obligation Bonds	63,707,425	66,438,288	56,310,925
Severance Tax Bonds:			
Series 2000-C Supplemental	2,065,375	-	-
Series 2001-A Refunding	23,157,875	17,307,500	4,735,500
Series 2002-A Supplemental	7,048,125	6,959,750	-
Series 2002-A	6,976,875	6,970,000	-
Series 2002-B Supplemental	5,467,950	5,482,900	5,525,700
Series 2003-A	8,494,675	8,557,575	8,697,975
Series 2003-B Supplemental	1,154,376	1,175,633	1,195,720
Series 2004-A	9,208,625	9,047,250	8,911,750
Series 2004-B	1,243,575	1,240,075	1,243,500
Series 2005-A	12,289,175	10,353,325	10,335,475
Series 2005-B1	1,763,788	7,531,087	9,742,700
Series 2005-B2	1,040,875	1,040,875	7,634,062
Series 2006-A	16,401,938	16,570,688	16,557,188
Series 2007-A	<u>40,611,875</u>	<u>21,117,625</u>	<u>16,487,625</u>
Total Severance Tax Bonds	<u>136,925,102</u>	<u>113,354,283</u>	<u>91,067,195</u>
Total Debt Service Requirements	\$ <u>200,632,527</u>	<u>179,792,571</u>	<u>147,378,120</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

<u>Year Ending June 30,</u>			
<u>2011</u>	<u>2012</u>	<u>2013 - 2017</u>	<u>Total</u>
8,042,888	-	-	31,860,038
-	-	-	761,763
16,366,400	16,454,800	16,546,400	97,949,200
-	-	-	20,502,875
14,559,750	14,544,000	43,523,500	116,392,250
<u>17,463,250</u>	<u>17,467,750</u>	<u>87,331,500</u>	<u>171,290,750</u>
56,432,288	48,466,550	147,401,400	438,756,876
-	-	-	2,065,375
-	-	-	45,200,875
-	-	-	14,007,875
-	-	-	13,946,875
5,569,100	5,612,700	5,661,000	33,319,350
8,842,350	8,995,175	18,414,587	62,002,337
1,217,482	1,231,976	2,520,132	8,495,319
8,805,250	8,735,500	26,098,250	70,806,625
1,243,650	1,232,500	3,583,750	9,787,050
10,378,000	10,458,400	42,883,800	96,698,175
8,119,056	8,104,975	8,099,425	43,361,031
7,559,688	7,491,063	-	24,766,563
16,544,438	16,591,963	83,542,804	166,209,019
<u>16,470,875</u>	<u>16,519,700</u>	<u>82,442,500</u>	<u>193,650,200</u>
<u>84,749,889</u>	<u>84,973,952</u>	<u>273,246,248</u>	<u>784,316,669</u>
<u>141,182,177</u>	<u>133,440,502</u>	<u>420,647,648</u>	<u>1,223,073,545</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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

Schedule 6 - continued

YEAR ENDED JUNE 30, 2007

	Date	Original Cost	Amortization		Accumulated Amortization June 30, 2007	Net Book Value June 30, 2007
			Accumulated Amortization June 30, 2006	Current Amortization Expense		
GENERAL OBLIGATION:						
Capital Projects - Series 1999	03/01/99	\$ 184,559	135,344	18,456	153,800	30,759
Capital Projects - Series 2001	03/01/01	142,706	76,112	14,271	90,383	52,323
Refunding Series 2001-A Enhanced 911 Revenue	09/01/01	76,692	30,890	6,391	37,281	39,411
Bonds - Series 2000	08/01/00	10,369	7,668	1,296	8,964	1,405
2001-B Refunding	11/01/01	156,167	121,464	26,028	147,492	8,675
Capital Projects - Series 2003	03/01/03	898,030	272,130	81,639	353,769	544,261
2003-B Refunding	04/01/03	187,165	121,657	37,433	159,090	28,075
Series 2005	01/11/05	801,503	160,300	80,150	240,450	561,053
Series 2007	03/01/07	463,806	-	46,380	46,380	417,426
SEVERANCE:						
Series 1999-A Supplemental	10/01/99	27,378	23,099	3,422	26,521	857
Series 1999-B	06/15/99	115,597	115,597	15,137	130,734	(15,137)
Series 2000	06/01/00	136,090	103,484	17,011	120,495	15,595
Series 2000-C Supplemental	07/01/00	27,378	20,532	3,422	23,954	3,424
Series 2001-A Refunding	11/01/01	491,432	254,818	54,604	309,422	182,010
Series 2002-A	05/01/02	201,625	76,375	18,330	94,705	106,920
Series 2002-A Supplemental	12/01/01	323,200	148,133	32,320	180,453	142,747
Series 2003-A Refunding	06/01/03	229,530	64,337	20,866	85,203	144,327
Series 2002-B Supplemental	11/01/02	206,444	68,816	18,768	87,584	118,860
Series 2003-B Supplemental	11/01/03	33,445	6,690	3,345	10,035	23,410
Series 2004-A	06/15/04	158,974	31,794	15,897	47,691	111,283
Series 2004-B	11/17/04	127,805	25,562	12,781	38,343	89,462
Series 2005-A	05/12/05	565,863	113,172	56,586	169,758	396,105
Series 2005-B1 Refunding	06/28/05	399,646	114,184	57,092	171,276	228,370
Series 2005-B2 Supplemental	06/28/05	110,254	36,752	18,376	55,128	55,126
Series 2006A	06/20/06	346,002	34,601	34,601	69,202	276,800
Series 2007A	06/28/07	325,710	-	31,020	31,020	294,690
		<u>6,747,370</u>	<u>2,163,511</u>	<u>725,622</u>	<u>2,889,133</u>	<u>3,858,237</u>
BALANCES, JUNE 30, 2007		\$ <u>6,747,370</u>	<u>2,163,511</u>	<u>725,622</u>	<u>2,889,133</u>	<u>3,858,237</u>

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

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

Schedule 6 – continued

ADDITIONAL INFORMATION RELATED TO LONG-TERM DEBT OBLIGATIONS:

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

GENERAL OBLIGATION BONDS:

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

The following General Obligation Bonds were issued during the fiscal year ended June 30, 2007:

On March 1, 2007, the State Board of Finance issued bonds with a principal amount of \$134,870,000 to finance public capital projects. The interest rate is 5 percent (5%), with principal payments due through 2017.

The annual requirements to amortize the combined General Obligation Bond issues outstanding as of June 30, 2007, including interest payments, are as follows (see details on Schedule 6):

Years ending June 30:

2008	\$ 63,707,425
2009	66,438,288
2010	56,310,925
2011	56,432,288
2012	48,466,550
2013 - 2017	<u>147,401,400</u>
	<u>\$ 438,756,876</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, 2007:

Severance Tax Bonds Supplemental Series

On June 28, 2007, the State Board of Finance issued bonds with a principal amount of \$162,840,000 to finance public capital projects. Interest rates range from four percent to five percent (4% to 5%), with principal payments due through 2017.

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

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

Schedule 6 – 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, 2007, including interest payments, are as follows (see details on Schedule 6, page 3):

Years ending June 30:

2008	\$	136,925,102
2009		113,354,283
2010		91,067,195
2011		84,749,889
2012		84,973,952
2013 - 2017		<u>273,246,248</u>
	\$	<u>784,316,669</u>

ADVANCE AND CURRENT REFUNDINGS:

The State Board of Finance refunded 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 refunded bonds are not included in the summary of long-term debt obligations in Schedule 6 of this report.

As of June 30, 2007, the amount of refunded 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
--	----	------------

Severance Tax Bonds, Series 2007A:

Severance Tax Bonds, Series 2001A Refunding	\$	21,280,000
Severance Tax Bonds, Series 2002A	\$	6,800,000

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

Schedule 7

Schedule of Investments - Fiduciary Funds

YEAR ENDED JUNE 30, 2007

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
GENERAL FUND:						
Flex				\$ -	-	-
Overnight				<u>519,155,701</u>	<u>519,155,701</u>	-
Repurchase Agreements	Various	Various	Various	\$ <u>519,155,701</u>	<u>519,155,701</u>	-
Certificates of Deposit	Various	Various	Various	\$ <u>245,000,000</u>	<u>245,000,000</u>	-
Institutional Money Market	Various	Various	Various	\$ <u>100,000,000</u>	<u>100,000,000</u>	-
Fixed Income Governmental Obligations:						
FMCDN	5.484%	07/21/06	07/11/07	\$ 104,835,092	104,863,500	28,408
Federal Home Loan Banks	3.912%	03/04/05	08/15/07	10,002,981	9,986,291	(16,690)
FFCB 2nd	4.911%	12/20/06	10/23/09	20,066,128	19,918,800	(147,328)
Federal Home Loan Banks Bullet	4.116%	04/20/05	09/26/07	10,000,000	9,968,800	(31,200)
FNMA 2nd	5.186%	04/30/07	06/15/08	9,758,320	9,743,800	(14,520)
Federal Home Loan Mortgage Discount	5.289%	09/20/06	09/18/07	25,713,422	25,714,000	578
Federal Nat Mtg Assn	3.599%	02/11/05	07/15/07	10,002,625	9,996,900	(5,725)
Federal Nat Mtg Assn Medterm NT	4.765%	07/20/05	07/20/07	25,000,000	24,992,250	(7,750)
Federal Nat Mtg Assn Medterm NT	4.360%	08/09/05	08/09/07	25,000,000	24,968,750	(31,250)
Federal Home LN BKS	3.797%	02/25/05	08/15/07	10,000,000	9,981,300	(18,700)
Federal Home Banks	4.497%	10/11/05	10/01/07	25,000,000	24,937,500	(62,500)
Federal Home Bank	4.014%	06/20/05	10/05/07	19,967,907	19,893,800	(74,107)
Federal Nat Assn Medterm NT	3.589%	11/19/04	11/09/07	14,990,344	14,896,950	(93,394)
Federal Home Loan Banks 2nd	4.525%	10/04/05	11/15/07	24,909,404	24,828,250	(81,154)
Federal Home Loan Banks 2nd	4.551%	10/13/05	12/03/07	25,122,181	25,060,250	(61,931)
Federal Nat Assn Medterm NT	5.245%	09/20/06	12/03/07	10,002,355	9,993,800	(8,555)
Federal Home Loan Banks	5.099%	09/22/06	01/18/08	35,921,133	35,853,840	(67,293)
Federal Home Loan Banks	5.123%	09/22/06	02/13/08	26,119,404	26,065,475	(53,929)
Federal Home Loan Banks	5.032%	09/22/06	03/14/08	35,452,782	35,358,840	(93,942)
Federal Home Loan Mortgage Corp	5.034%	09/22/06	04/15/08	36,213,676	36,112,680	(100,996)
Federal Nat MTG Assn	5.012%	09/25/06	05/15/08	20,177,507	20,112,600	(64,907)
Federal Nat MTG Assn 2nd	5.194%	04/30/07	05/15/08	10,073,409	10,056,300	(17,109)
FHLB 2nd	5.185%	02/26/07	06/13/08	19,794,922	19,762,600	(32,322)
FMNA 2nd	5.134%	04/30/07	07/15/08	9,880,633	9,859,400	(21,233)
FHLMC 2nd	5.182%	02/26/07	07/23/08	19,976,588	19,941,400	(35,188)
FHLMC 2nd	5.052%	03/28/07	08/04/08	9,948,742	9,917,900	(30,842)
FHLB 2nd	5.134%	04/30/07	08/08/08	10,005,944	10,005,944	-
FHLB 2nd	5.042%	03/28/07	08/14/08	10,029,278	9,996,900	(32,378)
FHLMC 2nd	5.111%	01/02/07	09/15/08	19,670,909	19,618,800	(52,109)
FMNA 2nd	5.093%	04/30/07	09/15/08	9,968,800	9,968,800	-
FMNA 2nd	5.085%	01/02/07	10/15/08	19,871,361	19,818,800	(52,561)
Federal Home Loan Mtg 2nd	5.066%	04/30/07	10/15/08	10,015,053	9,996,900	(18,153)
FHLMC 2nd	4.992%	03/28/07	11/03/08	19,992,554	19,919,000	(73,554)
Federal Home Banks 2nd	5.042%	04/30/07	11/14/08	9,822,886	9,787,500	(35,386)
FHLB 2nd	4.945%	03/28/07	12/12/08	19,964,341	19,862,600	(101,741)
FHLB 2nd	5.049%	04/30/07	12/19/08	9,950,129	9,912,500	(37,629)

