

New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on the State of New Mexico \$157,560,000 Severance Tax Bonds, Series 2013A (the "Series 2013A Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision, a prospective investor should read the entire Official Statement. Certain capitalized terms used in the cover page and elsewhere in this Official Statement have the meanings given in the Official Statement.

THE STATE OF NEW MEXICO \$157,560,000 SEVERANCE TAX BONDS, SERIES 2013A

Dated: Delivery Date	Due: July 1, as shown on the inside front cover
<i>Ratings</i>	"Aa1" Moody's Investors Service, Inc. "AA" Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business.
<i>Tax Exemption</i>	In the opinion of Brownstein Hyatt Farber Schreck, LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with the covenants described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item or included in adjusted current earnings for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of New Mexico personal income taxes as described herein. See "TAX MATTERS."
<i>Redemption of Series 2013A Bonds</i>	The Series 2013A Bonds maturing on or after July 1, 2019 are subject to optional redemption by the State in whole or in part on any date on or after July 1, 2018 at par plus accrued interest.
<i>Sources of Payment</i>	The Bonds are special limited obligations of the State payable primarily from, and secured by, taxes levied upon certain natural resource products severed and saved from the soil of the State deposited into the Severance Tax Bonding Fund.
<i>Priority</i>	The Bonds are being issued under the authority of the State of New Mexico Severance Tax Bonding Act. The Bonds will be on a parity with Severance Tax Bonds now or hereafter outstanding and senior to Supplemental Severance Tax Bonds now or hereafter outstanding.
<i>Purposes</i>	Net proceeds of the Series 2013A Bonds are being used to provide funds to finance capital improvements approved by the State Legislature.
<i>Interest Payment Dates</i>	January 1 and July 1, commencing January 1, 2014.
<i>Closing/Settlement</i>	On or about July 23, 2013.
<i>Denominations</i>	\$5,000
<i>Book-Entry System</i>	The Depository Trust Company
<i>Registrar/Paying Agent</i>	State Treasurer of New Mexico
<i>Bond Counsel</i>	Brownstein Hyatt Farber Schreck, LLP
<i>Disclosure Counsel</i>	Brownstein Hyatt Farber Schreck, LLP
<i>Issuer Contact</i>	State Board of Finance: Stephanie Schardin Clarke, Director, 505-827-3930; stephanie.schardin@state.nm.us

Dated: June 18, 2013

SERIES 2013A BONDS

<u>CUSIP⁽¹⁾</u>	<u>Year (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield at Issuance⁽²⁾</u>	<u>Price at Issuance⁽²⁾</u>
647310R37	2014	\$11,985,000	5.0%	0.190%	104.509
647310R45	2015	13,365,000	5.0	0.430	108.814
647310R52	2016	14,030,000	5.0	0.670	112.579
647310R60	2017	14,735,000	5.0	1.020	115.327
647310R78	2018	15,470,000	5.0	1.300	117.643
647310R86	2019	16,245,000	4.0	1.630*	111.201
647310R94	2020	16,890,000	4.0	1.850*	110.102
647310S28	2021	17,570,000	4.0	2.000*	109.360
647310S36	2022	18,270,000	4.0	2.100*	108.868
647310S44	2023	19,000,000	4.0	2.150*	108.623

(1) The State takes no responsibility for the accuracy of CUSIP numbers, which are included solely for the convenience of owners of the Bonds.

(2) This information not provided by State.

ELECTED STATE OFFICIALS

SUSANA MARTINEZ
Governor

DIANNA J. DURAN
Secretary of State

JOHN A. SANCHEZ
Lieutenant Governor

JAMES B. LEWIS
State Treasurer

HECTOR H. BALDERAS
State Auditor

GARY K. KING
Attorney General

RAY POWELL
Commissioner of Public Lands

Public Regulation Commissioners:

KAREN L. MONTOYA
District I

PATRICK H. LYONS
District II

VALERIE ESPINOZA
District III

THERESA BECENTI-AGUILAR
District IV

BEN L. HALL
District V

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Berkeley, California
Public Resources Advisory Group
(as subcontractor)
Los Angeles, California

In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions, which stabilize or maintain the market price of such Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement and, if given or made, such information or representation must not be relied upon. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful to make such an offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor any sales hereunder shall under any circumstances create any implication that there has been no change in the affairs of the State of New Mexico or in the imposition and collection of severance taxes since the date hereof.

This Official Statement contains statements relating to the State's receipt of future revenues that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

The issuer is the author of this Official Statement and is responsible for its accuracy and completeness. The Underwriters are not the authors of the Official Statement. In accordance with their responsibilities under federal securities laws, the Underwriters are required to review the information in this Official Statement and must have a reasonable basis for their belief in the accuracy and completeness of this Official Statement. Both the Preliminary Official Statement and the Official Statement are "deemed final" by the State Board of Finance for purposes of Rule 15c2-12 of the Securities and Exchange Commission.

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TABLE OF CONTENTS

	Page
INTRODUCTION	1
THE SEVERANCE TAX BONDS.....	3
General Terms.....	3
Redemption of Series 2013A Bonds.....	3
Security for the Bonds	4
USE OF PROCEEDS	5
Purpose	5
SEVERANCE TAX BONDING FUND AND DEBT SERVICE REQUIREMENTS	6
Investments	6
Issuance of Severance Tax Bonds.....	7
State Capital Program	7
Outstanding and Additional Senior Severance Tax Bonds	9
Outstanding and Additional Supplemental Severance Tax Bonds	9
SEVERANCE TAX REVENUE	13
Severance Tax Collections and Reporting	13
Severance Tax on Indian Land	14
Recent Local Law Developments	15
NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE.....	15
Natural Gas Reserves and Well Completions	15
Natural Gas Markets	18
Natural Gas Production.....	19
Severance Taxes on Natural Gas	20
Projections of Severance Tax Revenues from Natural Gas	22
OIL PRODUCTION AND SEVERANCE TAX REVENUE	23
Oil Reserves and Production.....	23
Severance Taxes on Oil	25
Projections of Severance Tax Revenues from Oil	26
COAL PRODUCTION AND SEVERANCE TAX REVENUE	27
Coal Reserves and Production	27
Severance Tax Revenue on Coal	28
OTHER MINERAL PRODUCTION AND SEVERANCE TAXES	29
Carbon Dioxide.....	29
Other Minerals	29
OTHER TAXES OF NATURAL RESOURCES NOT PLEDGED.....	31

TABLE OF CONTENTS
(continued)

	Page
Production and Property Taxes on Oil and Natural Gas	31
Production, Sales, and Property Taxes on Coal	32
BOOK-ENTRY-ONLY SYSTEM	33
SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION	36
Covenants.....	36
Defeasance	36
Amendment of Bond Resolution	38
Remedies of Holders of Bonds	38
Payment of Principal and Interest	38
TRANSCRIPT AND LEGAL OPINIONS	39
TAX MATTERS.....	39
LITIGATION.....	41
FINANCIAL ADVISORS	42
RATINGS	42
CONTINUING DISCLOSURE UNDERTAKING.....	42
MISCELLANEOUS	44

LIST OF APPENDICES

- APPENDIX A: GENERAL INFORMATION REGARDING THE STATE OF NEW MEXICO
- APPENDIX B: STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012
- APPENDIX C: FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER
- APPENDIX D: FORM OF OPINION OF BOND COUNSEL
- APPENDIX E: FORM OF CONTINUING DISCLOSURE UNDERTAKING

SUMMARY OF INFORMATION

\$157,560,000 SEVERANCE TAX BONDS, SERIES 2013A

The following material represents a summary of information concerning the Bonds and the security therefor set forth in this Official Statement and is qualified in its entirety by the detailed information herein. Purchasers of the Bonds should review the entire Official Statement before making an investment decision.

<i>Dated:</i>	Delivery Date.
<i>Interest Payment:</i>	Interest is payable semi-annually on January 1 and July 1, commencing on January 1, 2014.
<i>Principal Payment:</i>	The Bonds mature in serial installments as set forth on the inside cover page of this Official Statement.
<i>Redemption of Series 2013A Bonds</i>	The Series 2013A Bonds maturing on or after July 1, 2019 are subject to optional redemption by the State in whole or in part on any date on or after July 1, 2018 at par plus accrued interest.
<i>Registration:</i>	The Bonds are being issued solely in book-entry form in the denomination of \$5,000 or any integral multiple thereof. The Bonds are being registered to Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository.
<i>Legal Opinion:</i>	The Bonds are offered when, as and if issued, subject to the approval of legality by Brownstein Hyatt Farber Schreck, LLP, Bond Counsel.
<i>Security:</i>	The Bonds constitute special limited obligations of the State of New Mexico and will be payable solely from deposits to and revenues of the Severance Tax Bonding Fund, consisting primarily of receipts from certain taxes levied on certain natural resource products severed and saved from the soil of the State of New Mexico as more fully described herein.
<i>Additional Parity Bonds:</i>	The State Board of Finance is prohibited by State statute from issuing Senior Severance Tax Bonds unless the aggregate amount of Senior Severance Tax Bonds outstanding, including the bonds to be issued, can be serviced with not more than 50 percent of the annual deposits into the Severance Tax Bonding Fund, as determined by the deposits during the fiscal year preceding the issuance of the bonds.

THE STATE OF NEW MEXICO
\$157,560,000 SEVERANCE TAX BONDS, SERIES 2013A

INTRODUCTION

The purpose of this Official Statement, including the cover page, the Summary of Information, and the Appendices hereto, is to furnish information regarding the issuance of the \$157,560,000 State of New Mexico Severance Tax Bonds, Series 2013A (the “Series 2013A Bonds” or the “Bonds”), the State of New Mexico (the “State”), and the State Board of Finance (the “Board”).

The Bonds are being issued under authority of the State Severance Tax Bonding Act, Sections 7-27-1 through 7-27-27 NMSA 1978, as amended (the “Severance Tax Bonding Act”), and pursuant to resolutions of the Board adopted on April 16, 2013 and June 18, 2013 (the “Bond Resolution”).