See Independent Auditors' Report.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 7

Schedule of Investments - Fiduciary Funds - continued

YEAR ENDED JUNE 30, 2007

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
GENERAL FUND:						
Fixed Income Governmental Obligation - continued:						
Federal Home Loan Bank 2nd	5.405%	02/22/07	01/16/09	\$ 19,990,357	20,000,000	9,643
FHLMC 2nd	5.009%	04/30/07	01/16/09	10,008,570	9,971,900	(36,670)
FHLMC 2nd	4.994%	04/30/07	02/17/09	9,991,529	9,943,800	(47,729)
FHLMC	5.374%	02/27/07	02/27/09	20,000,000	19,970,800	(29,200)
Federal Home Loan Mtg Corp 2nd	4.929%	12/20/06	03/15/09	20,286,448	20,168,800	(117,648)
Federal Home Loan Bank BD	4.897%	12/20/06	04/15/09	19,378,104	19,256,200	(121,904)
FHLMC 2nd	4.923%	12/20/06	05/21/09	20,139,730	20,012,600	(127,130)
FHLMC 2nd	5.155%	05/24/07	05/21/09	10,029,024	10,006,300	(22,724)
Federal Nat Mortgage Assn	4.897%	12/20/06	06/15/09	20,570,263	20,437,600	(132,663)
Federal Nat Mortgage Assn	5.153%	05/24/07	06/15/09	10,237,850	10,218,800	(19,050)
FHLB 2nd	4.908%	12/20/06	07/17/09	20,205,247	20,075,000	(130,247)
FHLB 2nd	5.133%	05/24/07	07/17/09	10,059,669	10,037,500	(22,169)
FNMA 2nd	5.129%	05/24/07	08/15/09	10,062,285	10,037,500	(24,785)
FHLB 2nd	4.866%	12/20/06	08/18/09	19,578,478	19,437,600	(140,878)
Federal Home Loan Mortgage Corp 2nd	4.917%	12/20/06	09/15/09	20,733,095	20,587,600	(145,495)
FMNA 2nd	5.163%	05/24/07	09/15/09	10,315,395	10,293,800	(21,595)
FHLMC 2nd	4.897%	12/20/06	11/03/09	19,963,748	19,806,200	(157,548)
FMNA 2nd	5.405%	02/02/07	11/20/09	24,925,969	24,929,750	3,781
FHLMC 2nd	4.870%	12/20/06	12/15/09	19,631,397	19,456,200	(175,197)
FHLMC 2nd	5.208%	05/31/07	12/15/09	9,740,337	9,728,100	(12,237)
FHLMC 2nd	5.435%	02/02/07	01/11/10	24,934,640	24,931,250	(3,390)
FMNA	5.483%	02/14/07	01/14/10	25,000,000	24,976,500	(23,500)
FMNA 2nd	5.404%	02/26/07	02/26/10	24,979,785	24,937,500	(42,285)
FHLB 2nd	4.852%	03/28/07	03/12/10	20,043,202	19,843,800	(199,402)
Federal Home Loan Corp 2nd	5.224%	05/31/07	03/15/10	10,460,551	10,446,900	(13,651)
FMNA 2nd	5.402%	05/16/07	04/16/10	24,979,939	24,929,750	(50,189)
FHLB	5.605%	06/14/07	05/07/10	14,890,212	14,948,400	58,188
FMNA 2nd	4.975%	05/16/07	05/15/10	14,688,307	14,573,400	(114,907)
Federal Nationa Mortgage Assn 2nd	5.230%	05/31/07	06/15/10	15,799,497	15,778,200	(21,297)
FHLMC 2nd	5.222%	05/31/07	07/12/10	14,573,037	14,554,650	(18,387)
FMNA 2nd	5.199%	05/31/07	08/15/10	14,623,387	14,592,150	(31,237)
Federal Home Loan Mortgage Corp 2nd	5.224%	05/31/07	09/15/10	15,753,784	15,709,706	(44,078)
Total Fixed Income Governmental Obligations				1,279,794,646	1,276,271,976	(3,522,670)

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 7 - continued

Schedule of Investments - Fiduciary Funds - continued

YEAR ENDED JUNE 30, 2007

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
GENERAL FUND - continued:						
Financial Obligations:						
Rhine CP 2nd	5.410%	05/30/07	07/02/07	\$ 22,366,400	22,366,400	-
McGraw Hill	5.390%	05/30/07	07/02/07	24,992,653	24,992,653	-
Gotham 2nd	5.368%	05/30/07	07/13/07	29,943,017	29,943,017	-
NIEUW	5.388%	05/30/07	07/13/07	29,942,800	29,942,800	-
High Grade 2nd	5.393%	05/30/07	07/19/07	29,916,400	29,916,400	-
ERSTE	5.392%	05/30/07	07/31/07	29,863,858	29,863,858	-
Golden Key 2nd	5.382%	05/30/07	08/13/07	29,807,500	29,807,500	-
KOMUNAL	5.392%	05/30/07	08/13/07	29,807,133	29,807,133	-
Pasa Funding 2nd	5.398%	05/30/07	08/14/07	25,398,577	25,398,577	-
Times Square 2nd	5.399%	05/31/07	09/04/07	29,711,250	29,711,250	-
Capital	5.409%	05/31/07	09/04/07	29,710,700	29,710,700	-
NATEXIS	5.368%	05/31/07	09/04/07	29,712,900	29,712,900	-
EBURy	5.389%	05/31/07	09/05/07	29,707,433	29,707,433	-
CIT	5.394%	05/31/07	09/11/07	29,681,233	29,681,233	-
Panterra 2nd	5.416%	05/31/07	09/13/07	29,671,250	29,671,250	-
10	5.416%	05/31/07	09/13/07	11,335,407	11,335,407	-
Total Financial Obligations:				<u>441,568,511</u>	<u>441,568,511</u>	<u>-</u>
Corporate Obligations - Non-Oil Industrials:						
Wells Fargo	5.582%	06/19/07	06/18/10	10,000,000	10,000,000	-
Total Non-Oil Industrials				10,000,000	10,000,000	-
Municipal Bonds						
City of Albuquerque G02007A Sponge	5.255%	06/29/07	07/02/07	36,000,000	36,000,000	-
Total Municipal Bonds:				<u>36,000,000</u>	<u>36,000,000</u>	<u>-</u>
TOTAL - ALL SECURITIES - GENERAL FUND				\$ <u>2,631,518,858</u>	<u>2,627,996,188</u>	<u>(3,522,670)</u>
LOCAL GOVERNMENT INVESTMENT POOL:						
LGIP Bank Account	Various	Various	Various	\$ 637,134	637,134	-
Institutional Money Market	Various	Various	Various	\$ 582,700,000	582,700,000	-
Fixed Income Governmental Obligations:						
FHLMC 2nd	5.362%	05/17/07	01/28/08	\$ 6,613,960	6,609,895	(4,065)
FHLB 2nd	5.339%	05/17/07	04/30/08	7,158,536	7,151,050	(7,486)
FHLB	5.379%	05/29/07	05/29/08	49,995,333	49,969,000	(26,333)
Total Fixed Income Governmental Obligations				63,767,829	63,729,945	(37,884)

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 7 - continued

Schedule of Investments - Fiduciary Funds - continued

YEAR ENDED JUNE 30, 2007

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
LOCAL GOVERNMENT INVESTMENT POOL - continued:						
Financial Obligations:						
Alpine Security	5.356%	05/07/07	07/02/07	\$ 19,994,178	19,994,178	-
Five Finance 2nd	5.380%	05/07/07	07/05/07	5,595,909	5,595,909	-
IMG American 2nd	5.373%	04/12/07	07/10/07	19,970,944	19,970,944	-
Abbey National	5.364%	05/07/07	07/12/07	19,965,067	19,965,067	-
Five Finance 2nd	5.389%	02/16/07	07/16/07	12,471,111	12,471,111	-
Old Line FNDG	5.367%	06/20/07	07/20/07	18,048,004	18,048,004	-
SEDNA Finance 2nd	5.372%	05/07/07	08/03/07	19,901,211	19,901,211	-
CRC FNDG 2nd	5.377%	06/21/07	08/03/07	6,128,345	6,128,345	-
Old Line FNDG	5.381%	06/20/07	08/06/07	10,812,118	10,812,118	-
ATONIUN 2nd	5.396%	05/07/07	08/08/07	19,886,250	19,886,250	-
EUREKA Security 2nd	5.376%	06/20/07	08/13/07	19,871,422	19,871,422	-
CAFCO 2nd	5.377%	06/20/07	08/14/07	19,868,500	19,868,500	-
BASF 2nd	5.361%	05/07/07	08/17/07	19,861,067	19,861,067	-
CIESCO 2nd	5.378%	06/21/07	08/17/07	9,929,867	9,929,867	-
INTESSA FNDG 2nd	5.396%	06/20/07	09/14/07	14,339,139	14,339,139	-
DEXIA Delaware 2nd	5.389%	06/20/07	09/18/07	17,790,200	17,790,200	-
ATOMIUM FNDG 2nd	5.415%	06/21/07	09/20/07	9,879,961	9,879,961	-
APRECO	5.396%	06/20/07	09/21/07	19,757,917	19,757,917	-
NEW CNTR Assets	5.376%	06/21/07	10/19/07	19,678,717	19,678,717	-
SANTANDER CENT	5.399%	06/21/07	10/22/07	19,668,767	19,668,767	-
Total Financial Obligations:				<u>323,418,694</u>	<u>323,418,694</u>	<u>-</u>
TOTAL - ALL SECURITIES - LOCAL GOVERNMENT INVESTMENT POOL				\$ <u>970,523,657</u>	<u>970,485,773</u>	<u>(37,884)</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 7 - continued