This Official Statement contains summaries of the terms of the Bonds, certain fiscal matters of the State, and the Severance Taxes (defined below) imposed by the State. The descriptions included in this Official Statement do not purport to be comprehensive or definitive, and such summaries and descriptions are qualified in their entirety by reference to such laws, and the definitive forms of documents, exhibits or appendices where applicable.

Requests for additional information about the State, the Severance Taxes, or requests for copies of any document or statute referred to in this Official Statement, may be directed to:

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TABLE 1

**Summary of Projected and Historical Coverage in Severance Tax Bonding Fund
Fiscal Year Ended June 30**

(Dollars in thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Projected Bonding Fund Receipts	\$436,306	\$457,598	\$469,694	\$473,093	\$467,437
Senior Bond Debt Service ⁽¹⁾⁽²⁾	\$127,951	\$126,382	\$133,740	\$128,563	\$118,304
Senior Bond Debt Service Coverage Ratio	3.41x	3.62x	3.51x	3.68x	3.95x
Supplemental Bond Debt Service ⁽²⁾	\$21,483	\$15,605	\$13,986	\$12,495	\$12,224
Supplemental Bond Debt Service Coverage Ratio	2.92x	3.22x	3.18x	3.35x	3.58x
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Bonding Fund Receipts	\$573,595	\$550,222	\$374,234	\$395,652	\$479,903
Senior Bond Debt Service	\$81,270	\$96,019	\$96,290	\$102,901	\$121,367
Senior Bond Debt Service Coverage Ratio	7.06x	5.73x	3.89x	3.87x	3.95x
Supplemental Bond Debt Service	\$18,020	\$15,391	\$15,452	\$19,212	\$29,300
Supplemental Bond Debt Service Coverage Ratio	5.78x	4.94x	3.35x	3.26x	3.19x

⁽¹⁾ Includes debt service on the Bonds.

⁽²⁾ Excludes debt service on refunded bonds, if any, which will be paid from escrowed securities and severance tax debt obligations sold to the State Treasurer that are retired within the same fiscal year.

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THE SEVERANCE TAX BONDS

General Terms

The Bonds are dated their date of delivery, bear interest until the principal amount thereof is paid, and mature as set forth on the inside cover page hereof. Interest on the Bonds is payable on January 1 and July 1, commencing on January 1, 2014. The Bonds are being issued solely in book-entry form in denominations of \$5,000 or integral multiples thereof. The Bonds are being registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository for the Bonds. The Bonds are subject to transfer and exchange as set forth in the Bond Resolution.

Redemption of Series 2013A Bonds

The Series 2013A Bonds maturing before July 1, 2018 will not be subject to optional redemption. The Series 2013A Bonds maturing on or after July 1, 2019 will be subject to optional redemption, at the option of the Board, in whole or in part on any date on or after July 1, 2018 at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest on the principal amount redeemed to the date of redemption.

If less than all of the outstanding Series 2013A Bonds of a particular maturity are to be redeemed, the selection of Series 2013A Bonds or portions of Series 2013A Bonds to be redeemed, in amounts of \$5,000 or any integral multiple thereof, shall be made by lot within that maturity by the State Treasurer, as Registrar/Paying Agent, in such manner as the Registrar/Paying Agent may determine. If less than the full amount of any Series 2013A Bond is to be redeemed, then, upon surrender of such Series 2013A Bond by the owner to the Registrar/Paying Agent for payment of the redemption price, the Registrar/Paying Agent shall deliver to such owner, without charge, a new Series 2013A Bond or Series 2013A Bonds of any authorized denomination or denominations in an aggregate principal amount equal to the unmaturing and unredeemed portion of, and with the same interest rate and maturity date as, the Series 2013A Bond surrendered.

The Board shall give the Registrar/Paying Agent notice that Series 2013A Bonds will be called for redemption not less than 30 nor more than 45 days prior to the redemption date. The Board will give, or cause to be given, notice of redemption to the owners of Series 2013A Bonds to be called for redemption by sending a copy of such notice by registered or certified first-class postage prepaid mail not less than 30 nor more than 45 days prior to the redemption date to the registered owner of each Series 2013A Bond, or portion of a Series 2013A Bond, to be redeemed at the address shown as of the fifth day prior to the mailing of notice on the registration books kept by Registrar/Paying Agent. So long as a book-entry system is used for determining beneficial ownership of the Series 2013A Bonds, such notice of redemption will be given to DTC, or its nominee, as registered owner of the Series 2013A Bonds. Such notice shall be sent to DTC by a secure means as set forth in the letter of representation from the Board and the Registrar/Paying Agent to DTC or as otherwise agreed to with DTC from time to time (the “Letter of Representation”) in a timely manner designed to assure that such notice is in DTC’s possession at the time set forth in the Letter of Representation.