Schedule of Investments - Fiduciary Funds - continued

YEAR ENDED JUNE 30, 2007

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
CONSOLIDATED:						
Institutional Money Market	Various	Various	Various	\$ <u>170,000,000</u>	<u>170,000,000</u>	<u>-</u>
U S Treasury Notes:						
US Treasury Notes 2nd	4.818%	02/27/07	11/15/08	\$ 5,000,000	4,959,000	41,000
US Treasury Notes 2nd	4.785%	02/27/07	12/31/08	5,000,000	4,984,750	15,250
US Treasury Notes 2nd	4.787%	02/27/07	01/31/09	5,000,000	4,993,350	6,650
US Treasury Notes 2nd	5.027%	11/08/06	07/31/07	15,000,000	14,989,500	10,500
US Treasury Notes 2nd	5.042%	11/08/06	08/15/07	15,000,000	14,970,750	29,250
US Treasury Notes 2nd	4.964%	09/21/06	08/31/07	14,700,000	14,678,244	21,756
US Treasury Notes 2nd	5.015%	11/08/06	09/30/07	15,000,000	14,967,150	32,850
US Treasury Notes 2nd	4.970%	11/08/06	10/31/07	15,000,000	14,968,350	31,650
US Treasury Notes 2nd	5.102%	02/01/07	11/15/07	15,000,000	14,894,550	105,450
US Treasury Notes 2nd	5.063%	02/01/07	12/31/07	9,500,000	9,475,490	24,510
US Treasury Notes 2nd	5.022%	04/11/07	02/15/08	3,970,000	3,929,982	40,018
US Treasury Notes 2nd	5.052%	02/23/07	02/29/08	35,000,000	34,904,450	95,550
US Treasury Notes 2nd	4.974%	04/11/07	03/31/08	3,970,000	3,958,209	11,791
US Treasury Notes 2nd	4.965%	04/11/07	04/30/08	3,970,000	3,964,720	5,280
US Treasury Notes 2nd	4.941%	04/11/07	05/15/08	3,970,000	3,989,850	(19,850)
US Treasury Notes 2nd	4.898%	04/11/07	06/30/08	3,970,000	3,973,731	(3,731)
US Treasury Notes 2nd	4.879%	04/11/07	07/31/08	3,970,000	3,968,769	1,231
US Treasury Notes 2nd	4.874%	04/11/07	08/31/08	3,970,000	3,963,806	6,194
US Treasury Notes 2nd	4.845%	04/18/07	09/15/08	3,970,000	3,884,406	85,594
US Treasury Notes 2nd	4.821%	04/18/07	10/15/08	3,970,000	3,879,761	90,239
US Treasury Notes 2nd	4.805%	04/18/07	11/15/08	3,970,000	3,957,296	12,704
US Treasury Notes 2nd	4.765%	04/18/07	12/31/08	3,970,000	3,957,891	12,109
US Treasury Notes 2nd	4.735%	04/18/07	01/31/09	3,970,000	3,964,719	5,281
US Treasury Notes 2nd	4.742%	04/18/07	02/15/09	3,970,000	3,942,407	27,593
US Treasury Notes 2nd	4.689%	04/18/07	03/31/09	<u>3,970,000</u>	<u>3,941,146</u>	<u>28,854</u>
Total US Treasury Notes				204,780,000	204,062,277	717,723
Fixed Income Governmental Obligations:						
FNDN	5.234%	11/15/06	07/13/07	10,000,000	9,984,000	16,000
FNDN	5.216%	11/15/06	08/17/07	10,000,000	9,935,000	65,000
FMNA DN 2nd	5.291%	01/12/07	09/04/07	10,000,000	9,895,000	105,000
Fed Hm Ln Mtg Corp DN	5.194%	11/15/06	10/16/07	10,000,000	9,850,000	150,000
FNMA	5.242%	11/15/06	11/15/07	10,000,000	9,921,900	78,100
Fed Nat Mtg Assn Medtrn-NT	5.222%	11/15/06	12/03/07	10,000,000	9,993,800	6,200
Fed Home Ln Banks	5.167%	11/15/06	01/18/08	10,000,000	9,959,400	40,600
FHLMC 2nd	5.257%	01/12/07	02/15/08	10,000,000	9,893,800	106,200
FHLMC	5.053%	11/15/06	03/15/08	10,000,000	9,821,900	178,100
FHLB	5.064%	11/15/06	04/18/08	10,000,000	9,906,300	93,700
Fed Nat Mtg Assn	5.047%	11/15/06	05/15/08	10,000,000	10,056,300	(56,300)
FHLMC	5.023%	11/15/06	06/15/08	10,000,000	9,868,800	131,200
FMNA 2nd	5.230%	01/23/07	06/16/08	5,000,000	4,946,900	53,100
FNMA	5.005%	11/15/06	07/15/08	10,000,000	9,859,400	140,600
FHLB	5.001%	11/15/06	08/08/08	10,000,000	9,984,400	15,600
FHLMC	4.982%	11/15/06	09/15/08	10,000,000	9,809,400	190,600

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, 2007

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
CONSOLIDATED - continued:						
Fixed Income Governmental Obligations - continued:						
Fed Hm Ln Mtg Corp	4.926%	12/18/06	10/15/08	\$ 10,000,000	9,996,900	3,100
FMNA 2nd	5.143%	01/23/07	10/15/08	5,000,000	4,954,700	45,300
Fed Hm Ln BKS	4.919%	12/18/06	11/14/08	10,000,000	9,787,500	212,500
Fed Nat Mtg Assn Medtrn-NT	4.918%	12/18/06	12/15/08	10,000,000	9,743,800	256,200
FMNA 2nd	4.785%	05/29/07	01/02/09	10,000,000	9,987,500	12,500
Fed Nat Mtg Assn	4.860%	12/18/06	01/15/09	10,000,000	10,000,000	-
FHLMC	4.878%	12/18/06	02/17/09	10,000,000	10,009,362	(9,362)
Fed Hm Ln Mtg Corp	4.877%	12/18/06	03/15/09	10,000,000	9,831,000	169,000
Fed Nat Mtg Assn Medtrn-NT	4.839%	12/18/06	04/15/09	10,000,000	9,943,800	56,200
FHLB 2nd	5.062%	12/29/06	05/06/09	10,000,000	10,109,400	(109,400)
FHLB 2nd	5.579%	05/29/07	05/21/09	10,000,000	9,996,900	3,100
FHLB 2nd	5.131%	01/23/07	06/12/09	5,000,000	5,004,700	(4,700)
FHLB 2nd	5.125%	01/23/07	06/12/09	1,000,000	1,000,940	(940)
Fed Nat Mtg Assn 2nd	5.051%	01/12/07	06/15/09	10,000,000	10,218,800	(218,800)
FMNA 2nd	5.047%	12/29/07	07/29/09	10,000,000	9,868,800	131,200
FHLB 2nd	5.037%	12/29/07	08/14/09	10,000,000	9,865,600	134,400
FHLB 2nd	5.055%	12/29/07	11/09/09	10,000,000	9,834,400	165,600
FMNA 2nd	5.110%	01/23/07	11/15/09	14,000,000	14,411,320	(411,320)
FHLB 2nd	5.042%	12/29/07	11/13/09	9,666,000	9,406,425	259,575
FHLB 2nd	5.378%	02/12/07	11/15/09	5,000,000	4,990,650	9,350
FHLB 2nd	5.052%	12/29/07	12/11/09	10,000,000	9,956,300	43,700
FMNA 2nd	5.588%	05/29/07	12/21/09	10,000,000	9,987,500	12,500
FMNA 2nd	5.410%	02/14/07	12/28/09	5,000,000	4,987,500	12,500
FHLB 2nd	5.440%	02/12/07	01/22/10	5,000,000	4,990,650	9,350
FMNA 2nd	5.458%	02/12/07	02/12/10	5,000,000	4,990,650	9,350
FNMA Discount 2nd	5.230%	05/18/07	08/15/07	3,340,000	3,318,127	21,873
Fed Nat Mtg Assn Medtrn-NT 2nd	5.227%	12/20/06	12/03/07	15,000,000	14,990,700	9,300
FMNA 2nd	5.190%	12/20/06	01/18/08	15,000,000	14,873,400	126,600
FNMA Discount 2nd	5.259%	05/18/07	02/01/08	9,526,000	9,240,220	285,780
FNMA Discount 2nd	5.258%	05/18/07	02/29/08	13,300,000	12,849,130	450,870
FNMA Discount 2nd	5.273%	05/18/07	03/23/08	6,050,000	5,822,520	227,480
FNCDN 2nd	5.262%	05/18/07	04/18/08	6,050,000	5,804,975	245,025
FMNA 2nd	5.282%	05/18/07	05/15/08	4,270,000	4,294,040	(24,040)
FMNA 2nd	5.224%	05/17/07	06/15/08	6,050,000	6,046,249	3,751
FMNA 2nd	5.208%	05/17/07	07/15/08	6,050,000	5,964,937	85,063
FHLB 2nd	5.178%	05/17/07	08/21/08	6,050,000	6,040,562	9,438
FFCB 2nd	4.881%	04/25/07	04/13/07	3,970,000	3,970,705	(705)
FHLB 2nd	4.907%	04/25/07	05/06/09	3,970,000	4,013,430	(43,430)
Fed Nat Mtg Assn	4.870%	04/25/07	06/15/09	3,970,000	4,056,862	(86,862)
FFCB 2nd	4.864%	04/25/07	07/20/09	3,970,000	3,984,886	(14,886)
FHLB 2nd	4.859%	04/25/07	08/05/09	3,970,000	3,976,193	(6,193)
Fed Nat Mtg Assn 2nd	4.860%	04/25/07	09/15/09	3,970,000	4,086,638	(116,638)

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, 2007

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
CONSOLIDATED - continued:						
Fixed Income Governmental Obligations - continued:						
FHLMC 2nd	4.838%	04/26/07	11/03/09	\$ 3,970,000	3,931,530	38,470
FFCB 2nd	4.891%	04/26/07	12/16/09	3,970,000	3,931,530	38,470
FMNA 2nd	4.859%	04/26/07	01/15/10	3,970,000	4,161,076	(191,076)
FHLB 2nd	4.871%	06/26/07	02/12/10	<u>3,970,000</u>	<u>3,898,045</u>	<u>71,955</u>
Total Fixed Income Governmental Obligations - Consolidated				<u>500,052,000</u>	<u>496,817,152</u>	<u>3,234,848</u>
Financial Obligations:						
Aspen 2nd	5.377%	05/18/07	07/25/07	4,100,000	4,085,052	14,948
Five Finance 2nd	5.377%	05/18/07	08/08/07	<u>4,100,000</u>	<u>4,076,726</u>	<u>23,274</u>
Total Commercial Paper				<u>8,200,000</u>	<u>8,161,778</u>	<u>38,222</u>
Repurchase Agreements						
Flex				13,876,318	13,876,318	-
Overnight				<u>671,844,299</u>	<u>671,844,299</u>	-
Repurchase Agreements	Various	Various	Various	<u>685,720,617</u>	<u>685,720,617</u>	-
TOTAL - ALL SECURITIES - CONSOLIDATED				<u>\$ 1,568,752,617</u>	<u>1,564,761,824</u>	<u>3,990,793</u>
Summary of Flex and Repurchase Agreements:						
Repurchase Agreements - Flex				\$ 13,876,318	13,876,318	-
Repurchase Agreements - Overnight				<u>1,191,000,000</u>	<u>1,191,000,000</u>	-
Total Repurchase Agreements				<u>1,204,876,318</u>	<u>1,204,876,318</u>	-
Certificates of Deposit				245,000,000	245,000,000	-
Institutional Money Markets				852,700,000	852,700,000	-
Cash account				637,134	637,134	-
Fixed Income Governmental Obligations				2,048,394,475	2,040,881,350	(7,513,125)
Corporate Obligations - Non-Oil Industrials				10,000,000	10,000,000	-
Financial Obligations				764,987,205	773,148,983	8,161,778
Municipal Bonds				<u>36,000,000</u>	<u>36,000,000</u>	-
Grand Total of All Funds				<u>\$ 5,162,595,132</u>	<u>5,163,243,785</u>	<u>648,653</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 8

Combining Statement of Fiduciary Net Assets

AS OF JUNE 30, 2007

	Investment Trust Funds			Total (Memorandum Only)
	Short-term Investment Pool	Consolidated Investment Pool	State Funds Investment Pool	
ASSETS:				
Cash and investments:				
Cash in banks	\$ 637,134	50,056,589	-	50,693,723
Certificates of Deposit	-	-	245,000,000	245,000,000
Institutional Money Market	582,700,000	170,000,000	100,000,000	852,700,000
Commercial Paper	323,418,694	8,161,778	441,568,511	773,148,983
U.S. Government securities	63,729,945	700,879,429	1,276,271,976	2,040,881,350
Corporate Bonds	-	-	10,000,000	10,000,000
Municipal Bonds	-	-	36,000,000	36,000,000
Flexible Repurchase Agreements	-	13,876,318	-	13,876,318
Repurchase agreements	-	<u>671,844,299</u>	<u>211,387,343</u>	<u>883,231,642</u>
Total cash and investments	970,485,773	1,614,818,413	2,320,227,830	4,905,532,016
Other assets	-	-	-	-
TOTAL ASSETS	\$ <u>970,485,773</u>	<u>1,614,818,413</u>	<u>2,320,227,830</u>	<u>4,905,532,016</u>
LIABILITIES:				
Other liabilities	\$ -	-	-	-
NET ASSETS HELD IN TRUST	<u>970,485,773</u>	<u>1,614,818,413</u>	<u>2,320,227,830</u>	<u>4,905,532,016</u>
TOTAL LIABILITIES AND NET ASSETS HELD IN TRUST	\$ <u>970,485,773</u>	<u>1,614,818,413</u>	<u>2,320,227,830</u>	<u>4,905,532,016</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 9

Combining Statement of Changes in Fiduciary Net Assets

AS OF JUNE 30, 2007

	Investment Trust Fund			Total (Memorandum Only)
	Short-term Investment Pool	Consolidated Investment Pool	State Funds Investment Pool	
Investment income	\$ 40,802,645	52,158,529	149,349,735	242,310,909
Expenses - management fees	(384,000)	-	-	(384,000)
Net investment income	40,418,645	52,158,529	149,349,735	241,926,909
Net proceeds of desposits (withdrawals)	216,769,576	(31,148,298)	(741,860,206)	(556,238,928)
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>
Net assets, held in trust for pool participants, June 30, 2007	\$ <u>970,485,773</u>	<u>1,614,818,413</u>	<u>2,320,227,830</u>	<u>4,905,532,016</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 10

Schedule of Collateral Pledged by Depository

YEAR ENDED JUNE 30, 2007

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	\$ 2,392,472	100,000	1,146,236	-	2,307,870	1,161,634
(FHLB)	Western Bank	4,300,000	100,000	2,100,000	-	2,253,369	153,369
Albuquerque							
(WFB)	Bank of America	48,446,818	100,000	24,173,409	-	45,037,358	20,863,949
(TIB)	Bank First	100,000	100,000	-	-	-	-
(WFB)	Bank of the West	32,628,543	100,000	16,264,272	-	20,469,735	4,205,463
(WFB)	Compass Bank	30,010,162	100,000	14,955,081	15,000,000	90,122	135,041
(FHLB)	First Community Bank	32,235,648	100,000	16,067,824	13,500,000	3,517,876	950,052
(WFB)	New Mexico Bank & Trust	291,400	100,000	95,700	-	200,000	104,300
(BA)	Wells Fargo Bank NM, N.A.	37,823,100	100,000	18,861,550	-	28,648,726	9,787,176
Artesia							
(FHLB)	First National Bank	53,821	53,821	-	-	-	-
(FHLB)	Western Bank	500,000	100,000	200,000	-	300,000	100,000
Belen							
(TIB)	My Bank	1,199,106	100,000	549,553	-	632,952	83,399
Carlsbad							
(FHLB)	Carlsbad National Bank	5,004,262	100,000	2,452,131	-	2,610,996	158,865
(FHLB)	Western Commerce Bank	4,609,285	100,000	2,254,643	-	4,576,194	2,321,551
Clayton							
(FHLB)	Farmers & Stockmens Bank	3,192,268	100,000	1,546,134	-	1,629,568	83,434
(FHLB)	First National Bank of NM	2,726,665	100,000	1,313,333	-	2,108,969	795,636
Clovis							
(TIB)	Bank of Clovis	1,744,663	100,000	822,332	-	1,525,000	702,668
(TIB)	Citizens Bank	45,954	45,954	-	-	155,785	155,785
(FHLB)	Western Bank	600,000	100,000	250,000	-	259,011	9,011
Espanola							
(TIB)	Valley National Bank	29,000,500	100,000	28,900,500	-	29,176,769	276,269
Gallup							
(FHLB)	Pinnacle Bank	1,469	1,469	-	-	-	-
Grants							
(TIB)	Grants State Bank	1,944,521	100,000	922,261	-	1,006,159	83,898
Hobbs							
(TIB)	Lea County State Bank	325,454	100,000	112,727	-	455,000	342,273
Las Cruces							
(WFB)	Bank of the Rio Grande	2,000,000	100,000	950,000	-	980,940	30,940
(TIB)	Citizens Bank	10,021,176	100,000	4,960,588	-	5,000,650	40,062
(FHLB)	Mesilla Valley Bank	2,000,000	100,000	1,900,000	2,000,000	5,651	105,651
Las Vegas							
(FHLB)	Bank of Las Vegas	762,369	100,000	331,185	-	994,690	663,505
(FHLB)	First National Bank	<u>1,401,527</u>	<u>100,000</u>	<u>650,764</u>	<u>-</u>	<u>1,269,212</u>	<u>618,448</u>
SUBTOTAL		255,361,183	2,601,244	141,780,223	30,500,000	155,212,602	43,932,379

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 10 - continued

Schedule of Collateral Pledged by Depository - continued

YEAR ENDED JUNE 30, 2007

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	\$ 6,225,487	100,000	3,062,744	-	3,381,592	318,848
Los Alamos (FHLB)	Los Alamos National Bank	30,472,473	100,000	15,186,237	15,450,000	-	263,763
Portales (TIB)	Portales National Bank	588,750	100,000	244,375	-	294,112	49,737
Raton (TIB)	International State Bank	677,235	100,000	288,618	-	572,925	284,307
Roswell (FHLB)	Bank of the Southwest	1,858,189	100,000	879,095	-	1,047,105	168,010
(TIB)	Valley Bank of Commerce	68,803	68,803	-	-	250,000	250,000
Ruidoso (FHLB)	First National Bank	2,000,000	100,000	950,000	-	1,962,662	1,012,662
(FHLB)	State National Bank	942,344	100,000	421,172	-	1,695,046	1,273,874
Santa Fe (FHLB)	Century Bank	-	-	-	-	-	-
(FHLB)	Community Bank	70,409	70,409	-	-	39,360	39,360
(WFB)	First National Bank	-	-	-	-	-	-
Silver City (FHLB)	AM Bank	-	-	-	-	-	-
Socorro (BA)	First State Bank	139,267	100,000	39,267	-	320,000	280,733
Taos (TIB)	Centinel Bank	63,152	63,152	-	-	150,172	150,172
(FHLB)	Peoples Bank	2,000,000	100,000	950,000	-	1,486,591	536,591
SAVINGS AND LOANS:							
Alamogordo (FHLB)	Alamogordo Federal S&L	25,659	25,659	-	-	53,781	53,781
Albuquerque (FHLB)	Union Savings Bank	5,000,000	100,000	2,450,000	-	2,774,601	324,601
Roswell (FHLB)	First Federal Bank	367,942	100,000	133,971	-	671,886	537,915
Santa Fe (FHLB)	Charter Bank for Savings	30,000,000	100,000	14,950,000	-	16,124,643	1,174,643
CREDIT UNION:							
Santa Fe	Guadalupe Credit Union	100,000	100,000	-	-	-	-
SUBTOTAL		80,599,710	1,528,023	39,555,479	15,450,000	30,824,476	6,718,997

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, 2007

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.	\$ 317,316	100,000	108,658	-	323,428	214,770
(FHLB)	First Community Bank	1,141,395	100,000	520,698	-	542,472	21,774
(WFB)	Wells Fargo Bank, N.A.	4,309	4,309	-	-	195,540	195,540
Espanola							
(TIB)	Valley National Bank	648,286	100,000	548,286	-	715,000	166,714
Los Alamos							
(FHLB)	Los Alamos National Bank	464,160	100,000	182,080	250,000	-	67,920
Santa Fe							
(WFB)	Century Bank	4,286,815	100,000	2,093,408	-	2,140,000	46,592
(WFB)	First National Bank	214,302	100,000	57,151	-	997,810	940,659
FISCAL AGENT BANK:							
(BA)	Bank of America	4,892,548	100,000	2,396,274	-	33,555,099	31,158,825
SUBTOTAL		<u>11,969,131</u>	<u>704,309</u>	<u>5,906,555</u>	<u>250,000</u>	<u>38,469,349</u>	<u>32,812,794</u>
TOTAL		\$ <u>347,930,024</u>	<u>4,833,576</u>	<u>187,242,257</u>	<u>46,200,000</u>	<u>224,506,427</u>	<u>83,464,170</u>
Reconciliation to Note 3:							
	Fiscal Agent Account	\$ 4,892,548	100,000	2,396,274	-	33,555,100	31,158,826
	Certificates of Deposit	<u>245,000,000</u>	<u>1,000,000</u>	<u>122,000,000</u>	<u>45,500,000</u>	<u>109,337,426</u>	<u>32,837,426</u>
		249,892,548	1,100,000	124,396,274	45,500,000	142,892,526	63,996,252
Add:							
	Agency Deposits	90,960,892	3,129,267	59,286,229	450,000	76,699,652	17,863,423
	Ancillary Receivership Accounts	<u>7,076,584</u>	<u>604,309</u>	<u>3,559,754</u>	<u>250,000</u>	<u>4,914,249</u>	<u>1,604,495</u>
		<u>98,037,476</u>	<u>3,733,576</u>	<u>62,845,983</u>	<u>700,000</u>	<u>81,613,901</u>	<u>19,467,918</u>
		\$ <u>347,930,024</u>	<u>4,833,576</u>	<u>187,242,257</u>	<u>46,200,000</u>	<u>224,506,427</u>	<u>83,464,170</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.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 10 - continued

Schedule of Collateral Pledged by Depository - continued

YEAR ENDED JUNE 30, 2007

REPURCHASE AGREEMENTS:

Name of Custodian	Location of Custodian	Repurchase Agreements per Financial Statement	Collateral Required	Collateral Pledged Mortgage Backed Securities (MBS) *	Issuer	CUSIP Number	Excess (Under) Collateralized
Northern Trust	Chicago, IL	\$ 47,242,000	48,186,840	48,187,500	Fannie Mae	31371NGG4	660
Northern Trust	Chicago, IL	44,368,000	45,255,360	45,256,188	Fannie Mae	31410FSS5	828
Northern Trust	Chicago, IL	8,882,000	9,059,640	9,059,750	Fannie Mae	31371NGG4	110
Northern Trust	Chicago, IL	30,917,000	31,535,340	31,535,417	Fannie Mae	31410FSS5	77
Northern Trust	Chicago, IL	18,288,000	18,653,760	18,654,528	Fannie Mae	31407DUF0	768
Northern Trust	Chicago, IL	20,376,000	20,783,520	20,783,921	Fannie Mae	31411Y3S0	401
Northern Trust	Chicago, IL	20,927,000	21,345,540	21,346,422	Freddie Mac	3128QGE99	882
Northern Trust	Chicago, IL	43,739,000	44,613,780	44,614,374	Fannie Mae	31410PQU0	594
Northern Trust	Chicago, IL	29,198,000	29,781,960	29,782,486	Fannie Mae	31406MS98	526
Northern Trust	Chicago, IL	28,461,000	29,030,220	29,030,409	Fannie Mae	31402REN5	189
Northern Trust	Chicago, IL	28,760,000	29,335,200	29,336,201	Fannie Mae	31407MSL0	1,001
Northern Trust	Chicago, IL	38,703,000	39,477,060	39,478,015	Freddie Mac	3128QSV45	955
Northern Trust	Chicago, IL	40,633,000	41,445,660	41,446,133	Fannie Mae	31409XQZ5	473
Northern Trust	Chicago, IL	40,986,000	41,805,720	41,806,400	Fannie Mae	31410SDA2	680
Northern Trust	Chicago, IL	46,190,000	47,113,800	47,113,965	Fannie Mae	31412CE97	165
Northern Trust	Chicago, IL	40,395,000	41,202,900	41,203,434	Freddie Mac	3128QSBT2	534
Northern Trust	Chicago, IL	12,872,000	13,129,440	13,129,623	Fannie Mae	31406GQN2	183
Northern Trust	Chicago, IL	20,387,000	20,794,740	20,795,085	Fannie Mae	31409JSJ0	345
Northern Trust	Chicago, IL	38,540,000	39,310,800	39,310,829	Fannie Mae	31409GKJ4	29
Northern Trust	Chicago, IL	428,000	436,560	436,564	Fannie Mae	31410PQU0	4
Northern Trust	Chicago, IL	21,974,000	22,413,480	22,414,041	Fannie Mae	31411XVL6	561
Northern Trust	Chicago, IL	23,453,000	23,922,060	23,922,326	Fannie Mae	31406VW51	266
Northern Trust	Chicago, IL	12,002,000	12,242,040	12,242,141	Fannie Mae	31407MSL0	101
Northern Trust	Chicago, IL	23,721,000	24,195,420	24,196,348	Fannie Mae	31410SXZ5	928
Northern Trust	Chicago, IL	2,593,000	2,644,860	2,645,036	Freddie Mac	3128QSV45	176
Northern Trust	Chicago, IL	24,687,000	25,180,740	25,180,936	Fannie Mae	31411X5E1	196
Northern Trust	Chicago, IL	26,291,000	26,816,820	26,817,264	Fannie Mae	31407WSK0	444
Northern Trust	Chicago, IL	810,000	826,200	826,401	Fannie Mae	31409XQZ5	201
Northern Trust	Chicago, IL	1,008,000	1,028,160	1,028,172	Fannie Mae	31410SDA2	12
Northern Trust	Chicago, IL	27,341,000	27,887,820	27,888,112	Fannie Mae	31410UK68	292
Northern Trust	Chicago, IL	44,231,000	45,115,620	45,115,932	Fannie Mae	31411SNK8	312
Northern Trust	Chicago, IL	29,448,000	30,036,960	30,037,500	Fannie Mae	31412FSD6	540
Northern Trust	Chicago, IL	55,000	56,100	56,117	Fannie Mae	31412CE97	17
Northern Trust	Chicago, IL	48,422,000	49,390,440	49,391,373	Fannie Mae	31412CFK1	933
Northern Trust	Chicago, IL	47,555,000	48,506,100	48,506,497	Freddie Mac	3128QGL26	397
Northern Trust	Chicago, IL	47,091,000	48,032,820	48,033,317	Fannie Mae	31411HNR7	497
Northern Trust	Chicago, IL	46,835,000	47,771,700	47,771,813	Fannie Mae	31410U2Y7	113
Northern Trust	Chicago, IL	46,402,000	47,330,040	47,331,044	Fannie Mae	31411X5G6	1,004
Northern Trust	Chicago, IL	19,130,000	19,512,600	19,513,210	Freddie Mac	3128QGL26	610
Northern Trust	Chicago, IL	35,847,000	36,563,940	36,564,890	Freddie Mac	3128NFFY8	950
Northern Trust	Chicago, IL	16,429,000	16,757,580	16,757,658	Freddie Mac	3128QSBT2	78
Northern Trust	Chicago, IL	3,092,000	3,153,840	3,154,297	Fannie Mae	31410U2Y7	457
Northern Trust	Chicago, IL	7,217,000	7,361,340	7,361,721	Fannie Mae	31402REN5	381
Northern Trust	Chicago, IL	3,116,000	3,178,320	3,178,701	Fannie Mae	31406MS98	381
Northern Trust	Chicago, IL	23,000	23,460	23,551	Fannie Mae	31412CFK1	91
Northern Trust	Chicago, IL	31,935,000	32,573,700	32,574,088	Freddie Mac	3128QGMF6	388
Total		\$ 1,191,000,000	1,214,820,000	1,214,839,730			19,730

Reconciliation to Financial Statements:

Repurchase agreements reported in Debt Service Funds, page 17	\$ 307,768,358
Repurchase agreements reported in Statement of Fiduciary Net Assets, page 23	<u>883,231,642</u>

Total repurchase agreements **\$ 1,191,000,000**

* Mortgage Backed Securities is a type of asset backed security that is secured by a mortgage or collection of mortgages.

SCHEDULE OF FINDINGS AND RESPONSES

**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***

Honorable Bill Richardson, Governor
State Board of Finance
Honorable James B. Lewis, State Treasurer
Honorable Hector H. Balderas, State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budget comparison for the general fund of the State of New Mexico, Office of the State Treasurer (State Treasurer), as of and for the year ended June 30, 2007, which collectively comprise the State Treasurer's basic financial statements, and have issued our report thereon dated July 14, 2008. 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, 2007. 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 as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State Treasurer's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.



Honorable Bill Richardson, Governor
State Board of Finance
Honorable James B. Lewis, State Treasurer
Honorable Hector H. Balderas, State Auditor
Santa Fe, New Mexico

Internal Control Over Financial Reporting - continued

A **control deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A **significant deficiency** is a control deficiency, or a combination of control deficiencies, that adversely affects the State Treasurer's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the State Treasurer's financial statements that is more than inconsequential will not be prevented or detected by the State Treasurer's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of findings and responses as items 2006-01, 2006-04, 2006-07, 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-07, 2007-08, 2007-09, 2007-10 and 2007-11.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the State Treasurer's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-02 and 2007-04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Treasurer's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which

Honorable Bill Richardson, Governor
State Board of Finance
Honorable James B. Lewis, State Treasurer
Honorable Hector H. Balderas, State Auditor
Santa Fe, New Mexico

Compliance and Other Matters - continued

are described in the accompanying schedule of findings and responses as items 2007-02, 2007-03, 2007-08, 2007-09 and 2007-11.

The State Treasurer's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the State Treasurer's responses and, accordingly, we express no opinion on them.

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, the New Mexico Legislature, the New Mexico Department of Finance and Administration and other federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

Meyners + Company, LLC

July 14, 2008

A. FINDINGS - FINANCIAL STATEMENT AUDIT

2006-01 RECONCILIATION OF THE QED INVESTMENT ACCOUNTING SYSTEM
TO NORTHERN TRUST BASED ON PAR VALUE, NOT MARKET VALUE

Condition: The State Treasurer reconciles its investment activity reported in the QED investment accounting system to Northern Trust (the custodian) brokerage statements on a monthly basis. However, the reconciliation is based on par value, not market value.

Criteria: Investment activity should be reconciled and recorded in accordance with generally accepted accounting principles (GAAP). The QED investment accounting system generates accounting information for pricing, earning accruals, bond amortization, realized gains and losses and other information regarding investments.

Cause: Per the State Treasurer, differences between QED and Northern Trust will exist for the following reasons:

1. Northern Trust does not amortize or accrete the portfolios, a function performed by QED.
2. Northern Trust prices commercial paper and QED does not.
3. The differences in accrual on the flexible repurchase agreements are due to the method used by Northern Trust to track receipts. The State of New Mexico 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 downloads pricing only once a week (for cost reasons) and Northern Trust prices daily.

Effect: The differences between par value and market value are immaterial to the financial statements as of June 30, 2007. However, differences between QED and Northern Trust may not be identified, documented or corrected in a timely manner.

Recommendation: We recommend the State Treasurer develop and implement policies and procedures that require the preparation, documentation, and approval of the monthly reconciliations between QED and Northern Trust on a market value basis.

State Treasurer's Office Response: Effective March 2008, the State Treasurer's Office is reconciling the QED system to Northern Trust on both a par value and market value basis. The State Treasurer anticipates that, on a market value basis, there will be some degree of reconciling discrepancy because QED pricing is on a weekly basis compared to Northern Trust's daily pricing. However, the discrepancy should not be material. If a material discrepancy results, then it could be reflective of a security that was entered into QED incorrectly (i.e., CUSIP error), requiring research and correction. In the past, these types of QED entry errors were discovered and corrected when periodic coupon payments were received from Northern Trust and could not be matched to QED inventory securities. The cost of adding daily pricing to the QED system package was recently estimated at \$60,000 per year.

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2006-01 RECONCILIATION OF THE QED INVESTMENT ACCOUNTING SYSTEM TO NORTHERN TRUST BASED ON PAR VALUE, NOT MARKET VALUE - continued

State Treasurer's Response - continued:

During the 2009 legislative session, the State Treasurer will request funding to add the daily pricing service to the QED contract. If sufficient funding is appropriated, the State Treasurer will initiate QED daily pricing in fiscal year 2010.

2006-04 CONTROLS OVER INFORMATION SYSTEMS

Condition: The State Treasurer does not maintain off-premise storage for:

1. Master files and transaction files sufficient to recreate the current master files;
2. Applications and related documentation; and
3. Copies of contingency plans.

Also, contingency plans have not been developed for alternative processing in the event of loss or interruption of the IT function.

Criteria: Sound business practices dictate that master files and transaction files, applications and related documentation and copies of contingency plans be maintained off-site to ensure the recreation of data in the event of loss or interruption of IT functions.

Cause: According to the State Treasurer, no off-site facilities were available.

Effect: Potential loss of financial data or the inability to carry out treasury functions.

Recommendation: We recommend the State Treasurer obtain off-premise storage and implement and test contingency plans for alternative processing in the event of loss or interruptions of the IT functions to ensure that the treasury function is carried out.

State Treasurer's Office Response: The State Treasurer's Office is in agreement that an update of the disaster recovery plan is critical to provide business continuity in the event of loss or interruption of IT operations at current the State Treasurer facilities. The disaster recovery plan update has been written and the State Treasurer requested \$180,000 during the 2008 legislative session to implement the plan. The final appropriation for implementation of the plan was \$100,000. The State Treasurer revised the list of supplies and equipment for the disaster recovery plan budget, supplemented it with funds from the FY 2008 operating budget and is placing the orders for the supplies and equipment.

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2006-04 CONTROLS OVER INFORMATION SYSTEMS - continued

State Treasurer's Office Response - continued:

After considering numerous off-site locations for the disaster recovery site, the State Treasurer selected a site in Albuquerque, and has signed a Memorandum of Understanding (MOU) authorizing the use of the facility for IT equipment placement and the use of numerous work situations for the disaster recovery team in case of loss or interruption of the State Treasurer's IT operations.

2006-07 CROSS-TRAINING AND PRIOR PERIOD ADJUSTMENTS

Condition: The State Treasurer experienced staff turnover in the key positions within the Financial Accounting Bureau and in the Investment Division during the fiscal year ended June 30, 2007. The Financial Accounting Bureau position was vacant for 5 months and the Investment Division double filled the bureau chief position for 3 months. Little or no transfer of business practices or knowledge occurred. As a result, the initiating, recording reporting and reconciliation of financial and investment transactions for the fiscal year ended June 30, 2007, did not occur in a timely manner. Errors occurred that were not discovered during the normal course of the State Treasurer's Office assigned functions.

Criteria: 2.20.5.8.C. NMAC defines the responsibilities of the Chief Finance Officer. One of those responsibilities is to ensure that an internal control structure exists at the State agency and is functioning properly. Part of that internal control structure is to ensure that new hires have written business practices to follow in carrying out their assigned functions.

Cause: One former employee retired from government service and the other employee found a career opportunity at another State agency.

Effect: Errors may be recorded in the general ledger and go undetected which could lead to a material misstatement of the State Treasurer's financial statements. As a result of audit efforts, the restatement of beginning fund balance/net assets for several funds corrected material misstatements.

Recommendation: We recommend the State Treasurer develop and implement policies and procedures to document business practices to assist in the transfer of knowledge when there is staff turnover.