In addition, if the Series 2013A Bonds are not being held by DTC, notice of redemption shall be published at least once, not less than 30 days nor more than 60 days prior to the date of redemption, in a newspaper published and of general circulation in the State. Neither the Board’s failure to give such notice to the Registrar/Paying Agent, nor the failure to publish such notice, nor the Board’s failure to give such notice to the registered owner of any Series 2013A Bond, or any defect in such notice, shall affect the validity of the proceedings for the redemption of any Series 2013A Bonds for which proper notice

was given by mail as set forth in this paragraph. All notices shall specify the maturity dates and the numbers of the Series 2013A Bonds to be redeemed (if less than all are to be redeemed) the amount of such Series 2013A Bond to be redeemed (if less than the full amount of any Series 2013A Bond is to be redeemed), the date fixed for redemption, the redemption price to be paid and shall further state that on such redemption date there will become and be due and payable upon each Series 2013A Bond to be redeemed at the office of the Registrar/Paying Agent the unpaid principal amount of such Series 2013A Bond, or the portion of such Series 2013A Bond so redeemed, plus accrued interest on such principal amount to the redemption date and that from and after such date interest will cease to accrue on such principal amount. The notice of redemption shall also include additional provisions required by the Letter of Representation. Notice having been given in the manner provided, the Series 2013A Bond or Series 2013A Bonds called for redemption shall become due and payable on the redemption date designated and if an amount of money sufficient to redeem all Series 2013A Bonds or portions of Series 2013A Bonds called for redemption is on deposit with the Registrar/Paying Agent on the redemption date, the Series 2013A Bonds or portions of Series 2013A Bonds to be redeemed shall no longer be deemed to be outstanding and shall cease to bear interest from and after such redemption date. Upon presentation of any Series 2013A Bond redeemed at the office of the Registrar/Paying Agent, the redemption price of such Series 2013A Bond or Series 2013A Bonds shall be paid as set forth in the Bond Resolution.

Security for the Bonds

There are two categories of bonds issued by the State Board of Finance wherein the money in the Severance Tax Bonding Fund (the "Bonding Fund") is pledged for their retirement. Those bonds are referred to in the Severance Tax Bonding Act as "New Mexico Severance Tax Bonds" and as "New Mexico Supplemental Severance Tax Bonds" but, for clarity, are referred to herein as "Senior Severance Tax Bonds" and "Supplemental Severance Tax Bonds," respectively. Where appropriate, Senior Severance Tax Bonds and Supplemental Severance Tax Bonds are collectively referred to herein as "Severance Tax Bonds."

The Bonds are special obligations of the State secured by and payable solely from, on a parity basis to Senior Severance Tax Bonds now or hereafter outstanding and on a prior lien basis to Supplemental Severance Tax Bonds now or hereafter outstanding, deposits to the Bonding Fund into which are deposited, pursuant to the Severance Tax Bonding Act, the net receipts from taxes levied in accordance with the Severance Tax Act Sections 7-26-1 through 7-26-11 NMSA 1978, as amended (the "Severance Tax Act") and the Oil and Gas Severance Tax Act Sections 7-32-1 through 7-32-28, as amended (the "Oil and Gas Severance Tax Act") upon certain natural resource products severed and saved from the soil of the State ("Severance Taxes"), investment earnings on such deposits and on unused bond proceeds in certain accounts, and such other moneys as the Legislature in its sole discretion may from time to time determine. On June 30 and December 31 of each year, the excess money in the Bonding Fund over the amount necessary to meet all principal and interest payments on all outstanding Severance Tax Bonds on the next two ensuing semiannual payment dates must be transferred to the Severance Tax Permanent Fund.

Once moneys are so transferred, they no longer may be used to pay, or to secure payment of, principal, premium, if any, or interest on any Severance Tax Bonds. Severance Tax Bonds are not general obligations of the State and the State is prohibited by law from using the proceeds of property taxes as a source of payment of revenue bonds, including Severance Tax Bonds.

The State Treasurer keeps separate accounts for all money collected as Severance Taxes, and is directed by State statute to pay Severance Tax Bonds from moneys on deposit in the Bonding Fund. The Bond Resolution provides for the creation of a separate Debt Service Account within the Bonding Fund for the payment of principal and interest on the Bonds.

The State Board of Finance is prohibited by the Severance Tax Bonding Act from issuing Senior Severance Tax Bonds unless the aggregate amount of total Senior Severance Tax Bonds outstanding, including the bonds to be issued, can be serviced with not more than 50 percent of the annual deposits into the Bonding Fund, as determined by the deposits during the fiscal year preceding the issuance of the bonds. The total aggregate principal amount of outstanding Severance Tax Bonds issued by the State does not now, nor will such amount upon the issuance of the Bonds, exceed any applicable limit prescribed by the Constitution or laws of the State.

The Severance Tax Bonding Act requires the Legislature to provide for the continued assessment, levy, collection and deposit into the Bonding Fund of Severance Taxes which, together with such other moneys as may be deposited into the Bonding Fund, will be sufficient to produce an amount at least equal to annual debt service on all outstanding Severance Tax Bonds.