State Treasurer's Office Response:

Cross Training

After the Treasurer took office December 15, 2006, which was in mid-fiscal year 2007, he developed a staff education and training program, in addition to a cross-training program. These training programs

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2006-07 CROSS-TRAINING AND PRIOR PERIOD ADJUSTMENTS - continued

State Treasurer's Office Response - continued:

ensure that all work tasks can be completed by an alternate staff member in the absence of the staff member with the primary responsibility for the task. In addition, some cross-division staff training is occurring where necessary. All training will continue to assure that a back-up staff member is always available to perform any task at STO.

The STO staff has gone through some form of cross-training as mandated by the current State Treasurer. Many staff members are long-time employees that have been promoted or held positions in other areas within the agency. However, refresher training will continue for all staff throughout the agency. The State Treasurer has increased the budget for staff training and has projected increases in training funding for future years. Some STO employees have been trained in areas outside of their respective divisions to allow for a more diverse and knowledgeable staff within the STO.

Prior Period Adjustments

On July 1, 2006, SHARE was implemented, which required all investment transactions to be posted to SHARE. No business practices regarding investment transactions had been established by STO, the Department of Finance and Administration (DFA) or Maximus, the consulting firm in charge of implementing SHARE. There were different and inconsistent instructions for posting investment transactions, resulting in errors in the posting.

The following is a chronological timeline of the problems encountered by STO:

1. The first directive was to post the ending balances from the fiscal year ending 2006 into SHARE. These balances were to be the beginning balances for the fiscal year ending 2007. The balances were posted; however, the balance of one fund was different from the records of DFA. This created a difference in the beginning balance, which was labeled as an error.
2. During the timeline in posting the beginning balances, the staff member who was responsible for the general ledger (SHARE) transferred to another agency, creating a vacancy in that position for about four months.
3. In April of 2007, a new staff member was hired by STO to fill the vacant general ledger position.
4. The new staff member identified the error, which was from the fiscal year ended 2006 and carried forward to the fiscal year ended 2007. At the time STO had identified the error, DFA had closed fiscal year 2007 and the error could not be corrected in SHARE. This resulted in the "restatement of fund balances" as a "prior period adjustment."

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2006-07 CROSS-TRAINING AND PRIOR PERIOD ADJUSTMENTS - continued

State Treasurer's Office Response - continued:

5. The State Treasurer realized the need to correct the beginning fund balance/net assets in the fund that had been discovered by STO. He agreed with the auditors that the adjustment would be classified as a "prior period adjustment" for the audited ending fiscal year 2007.

2007-01 BOOK TO BANK RECONCILIATION NOT TIMELY

Condition: The Department of Finance and Administration (DFA) and the State Treasurer prepared a reconciliation of the bank and investment activity to the SHARE general ledger. This reconciliation process was completed in April 2008. We noted the following issues with regard to the bank reconciliation:

- The physical bank statements did not always match the bank statement table download into the SHARE accounting system for the periods of July 2006 through March 2007.
- The accounting records for the fiscal year ended June 30, 2007, were not closed by DFA until December 2007.
- A list of uncleared items from the bank statement table was issued to all State agencies by DFA in December 2007. DFA requested that each State agency validate whether the uncleared bank transactions were properly accounted for in the general ledger through a deposit, journal or voucher for the fiscal year ended June 30, 2007.

Criteria: Best business practices dictate that a book to bank reconciliation be performed monthly and any adjustments to the accounting records be recorded timely.

Cause: Despite the attempts by DFA and the State Treasurer to obtain the physical bank statements for certain accounts, the physical bank statements were not available to validate the bank statement table data. Also, the accounting periods were not closed timely because this was the first year of implementing a new accounting system (SHARE) and there were significant accounting issues to be resolved prior to closing the accounting periods for the fiscal year ended June 30, 2008.

Effect: Errors could occur and not be detected in a timely manner. Uncleared bank statement table items may or may not have a general ledger impact and must be researched and resolved by the State Treasurer on a State agency by State agency basis.

Recommendation: We recommend that physical bank statements be maintained and reconciled to the bank statement table on a daily basis. We also recommend that the accounting periods be closed by a specified date each month to facilitate the reconciliation process and clearing of bank transactions and that the book to bank reconciliation be performed monthly.

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-01 BOOK TO BANK RECONCILIATION NOT TIMELY - continued

State Treasurer's Office Response: Differences in balances between actual bank statements and those loaded in SHARE were the result of cash and wire transactions that were deposited to Wells Fargo Bank (WFB) the State's previous Fiscal Agent. In April 2006 the State transitioned to a new Fiscal Agent and State agencies were notified of the change; however, deposit and wire-transaction activity continued at WFB. Because of the fiscal agent transition, no Wells Fargo depository accounts were set up in SHARE and therefore all WFB activity was manually entered in SHARE. All WFB bank accounts have now been closed. The State Treasurer and DFA will implement daily reconciliations and maintain actual statements to ensure that there are no differences in balances between the actual bank statements and those uploaded electronically in SHARE.

Although the State Treasurer does not control any of the general ledger functions in SHARE, we concur that accounting periods should be closed in order to facilitate monthly book-to-bank reconciliation. Bank, Cash Management and general ledger SHARE transactions were not recorded accurately or timely throughout the fiscal year and were the result of procedural and systemic inconsistencies in SHARE. The delivered book-to-bank reconciliation functionality in SHARE was not functional and a manual reconciliation between the bank, the cash management module and general ledger was developed. Monthly book to bank reconciliations are now being prepared through a cooperative effort between the Department of Finance and Administration and the Treasurer's Office.

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

2007-02 RECONCILIATION OF QED INVESTMENT ACCOUNTING SYSTEM TO GENERAL LEDGER NOT TIMELY (MATERIAL WEAKNESS)

Condition: The State Treasurer did not reconcile the investment activity recorded in its subsidiary accounting system (QED) to the general ledger in a timely manner. The reconciliation for the fiscal year ended June 30, 2007 was completed in March 2008. Investment transactions were recorded to the wrong business unit or funds, or not at all. The reconciliation resulted in two adjustments to the general ledger. The first adjustment was made to business unit 39401 in the amount of \$18,896,277,435 and the second adjustment was made to business unit 39400 for \$4,856,850.

Criteria: Chapter 6-5-2(B) NMSA 1978 states that the Financial Control Division (FCD) of the Department of Finance and Administration (DFA) "shall issue a manual of model accounting practices containing the procedures and policies prescribed pursuant to Subsection A of this section and shall annually review and, if necessary, revise and reissue the manual. State agencies shall comply with the model accounting practices established by the division, and the administrative head of each State agency shall ensure that the model accounting practices are followed."

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-02 RECONCILIATION OF QED INVESTMENT ACCOUNTING SYSTEM TO
GENERAL LEDGER NOT TIMELY (MATERIAL WEAKNESS) - continued

Criteria - continued:

The manual of model accounting practices (MAP's) updated by FCD in August 2007 states in part that all subsidiary systems shall record transactions timely, completely and accurately and the agency shall reconcile the subsidiary systems transactions to the corresponding SHARE general ledger accounts daily.

Cause: There is no direct interface of the QED investment accounting system and the general ledger. Investment transactions must be manually posted to the general ledger. Numerous errors were made in recording the investment transactions because of staff turnover and inconsistent instructions received from the Department of Finance and Administration (DFA) during the fiscal year ended June 30, 2007.

Effect: The State Treasurer's financial statements could be materially misstated if monthly reconciliations are not performed. Errors could occur and not be detected and corrected. Also, the State's bank reconciliation is impacted if investment transactions are not recorded properly.

Recommendation: We recommend the State Treasurer develop and implement policies and procedures that require a monthly reconciliation of the QED investment accounting system to the general ledger. We also recommend that the State Treasurer and DFA consider developing and implementing an interface between the QED investment accounting system and the general ledger.

State Treasurer's Office Response: Prior to fiscal year 2007, the investments were not included in the general ledger of the accounting system for the State Treasurer. The basis for auditing the investments rested with QED (investment tracking accounting module) and Northern Trust (custody bank). The investment activity was gathered, summarized on spreadsheets, and financial statements were prepared by the State Treasurer staff for entry into the contract auditors' working papers.

The implementation of SHARE changed this to a more positive note. It was required that investments had to be included in the SHARE accounting system, (general ledger). With this change, all transactions regarding "investments" had to be recorded in SHARE. For the annual audit, "Investments and Investment Activity" now have to be reconciled between SHARE, QED, and Northern Trust.

The preliminary planning to implement SHARE for the State Treasurer financial activity was not thorough. The State Treasurer's Office believes that during the SHARE planning and integration process, there was not enough time devoted to developing sound business practices and procedures for recording investment transactions. This caused significant confusion on how investment transactions should be recorded. Communication and training was virtually minimal. The State Treasurer received various interpretations from contractors and agencies on how transactions should be posted to SHARE. This resulted in the State Treasurer using different methods to record investment transactions. The

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-02 RECONCILIATION OF QED INVESTMENT ACCOUNTING SYSTEM TO
GENERAL LEDGER NOT TIMELY (MATERIAL WEAKNESS) - continued

State Treasurer's Office Response - continued:

varying recording methods, in turn, caused errors in the general ledger. Additionally, the reports generated from SHARE did not contain accurate data, making any reconciliation difficult.

The State Treasurer in conjunction with DFA has developed the "Investment Transaction Matrix". The matrix takes every investment transaction and points to the SHARE general ledger entry that should be completed.

The State Treasurer has already established procedures and deadlines and has implemented the following two (2) reconciliations that must be completed on a monthly basis:

1. Reconciliation of QED to Northern Trust; and
2. Reconciliation of all Debt Service Funds in QED to the general ledger in SHARE.

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

2007-03 RECONCILIATION OF CASH MANAGEMENT MODULE TO GENERAL
LEDGER NOT TIMELY

Condition: The State Treasurer did not verify its internal cash accounts (Business unites 39400 and 39401) on a daily basis, nor did they reconcile the cash management module to the general ledger on a monthly basis for any funds for the fiscal year ended June 30, 2007. The Finance Bureau began the cash reconciliation process in November 2007 and completed it in March 2008.

Criteria: Chapter 6-5-2(B) NMSA 1978 states that the Financial Control Division (FCD) of the Department of Finance and Administration (DFA) "shall issue a manual of model accounting practices containing the procedures and policies prescribed pursuant to Subsection A of this section and shall annually review and, if necessary, revise and reissue the manual. State agencies shall comply with the model accounting practices established by the division, and the administrative head of each State agency shall ensure that the model accounting practices are followed."

The manual of model accounting practices (MAP) updated by FCD in August 2007 states in part that a State agency's general ledger cash accounts in SHARE and all other accounts shall be verified daily.

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-03 RECONCILIATION OF CASH MANAGEMENT MODULE TO GENERAL LEDGER NOT TIMELY - continued

Cause: The State Treasurer had experienced staff turnover and was not familiar with the various SHARE accounting modules (cash management, accounts receivable, accounts payable) or (if applicable) the QED investment accounting system sufficient to perform a reconciliation of the cash management module to the general ledger.

Effect: Errors may be recorded in the general ledger and not be detected or corrected in a timely manner.

Recommendation: We recommend that the State Treasurer develop and implement policies and procedures to ensure that monthly reconciliations are performed between the cash management module and the general ledger for all funds. We also recommend the State Treasurer verify cash account activity on a daily basis.

State Treasurer's Office Response: During the planning and implementation phases of SHARE, the general ledger accountant was assigned as a secondary liaison to work with SHARE project managers and the integration contractor to design and implement the SHARE system. Additionally, she was the only State Treasurer staff member who received the initial training on general ledger transactions and the reconciliation process. This was also the staff member who had the primary responsibility to work with the Independent Public Accounting Firm (IPA) on the annual, external audit, reconciling the general ledger revenues and expenditures, preparing adjusting journal entries and then generating the trial balance. This staff member resigned from the State Treasurer in November 2006 and was not replaced until April 2007. This delay occurred in part due to the transition between administrations and other considerations such as budget availability, and qualifications and experience requirements for the position. During the time the position was vacant, no other staff member had the knowledge or the training to perform these functions.