In addition, the Board covenants in the Bond Resolution that the State will use its best efforts to collect and deposit in the Bonding Fund sufficient income from Severance Taxes so that, when combined with other moneys deposited in the Bonding Fund, the amount deposited annually in the Bonding Fund will equal at least 200 percent of the amount of the principal and interest scheduled to be due in each fiscal year on all Senior Severance Tax Bonds, including the Bonds. However, the Board does not have the power to levy or impose Severance Taxes, and no assurance exists that the 200 percent requirement will be met.

The Severance Tax Bonding Act also permits the Board to issue Supplemental Severance Tax Bonds also payable from amounts in the Bonding Fund, but subject to the prior payment of Senior Severance Tax Bonds. The Bonds, all currently outstanding Senior Severance Tax Bonds, and any Senior Severance Tax Bonds issued on a parity with the Bonds will have a pledge and lien senior to any Supplemental Severance Tax Bonds now outstanding or hereafter issued.

USE OF PROCEEDS

Purpose

The proceeds of the Series 2013A Bonds are being used to provide funds to finance capital improvements approved by the State Legislature.

The sources and uses of funds for the Bonds are as follows:

SOURCES:

Par Amount	\$157,560,000.00
Original Issue Premium/Discount	16,899,969.85
TOTAL SOURCES	\$174,459,969.85

USES:

Deposit to Capital Project Account	\$173,595,989.59
Underwriter's Discount	863,980.26
TOTAL USES	\$174,459,969.85

SEVERANCE TAX BONDING FUND AND DEBT SERVICE REQUIREMENTS

Severance Taxes have been collected by the State since the adoption of the Severance Tax Act in 1937. Since 1959, certain Severance Tax receipts and certain other moneys determined by the Legislature have been deposited into the Bonding Fund and used, in part, to service bond issues, which have funded a variety of capital improvements in the State. Pursuant to the provisions of the Severance Tax Act and the Oil and Gas Severance Tax Act, Severance Tax receipts, including penalties and interest, and such other moneys as the Legislature in its sole discretion may from time to time determine (including interest earnings on moneys in the Bonding Fund and the project accounts and reversions from project accounts in the Bonding Fund), are deposited into the Bonding Fund. As of the date of this Official Statement other moneys including interest earnings on moneys in the Bonding Fund, reversions from project accounts in the Bonding Fund, prepayments and tax settlements have been deposited. See the table entitled "SEVERANCE TAX BONDING FUND RECEIPTS, DISBURSEMENTS AND TRANSFERS" herein. The moneys in the Bonding Fund are pledged for the payment of principal, premium, if any, and interest on Severance Tax Bonds and Supplemental Severance Tax Bonds, and there are no other liens or encumbrances of any nature on or against (i) the Bonding Fund, or (ii) the net revenues derived from Severance Taxes that are required to be credited to the Bonding Fund.

Severance taxation is determined by State statute. For a description of the various Severance Tax rates and methods of their calculation, see "SEVERANCE TAX REVENUE" below.

Investments

Funds on deposit in the Bonding Fund are invested by the State Treasurer at the direction and approval of the Board, pursuant to the State Treasurer's Investment Policy ("Investment Policy"). For a description of the Investment Policy, see "Appendix A." Investments are made in securities, which are at the time legal investments of the State, and no such investment or deposit shall violate any applicable restrictions imposed by the Code (defined below) and applicable Treasury Regulations relating to the market price and the existence of an established market.

Except for funds deposited into the Rebate Fund (defined in the Bond Resolution), net interest earned on the amounts on deposit in the Debt Service Account shall be retained therein, and net interest earned on amounts on deposit in the Project Fund shall be credited to the Debt Service Account and applied to the payment of principal and interest on the Bonds next becoming due. Any net loss, after applying any earnings in that account or fund to the loss, resulting from any investment shall be charged to the applicable account from which such investment was made.

Issuance of Severance Tax Bonds

The Severance Tax Bonding Act authorizes the issuance and sale of Senior Severance Tax Bonds and Supplemental Severance Tax Bonds payable from the net receipts from taxes levied upon certain natural resource products severed and saved from the soil (“Severance Taxes”) in accordance with the provisions of, and as described in, the Severance Tax Bonding Act.

Severance Taxes are collected on a monthly basis by the New Mexico Taxation and Revenue Department (the “TRD”) and deposited in the Extraction Taxes Suspense Fund within the general fund of the State. On or around the 25th day of the month following the collection of the Severance Taxes, if the TRD determines that there is no substantial risk of protest or litigation over those tax revenues, they are released from the Extraction Taxes Suspense Fund and deposited in the Bonding Fund; otherwise the tax revenues are held in the Extraction Taxes Suspense Fund until the substantial risk of protest or litigation is no longer present.

On December 31 and June 30 of each fiscal year, excess funds in the Bonding Fund are transferred into the Severance Tax Permanent Fund. Excess funds are defined as funds in excess of the next two semi-annual payments of debt service on Severance Tax Bonds. **Balances in the Severance Tax Permanent Fund are not pledged as security for the Bonds.**

In addition to the sale of long-term Senior Severance Tax Bonds and Supplemental Severance Tax Bonds, the State issues short-term Severance Tax Funding Notes and Supplemental Severance Tax Funding Notes from time to time to utilize excess capacity available in the Bonding Fund, as authorized by the Legislature, and to make those funds available for capital projects of the State. These short-term obligations generally are taxable for federal income tax purposes, have a maturity of five days or less, mature in the fiscal year in which they are issued and are purchased by the State Treasurer.

State Capital Program

State general fund balances and proceeds from General Obligation Bonds, Senior Severance Tax Bonds, Supplemental Severance Tax Bonds and Transportation Bonds are important sources of capital financing for the State. The following table summarizes the capital funding administered by the Board and certain other sources for Fiscal Year 2008 through Fiscal Year 2012.

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TABLE 2

**Principal Sources of Capital Project Funding
Fiscal Year Ended June 30
(Dollars in millions)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Proceeds from General Obligation Bonding Program⁽¹⁾					
General Obligation Bonds	\$ 0.0	\$ 223.4	\$ 0.0	\$ 19.7	\$0.0
Subtotal	<u>\$ 0.0</u>	<u>\$ 223.4</u>	<u>\$ 0.0</u>	<u>\$ 19.7</u>	<u>\$0.0</u>
Proceeds from Severance Tax Bonding Program⁽¹⁾					
Severance Tax Bond	\$153.6	\$0.0	\$ 315.3	\$0.0	\$121.2
Severance Tax Funding Notes ⁽²⁾	150.9	188.7	178.5	27.3	76.2
Supplemental Severance Tax Bonds	0.0	0.0	112.9	0.0	0.0
Supplemental Severance Tax Funding Notes ⁽²⁾	<u>222.8</u>	<u>240.8</u>	<u>97.0</u>	<u>206.1</u>	<u>148.7</u>
Subtotal	<u>\$527.3</u>	<u>\$ 429.5</u>	<u>\$ 703.7</u>	<u>\$233.4</u>	<u>\$346.2</u>
Proceeds From Other Sources					
General Fund ⁽³⁾	\$123.0	\$(148.6)	\$(259.2)	\$0.0	\$0.0
Transportation Bonds ⁽⁴⁾	0.0	40.0	80.5	81.1	0.0
Lease Appropriation Bonds	<u>0.0</u>	<u>60.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Subtotal	<u>\$123.0</u>	<u>\$ (48.6)</u>	<u>\$(178.7)</u>	<u>\$ 81.1</u>	<u>\$0.0</u>
Total⁽⁵⁾	\$650.3	\$ 604.3	\$ 525.0	\$334.2	\$346.2

⁽¹⁾ Dollar amounts from State Board of Finance funding programs reflect net proceeds available for capital expenditure. Amounts vary annually by legislative action.

⁽²⁾ The Board issues short-term Severance Tax funding notes and Supplemental Severance Tax funding notes to fund authorized projects. The notes are sold to the State Treasurer and retired within the same fiscal year.

⁽³⁾ In Fiscal Year 2009, due to budgetary constraints, \$148.6 million previously appropriated for Capital Project Funding was reappropriated for purposes other than Capital Project Funding. In Fiscal Year 2010, due to budgetary constraints, \$259.2 million previously appropriated for Capital Project Funding was reappropriated for purposes other than Capital Project Funding.

⁽⁴⁾ In July 2008, the New Mexico Finance Authority entered into a \$200,000,000 line of credit which was drawn upon for transportation related capital expenditures in Fiscal Years 2009-2011. In Fiscal Year 2011, the New Mexico Finance Authority refunded the line of credit through the issuance of State Transportation Revenue and Refunding Bonds (Senior Lien) Series 2010A-1 and State Transportation Revenue and Refunding Bonds (Subordinate Lien) Series 2010A-2, the proceeds of which are available for transportation related capital expenditures. All subsequent bonds or notes issued by the New Mexico Finance Authority for transportation purposes have been either economic refundings of outstanding new money bonds or restructurings of outstanding new money bonds.

⁽⁵⁾ Totals may not add due to rounding.

Source: *New Mexico State Board of Finance, the Department of Finance and Administration and the New Mexico Finance Authority.*

In addition to the General Obligation Bonding Program, the Severance Tax Bonding Program and the Supplemental Severance Tax Bonding Program issued and administered by the Board, there are a number of other sources of funds for capital projects throughout the State. These other sources of funding include surplus general fund appropriation, special appropriations and proceeds of bonds issued by, among others, the New Mexico Finance Authority, the State Transportation Commission and state educational institutions.

Outstanding and Additional Senior Severance Tax Bonds

The Bonds will be secured on a parity with the following Senior Severance Tax Bonds currently outstanding (exclusive of those Senior Severance Tax Bonds additionally secured by escrowed securities). The Bonds will be issued with a lien senior to the Supplemental Severance Tax Bonds currently outstanding prior to the delivery of the Bonds. See “Outstanding and Additional Supplemental Severance Tax Bonds” under this caption.