In April 2007, a general ledger accountant with knowledge and experience in the use of SHARE was hired. This new staff member began to organize and become oriented in the operations of the State Treasurer. Once fiscal year 2007 ended, she began to work with the IPAs to prepare for the annual audit, by reconciling the various administrative and investment funds for the fiscal period. She worked with other State Treasurer staff, the IPAs and Department of Finance and Administration SHARE project managers to develop and implement the "Investment Transactions Matrix," which identified new business processes compatible with SHARE. These new business processes have been successful, allowing her to reconcile current fiscal year funds up to date.

The Budget and Finance Division is currently in the process of developing policies and procedures to ensure timely reconciliation of all funds and document the reconciliation requirements and process. Additionally, other division staff will be cross-trained to assist the general ledger accountant with this task and provide a back-up for this work when the general ledger accountant is absent.

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-03 RECONCILIATION OF CASH MANAGEMENT MODULE TO GENERAL LEDGER NOT TIMELY - continued

State Treasurer's Office Response - continued:

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

2007-04 DAILY AUTO RECONCILIATION PROCESS REQUIRES MANUAL INTERVENTION (MATERIAL WEAKNESS)

Condition: The purpose of the State Treasurer's daily auto reconciliation process is to identify differences between the bank's activity and the transactions recorded in the general ledger. We noted that this reconciliation process is not always automatic and takes manual intervention to reconcile bank transactions to the general ledger. We noted:

1. Not all bank transactions with matching criteria are auto reconciled. For example, the deposit ID and transaction amount match between the bank and the general ledger, but are not automatically reconciled by SHARE. The State Treasurer must manually research and reconcile each one of these transactions.
2. The auto reconciliation process shows the bank transaction as being reconciled to the general ledger, however the transactions still appear on the unreconciled list. The State Treasurer must manually research and reconcile each one of these transactions.
3. ACH and wire transactions are not automatically reconciled by the SHARE accounting system. The State Treasurer must manually research and reconcile each one of these transactions.
4. Wire authorization reference (form) numbers issued by the Department of Finance and Administration do not always agree to bank transaction reference numbers. The State Treasurer must manually research and reconcile each one of these transactions.
5. ACH returns (errors in routing numbers, bank account numbers or payee, or account closure) are not automatically reconciled in SHARE. Each State agency must research and identify all ACH return activity and restore cash. Agencies do not always provide supporting documentation to the State Treasurer. The State Treasurer must manually research and reconcile each one of these transactions.
6. Bank encoding errors occur. For example, the bank may have encoded an amount that does not match the issued warrant amount. The State Treasurer must manually research and reconcile each one of these transactions.

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-04 DAILY AUTO RECONCILIATION PROCESS REQUIRES MANUAL INTERVENTION (MATERIAL WEAKNESS) - continued

Condition - continued:

7. Warrant numbers issued by SHARE do not always agree to the warrant numbers recorded by the bank. The State Treasurer pulls an image of warrant and must manually research and reconcile each one of these transactions.
8. The bank statement table (BIA files) is populated with electronic data files that contain bank related errors that must be manually researched and reconciled by the State Treasurer.
9. SHARE does not provide a sufficient audit trail to identify multiple bank transactions against one deposit recorded in SHARE. The State Treasurer must manually research and reconcile each one of these transactions.
10. A State agency may not have posted a deposit entry in SHARE, therefore the corresponding bank deposit can not be reconciled. The State Treasurer must manually research and reconcile each one of these transactions.

Criteria: 2.20.5.8.C. NMAC defines the responsibilities of the Chief Finance Officer. One of those responsibilities is to ensure that all transactions are recorded daily in the agency's accounting records. The State Treasurer is responsible for reconciling the State's daily bank transactions per the fiscal agent bank to the general ledger.

Cause: Current business processes and the SHARE system functionality precluded the State Treasurer from effectively and efficiently reconciling daily bank activity to the general ledger.

Effect: The State Treasurer must perform a manual reconciliation to clear transactions that did not auto-reconcile which is a labor intensive and time consuming process. Unreconciled cash transactions may or may not have a general ledger impact.

Recommendation: We recommend the State Treasurer review and change business processes and reconfigure the SHARE accounting system functionality to improve the daily bank reconciliation process. For example, if the State Treasurer was to use a "paid-check" file instead of the current BAI file, bank errors would be reduced. The "paid-check" file would be provided by the State's fiscal agent which would be downloaded daily into the general ledger. This would reduce the number of reconciling exceptions by using a "scrubbed" file which has already cleared system, transaction and posting errors.

State Treasurer's Office Response: During the first half of fiscal year 2007 the automatic-reconciliation on the SHARE system was not functioning properly and was due primarily to the initial configuration of the auto-reconciliation. In addition, business processes and/or SHARE system

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-04 DAILY AUTO RECONCILIATION PROCESS REQUIRES MANUAL INTERVENTION (MATERIAL WEAKNESS) - continued

State Treasurer's Office Response - continued:

inconsistencies did not allow the State Treasurer to reconcile bank to Cash Management module activity in an efficient and timely manner. The process of manually reconciling deposit and warrant activity is a time-consuming and arduous process, and the State Treasurer will look to DFA for support and assistance in enhancing the reconciliation process on SHARE. The Department of Finance and Administration is responsible for management of the SHARE system and makes decisions on the design and enhancement of related functions and it is our intent to work with Financial Control Division of the Department of Finance and Administration and the fiscal agent to identify and develop any system performance enhancements and/or reconfiguration as well as changes to business processes to ensure timely and accurate reconciliations.

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

2007-05 WARRANTS NOT STALE DATED

Condition: The SHARE accounting system does not have a mechanism in place to identify stale dated warrants and to reestablish cash. The transaction date (date warrant was issued) is greater than the bank redeemed date by one year or more.

Criteria: A stale dated warrant is an unredeemed warrant which was issued more than one year prior to the current date. A stale dated warrant is expired and the original instrument is no longer negotiable.

Cause: Although there is functionality within the SHARE accounting system for stale dated warrants, the accounting system was not configured properly. The business processes have not been established for the stale dated warrant process.

Effect: The State Treasurer must reconcile all stale dated warrants presented for payment on a daily basis. The State Treasurer is honoring all stated warrants at this time.

Recommendation: We recommend that the State Treasurer work with the Department of Finance and Administration to develop a process whereby warrants issued by the State can be stale dated and cash can be restored automatically by the SHARE accounting system.

State Treasurer's Office Response: When the SHARE system was originally implemented, the stale-dated warrant functionality within the system was not activated by SHARE project managers. Adding this functionality was planned for a later phase. The Department of Finance and Administration is

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-05 WARRANTS NOT STALE DATED - continued

State Treasurer's Office Response – continued:

responsible for management of the SHARE system and makes decisions on design and implementation of system revisions or added functionality. DFA and the State Treasurer are now working together to test and complete the stale-dated warrant process. Currently, the State Treasurer continues to manually reconcile all stale-dated warrants presented for payment on a daily basis.

Implementing this stale-dated warrant functionality in SHARE is contingent on a successful, cooperative working relationship with DFA. Until this SHARE functionality is put in place, the State Treasurer is working with the State's fiscal agent bank to identify warrants dated over one year old in the positive pay system and State agencies will have to instruct the bank to pay or return the stale-dated warrant that has been received for redemption.

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

2007-06 WARRANT CANCELLATIONS PROCESS INCONSISTENCE FOR THIRD PARTY WARRANT ISSUING STATE AGENCIES

Condition: The warrant cancellation process for a State agency that issues a third party warrant is not always consistent.

Criteria: A third party warrant is a negotiable instrument issued by a State agency that is authorized to issue its own warrants (i.e., Human Services Department, Taxation and Revenue Department, Department of Workforce Solutions). The warrant cancellation process must be consistent to facilitate the reconciliation process between the bank table and the cash management module.

Cause: The business processes for recording warrants by third party warrant issuing State agencies has not been developed.

Effect: The status of a warrant (issued or cancelled) is not always posted to the general ledger in a timely manner.

Recommendation: We recommend that the State Treasurer and the Department of Finance and Administration work with third party warrant issuing State agencies to develop and implement business processes to ensure consistency in recording warrant transactions.

State Treasurer's Office Response: Warrant cancellation business processes and controls are in place; however it is unclear to us how warrant cancellations by third-party, warrant-issuing agencies are

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-06 WARRANT CANCELLATIONS PROCESS INCONSISTENCE FOR THIRD PARTY WARRANT ISSUING STATE AGENCIES - continued

State Treasurer's Office Response - continued:

reflected in SHARE. Third-party, warrant-issuing agencies have the responsibility to cancel warrants in the SHARE system that have been stolen, forged, lost, or issued erroneously but must verify that the warrant has not yet been redeemed. Prior to implementation of SHARE, the State Treasurer managed the warrant cancellation process through its Treasurer's Reconciliation, Accounting and Cashiering System (TRACS). The State Treasurer will work with the Financial Control Division of the Department of Finance and Administration to ensure that a uniform and fully-documented business process is developed for all third-party, warrant-issuing agencies, providing guidance for processing all warrant cancellations and associated reconciliation functions.

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

2007-07 MANUAL CALCULATION OF INTEREST ON SELF-EARNING ACCOUNTS AND DISTRIBUTIONS NOT TIMELY

Condition: The State Treasurer had to manually calculate average daily cash balances and monthly interest on 150 self-earning accounts for various State agencies. Also, the State Treasurer did not distribute the monthly interest earnings to the 150 self-earning accounts in a timely manner. Interest earnings for the months of July, August, September, October, November and December 2006 were distributed in March 2007 and for the months of January, February, March, April, May and June 2007, interest was distributed in September 2007.

Criteria: 2.20.5.8.C. NMAC defines the responsibilities of the Chief Finance Officer. One of those responsibilities is to ensure that all reporting of financial information must be timely, complete and accurate to the State agency's management and to oversight agencies and entities. The State Treasurer is required to calculate the average daily cash balances and monthly interest earned and distribute the interest earnings to various State agencies.

Cause: The SHARE accounting system was not programmed to calculate average daily cash balances and monthly interest earnings.

Effect: Manual calculation of the average daily cash balances and monthly interest earnings is subject to human error. It is difficult to adequately calculate compounded interest manually.

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-07 MANUAL CALCULATION OF INTEREST ON SELF-EARNING ACCOUNTS
AND DISTRIBUTIONS NOT TIMELY - continued

Recommendation: We recommend that the State Treasurer work with the Department of Finance and Administration to develop a process whereby the SHARE accounting system is able to calculate the average daily cash balances and monthly interest earnings. This will facilitate the timely distribution of interest earnings to various State agencies.

State Treasurer's Office Response: The State Treasurer's Office worked with the Department of Finance and Administration throughout fiscal year 2007 to develop and implement a manual procedure to calculate and distribute interest due to the State's self-earning accounts. The interest distribution function, which had historically been handled by the State Treasurer, was hindered when the SHARE conversion 1) did not allow for a cash "average daily balance" calculation and 2) limited the State Treasurer's access to cash balance information. DFA designed a monthly cash balance query in SHARE, which the State Treasurer was able to download into Microsoft Excel format, sort by fund, subtotal, format interest rate calculations, and compound interest on a monthly basis for fiscal year 2007. Once these monthly calculations were complete, the State Treasurer then submitted monthly operating transfers to DFA for approval and posting. Effective fiscal year 2008, and until SHARE is programmed to automatically calculate average daily balances, DFA has assumed responsibilities for average daily balance and interest calculations, and the State Treasurer now prepares the monthly operating transfer to distribute interest to self-earning accounts. The 2008 Legislature provided an appropriation to DFA to program SHARE to perform this function. The State Treasurer will soon begin working with DFA - SHARE project managers to program and design the system to add this functionality.