TABLE 3

**Outstanding Senior Severance Tax Bonds
Upon the Delivery of the Bonds**

	<u>Prior to Delivery</u>	<u>After Delivery</u>
Severance Tax Bonds, Series 2009A	\$107,335,000	\$107,335,000
Severance Tax Bonds, Series 2010A	98,350,000	98,350,000
Severance Tax Bonds, Refunding Series 2010C	19,140,000	19,140,000
Severance Tax Bonds, Refunding Series 2010D	101,240,000	101,240,000
Severance Tax Bonds, Series 2011A-1	42,995,000	42,995,000
Severance Tax Bonds, Refunding Series 2011A-2	75,715,000	75,715,000
Severance Tax Bonds, Series 2012A	56,490,000	56,490,000
Severance Tax Bonds, Series 2013A		157,560,000
	<hr/>	<hr/>
	\$501,265,000	\$658,825,000

Source: New Mexico State Board of Finance.

Additional senior lien bonds may be issued in the future if all outstanding Senior Severance Tax Bonds, including the proposed bonds, can be serviced with not more than 50 percent of the annual deposits into the Bonding Fund as determined by the deposits during the fiscal year preceding the date of issuance of such Senior Severance Tax Bonds.

Outstanding and Additional Supplemental Severance Tax Bonds

Supplemental Severance Tax Bonds are authorized pursuant to an amendment to the Severance Tax Bonding Act enacted in 1999. Long-term Supplemental Severance Tax Bonds may be issued if all outstanding Senior Severance Tax Bonds and Supplemental Severance Tax Bonds, including the proposed bonds, can be serviced with not more than 62.5 percent of the annual deposits into the Bonding Fund as determined by the deposits during the fiscal year preceding the date of issuance of such Supplemental Severance Tax Bonds. In addition, short-term supplemental Severance Tax Funding Notes may be issued with a term that does not extend beyond the then current fiscal year if the debt service on such Supplemental Severance Tax Funding Notes, when added to the debt service previously paid or scheduled to be paid during that fiscal year on Severance Tax Bonds and Supplemental Severance Tax Bonds and Severance Tax Funding Notes and Supplemental Severance Tax Funding Notes, does not exceed 95 percent of the deposits into the Bonding Fund during the preceding year. The Legislature has authorized the Board to issue Supplemental Severance Tax Bonds for public school projects in amounts certified to the Board from time to time by the Public School Capital Outlay Council of the State. The lien of the pledge of such Supplemental Severance Tax Bonds (including short-term funding notes) is subordinate to any Senior Severance Tax Bonds.

TABLE 4

**Outstanding Supplemental Severance Tax Bonds
Upon the Delivery of the Bonds**

Supplemental Severance Tax Bonds, Series 2004B	\$ 1,150,000
Supplemental Severance Tax Bonds, Series 2010B	<u>72,075,000</u>
Total	\$ 73,225,000

Source: New Mexico State Board of Finance.

The following tables set forth actual and projected results for the Bonding Fund including receipts, disbursements, debt service requirements, transfers and projected debt service coverage ratios.

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TABLE 5

**Severance Tax Bonding Fund
Receipts, Disbursements and Transfers
Fiscal Year Ended June 30⁽¹⁾⁽²⁾
(Dollars in thousands)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Beginning Balance	\$224,860	\$107,217	\$172,318	\$130,346	\$161,190
Receipts:					
Taxes:					
Oil and Gas Severance Tax	\$493,293	\$492,885	\$325,761	\$350,718	\$449,283
Other Minerals Severance Taxes	<u>18,501</u>	<u>23,431</u>	<u>24,362</u>	<u>16,009</u>	<u>13,548</u>
Total Severance Taxes	\$511,794	\$516,315	\$350,123	\$366,727	\$462,831
Other Income:					
Interest on Investments	\$ 57,410	\$ 31,607	\$ 21,610	\$ 18,102	\$9,941
Bond Proceeds	0	0	369	0	4
Other financing sources	<u>4,391</u>	<u>2,300</u>	<u>2,131</u>	<u>10,823</u>	<u>7,126</u>
Total Other Income	\$ 61,801	\$ 33,907	\$ 24,111	\$ 28,295	\$ 17,072
Total Receipts	\$573,595	\$550,222	\$374,234	\$395,652	\$479,903
Disbursements:					
Senior Bond Debt Service	\$158,564	\$ 12,433	\$ 96,290	\$103,867	\$121,367
Senior Short-term Obligations ⁽³⁾	269,750	188,684	178,594	27,273	76,220
Supplemental Bond Debt Service	39,056	1,074	15,452	19,212	29,300
Supplemental Short-term Obligations ⁽³⁾	222,799	240,841	97,001	206,130	148,745
Fiscal Charges	<u>665</u>	<u>895</u>	<u>1,396</u>	<u>4,838⁽⁴⁾</u>	<u>3,034</u>
Total Disbursements	\$690,834	\$443,926	\$388,734	\$361,321	\$378,665
Transfers:					
To Severance Tax Permanent Fund	<u>\$ 404</u>	<u>\$ 41,195</u>	<u>\$ 27,472</u>	<u>\$ 3,488</u>	<u>\$ 7,617</u>
Total Transfers	\$ 404	\$ 41,195	\$ 27,472	\$ 3,488	\$ 7,617
Ending Balance, June 30	\$107,217 ⁽⁵⁾	\$172,318 ⁽⁶⁾	\$130,346 ⁽⁷⁾	\$161,190 ⁽⁸⁾	\$254,810 ⁽⁹⁾

⁽¹⁾ All receipts, expenditures and balances exclude amounts in rebate accounts retained for potential arbitrage rebates.