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

2007-08 CASH OVERDRAFTS

Condition: On May 14, 2007 and June 13, 2007, the State's bank account was overdrawn with the State's fiscal agent in the amounts of \$(18,987,638.91) and \$(22,403,761.89) respectively.

Criteria: Chapter 8-6-3.1 NMSA 1978 states that one of the duties of the State's cash manager (under the direction of the State Treasurer) includes the "projection of the State's Short-term and long-term cash needs to determine the amount available for short-term and long-term investment."

Cause: The Investment Division of the State Treasurer's Office was not notified of certain ACH transactions by a State agency that were scheduled for payment by the State's fiscal agent and as a result, insufficient cash balances were on hand after the overnight investment purchase had been made.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-08 CASH OVERDRAFTS - continued

Effect: The fiscal agent notifies the State Treasurer of the overdraft and will not honor outgoing wires until there is an account balance. All warrants were paid during these particular overdraft instances. Many factors drive cash requirements. In this case, ACH and warrant projections must be analyzed to obtain more accurate cash positions. To avoid overdrafts, the State Treasurer maintains large balances in the main account to cover State debt, and potentially the State is losing out on investment opportunities. Improving cash positioning will create opportunities to maximize overall investment earnings.

Recommendation: We recommend that the State Treasurer work with the Department of Finance and Administration and other State agencies to develop and implement a business process to inform the State Treasurer when the settlement of ACH payments are to occur. This would provide the State Treasurer with the information needed to formulate a reasonable cash projection for daily activity.

State Treasurer's Office Response: The State's Master Depository Account experienced negative ending balances on two occasions during May and June 2007. The negative ending balances of these days were corrected by the daily banking transactions of the next day.

In July 2007, the State Treasurer Investment Accounting Bureau began working with Board of Finance (BoF) staff to identify the cause and recommend work process changes to assure that negative bank balances would be avoided. Numerous conversations and conference calls with the fiscal agent bank, the warrant-issuing agencies, DFA, BoF, and the State Treasurer revealed that ACH payment processing within SHARE resulted in cash outflows occurring after close of business without the State Treasurer's knowledge and, therefore, without time to position adequate cash coverage. The fiscal agent bank explained that 'on-us', or same-bank, ACH transactions would process on the submission day instead of the processing date if the file was received by 7:00 p.m. Mountain Time. This was the cause of the overdrafts. The use of the "effective date" field on the ACH file, by either the issuing agency or DFA ACH processing staff, would be essential for proper payment timing. All State agencies involved in ACH payments through SHARE agreed to begin future dating the "effective date" field on the ACH files and the DFA ACH processing staff agreed to verify with the State Treasurer, via e-mail, daily ACH totals by 5:00 p.m. The process was implemented in September 2007 and has been successful in correcting negative bank ending balances.

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-09 MONIES NOT REVERTED TO GENERAL FUND BY DUE DATE

Condition: The State Treasurer did not revert its unreserved, undesignated fund balances for its General Operating Fund (Fund 182) for the fiscal years ended June 30, 2006 of \$102,852 and June 30, 2007 of \$25,183 by September 30 of each respective year.

Criteria: Chapter 6-5-10, NMSA 1978 states in part "...all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central financial reporting and accounting system as of June 30 shall revert by September 30 to the general fund."

Cause: The State Treasurer experienced turnover in the fiscal year ended June 30, 2006 and 2007 which resulted in certain accounting functions not being performed.

Effect: The State Treasurer is in noncompliance with State statute. Also, failure to revert unreserved undesignated fund balances results in monies not being available for re-appropriation by the New Mexico Legislature during its legislative session.

Recommendation: We recommend that the State Treasurer revert any unreserved undesignated fund balances by September 30 of each year as required by State statute. The State Treasurer reverted \$102,852 for the fiscal year ended June 30, 2006 on June 22, 2007. The State Treasurer has not yet made any reversions related to fiscal year ended June 30, 2007. The amount to be reverted for fiscal year ended June 30, 2007, is \$25,183. We recommend that the State Treasurer immediately revert the amount due of \$25,183 to the general fund.

State Treasurer's Office Response: Over the past two fiscal years, the State Treasurer's Office did not revert unreserved, undesignated fund balances from the General Operating Fund to the State general fund by the statutory deadline of September 30 of each respective year. (The reasons for the delays are explained below.) It is the goal of the State Treasurer to complete the reversion by the statutory deadline in fiscal year 2008 and beyond.

The calculation for the reversion for fiscal year 2006 was completed on October 12, 2006. It was reverted in December of 2006. In fiscal year 2006, the State Treasurer experienced turnover in the accounting section due to the ongoing federal investigation. Deadlines could not be met and were delayed due to the lack of qualified personnel to complete the reversion.

The calculation for the reversion for fiscal year 2007 was completed and the reversion was done in December of 2007. In fiscal year 2007, SHARE was implemented, and the end-of-year closing was delayed until October of 2007. SHARE reports were not accurate, which resulted in a delay in the calculation of the reversion and the transfer of funds to the State general fund.

Schedule of Findings and Responses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-09 MONIES NOT REVERTED TO GENERAL FUND BY DUE DATE - continued

State Treasurer's Office Response - continued:

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

2007-10 ANNUAL AND SICK LEAVE BALANCES NOT CALCULATED CORRECTLY

Condition: Annual and sick leave balances as reported in the SHARE leave liability report for the last pay period of the fiscal year did not agree to the leave balances reported on the employee remittance advice. The State Treasurer recalculated each employees annual and sick leave balances and found that the hours taken by employees did not agree to the hours taken and reported on the SHARE leave liability report, but did agree to the annual and sick leave hours reported on the employees remittance advice for the last pay period of the fiscal year.

Criteria: Compensated absence reports prepared from the SHARE human resources records should agree to leave balances reported to employees on their bi-weekly paychecks (remittance advices).

Cause: Appears to be a systemic problem in the SHARE leave liability report.

Effect: Inaccurate SHARE leave liability reports could result in an error in calculating the accrued compensated absences liability of a State agency.

Recommendation: We recommend the State Treasurer continue to reconcile annual and sick leave balances per the employee's remittance advice to the SHARE leave liability report for each pay period and report any differences to the Department of Finance and Administration (DFA) for correction.

State Treasurer's Office Response: The SHARE report that summarizes the beginning balances, accrual amounts, amounts used and ending balances was in error. When the ending balances on the SHARE report were compared to the balances per the paycheck stub (remittance advice) for the last pay period of the fiscal year, the balances were different. The State Treasurer did inform DFA of the issue and a work order was submitted to the SHARE Help Desk to correct the report.

The State Treasurer prepares an *internal* annual worksheet, which indicates the beginning balance, annual and sick leave, the hours earned, the hours taken, and the balance at the end of the fiscal year. The State Treasurer places a value on the balance to determine the liability at the end of the fiscal year.

While the recently implemented SHARE Human Capital Management (HCM) system is the official system of record for all human resource transactions and reporting, the State Treasurer and other State

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-10 ANNUAL AND SICK LEAVE BALANCES NOT CALCULATED CORRECTLY - continued

State Treasurer's Office Response - continued:

government agencies are still experiencing glitches and inaccuracies in HCM reports. The State Treasurer does not administer the SHARE system; therefore, the State Treasurer must rely on the SHARE Help Desk to address system problems/inaccuracies. The Human Resources Bureau (HR) has developed and maintains accurate, reliable parallel reporting systems to reflect leave balances, time sheets and other critical HR information. SHARE HCM reports are regularly reconciled with internally prepared parallel reports and any differences are documented.

The State Treasurer feels strongly that this finding is a SHARE-related finding and not an agency finding. The State Treasurer Human Resource records are sound and well-documented. Procedures for maintaining accurate records are in place and being followed. Monitoring of leave balances by the Human Resources Bureau staff is being performed throughout the fiscal year. The State Treasurer does inform DFA, (SHARE Help Desk) of any differences.

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

2007-11 FINANCIAL AUDIT REPORT NOT FILED BY DUE DATE

Condition: The State Treasurer did not meet the regulated due date for filing its audit report for the fiscal year ended June 30, 2007, with the New Mexico State Auditor on or before December 15, 2007. The audit report was submitted to the State Auditor on July 29, 2008.

Criteria: Rule 2.2.2 of the New Mexico Administrative Code (NMAC) (commonly known as the 2007 Audit Rule) established the due date for the annual financial audit report. Section 2.2.2.9.A.(1).(f) states that the due date of an audit report for a State agency cannot extend beyond December 15, 2007.

Cause: The State Treasurer's Office was not able to complete certain reconciliations of its accounting and investment records to the general ledger until April 2008 due to a change in business practices that required the State Treasurer and the Department of Finance and Administration (DFA) to review, revise and implement accounting methodologies.

Effect: Users of the audited financial statements do not receive timely information in order to make informed decisions.

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

2007-11 FINANCIAL AUDIT REPORT NOT FILED BY DUE DATE - continued

Recommendation: We recommend the State Treasurer continue to implement the accounting methodologies defined by DFA and reconcile accounting and investment records to the general ledger on a monthly basis.

State Treasurer's Office Response: With the many problems encountered by the State Treasurer and several other State agencies with SHARE for fiscal year 2007, compounded by the lack of training on SHARE, the errors in posting investment activity based on guidance provided to the State Treasurer by the SHARE integration contractor, the turnover in key staff in the Finance and Investment divisions, and late closing of the State's books, the delay in completion of the audit was inevitable.

The State Treasurer has implemented a new "Investment Transaction Matrix," which establishes new transaction guidance and reconciliation procedures for all divisions. These new processes, in addition to providing a better understanding of SHARE, more training in SHARE, and better communication between all divisions in the State Treasurer, has prepared the State Treasurer for the annual audit in a timely manner beginning with fiscal year 2008. This transaction matrix, developed in cooperation and conjunction with DFA, incorporates the needs of both agencies for reporting and auditing purposes. This is the first year that the new centralized accounting system has been in place, causing the need for revisions of procedures, which are being addressed as they become known. New business practices will continue to be established and policies and procedures will be developed and revised to improve the accounting, reporting and auditing processes.

Although the Treasurer's Office concurs with the significance of this condition, the State Treasurer does not accept sole responsibility for the occurrence of the condition nor does the State Treasurer have the ability to provide assurance of its correction.

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Summary Schedule of Prior Year Audit Findings

- 06-1 (05-1) Reconciliation of the QED to Northern Trust – Repeated and modified
- 06-2 (05-2) TRACS System – No longer supported (see finding 2007-04)
- 06-3 (05-12) Missing Fixed Assets – Resolved
- 06-4 (05-14) Control over Information Systems – Repeated and modified
- 06-5 (05-15) Reporting of Additions and Deductions to Fiduciary Funds – Resolved
- 06-6 Reconciliation of AFRAS to DFA – Resolved
- 06-7 Cross Training – Repeated and modified

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Exit Conference

An exit conference was held with the State Treasurer on July 14, 2008. 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

James B. Lewis, State Treasurer
Mark F. Valdes, Deputy State Treasurer
Joelle Mevi, Chief Investment Officer, Investment Division Director
Orlando Romero, State Cash Manager, Cash Management Division
Arthur L. "Larry" Castillo, Chief Financial Officer, Budget and Finance Division
Clarence L. Smith, Chief Operations Officer, Operations Division
Vickie A. Brown, Special Assistant to the State Treasurer
Ronald Crespín, Finance & Budget Bureau Chief
Patricia J. Ortiz, Finance & Budget Financial Analyst
Judy A. Espinosa, Compliance Officer
Randilynn M. Lord, Legal Counsel

MEYNER + COMPANY, LLC

Patrick J. Wilkins, CPA, Assurance Principal
Jo Ann Chavez, CPA, Assurance Manager

PREPARATION OF FINANCIAL STATEMENTS

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