⁽²⁾ Proceeds and expenditures attributable to refunding bonds are excluded from this table because such proceeds and expenditures are reserved for payments on appropriate refunding bonds and are not available for debt service payments on other Severance Tax Bonds.

⁽³⁾ The Board issues short-term Severance Tax funding notes and Supplemental Severance Tax funding notes to fund the authorized projects. The notes are sold to the State Treasurer and retired within the same fiscal year.

⁽⁴⁾ Includes \$2.0 million paid to escrow agent in connection to Series 2010D advance refunding.

⁽⁵⁾ The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on July 31, 2008 in the amount of \$41.1 million.

⁽⁶⁾ The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was \$27.5 million. An initial transfer of \$30.1 million was made on July 14, 2009. After further review, a reversal to the Severance Tax Bonding Fund of \$2.6 million was made on November 23, 2009, to reflect the correct amount necessary to be transferred.

⁽⁷⁾ The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on July 1, 2010 in the amount of \$3.5 million.

⁽⁸⁾ The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on August 3, 2011 in the amount of \$7.6 million.

⁽⁹⁾ The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on July 3, 2012 in the amount of \$103.9 million.

Source: New Mexico State Board of Finance based on the Statewide Human Resources, Accounting, and Management Reporting System (the "SHARE System").

TABLE 6

Severance Tax Bonding Fund Projected Receipts
Fiscal Year Ending June 30⁽¹⁾⁽²⁾
(Dollars in thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Severance Tax Bonding Fund Receipts					
Taxes: Natural Gas	\$152,576	\$164,665	\$173,203	\$174,651	\$164,922
Oil	<u>\$238,400</u>	<u>\$247,004</u>	<u>\$250,661</u>	<u>\$252,613</u>	<u>\$256,685</u>
Subtotal-Oil & Gas Severance Tax	\$390,976	\$411,669	\$423,864	\$427,263	\$421,607
Coal	\$19,883	\$19,883	\$19,883	\$19,883	\$19,883
Other Minerals	<u>\$3,546</u>	<u>\$3,546</u>	<u>\$3,546</u>	<u>\$3,546</u>	<u>\$3,546</u>
Subtotal-Other Severance Tax	\$23,429	\$23,429	\$23,429	\$23,429	\$23,429
Investment Earnings	\$20,200	\$20,700	\$20,700	\$20,700	\$20,700
Other Income	<u>\$1,700</u>	<u>\$1,800</u>	<u>\$1,700</u>	<u>\$1,700</u>	<u>\$1,700</u>
Total Receipts	\$436,306	\$457,598	\$469,694	\$473,093	\$467,437

(1) Columns may not total due to rounding.

(2) The Consensus Group updated oil and natural gas price estimates in December 2012; at that time, the Department of Finance and Administration provided a more conservative oil volume forecast on which this bonding fund forecast is based. The updated price estimates have been used for purposes of calculating revenue and bonding capacity.

Source: New Mexico Department of Finance and Administration and Fiscal Strategies Group.

See also, “NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE – Projections of Severance Tax Revenues from Natural Gas,” “OIL PRODUCTION AND SEVERANCE TAX REVENUE – Projections of Severance Tax Revenues from Oil,” and “COAL PRODUCTION AND SEVERANCE TAX REVENUE – Projections of Severance Tax Revenue from Coal” herein.

TABLE 7

State of New Mexico Severance Tax Bonds
Projected Cash Receipts, Debt Service Requirements and Coverage

<u>Fiscal Year</u> <u>Ending 6/30</u>	<u>Projected</u> <u>STBF Revenues</u>	<u>Scheduled Senior</u> <u>Debt Service</u> ⁽¹⁾	<u>Projected</u> <u>Senior Debt</u> <u>Service Coverage</u>	<u>Scheduled</u> <u>Supplemental</u> <u>Debt Service</u> ⁽¹⁾	<u>Projected</u> <u>Supplemental</u> <u>Coverage</u>
2013	\$436,305,707	\$127,951,205	3.41x	\$21,483,074	2.92x
2014	457,597,860	126,382,492	3.62x	15,604,958	3.22x
2015	469,693,525	133,739,813	3.51x	13,986,175	3.18x
2016	473,092,573	128,562,538	3.68x	12,495,425	3.35x
2017	467,436,745	118,304,038	3.95x	12,223,675	3.58x
2018	461,116,454	101,584,788	4.54x	11,989,675	4.06x
2019	455,010,756	86,513,663	5.26x	11,781,175	4.63x
2020	448,809,207	69,118,975	6.49x	11,586,425	5.56x
2021	442,971,037	50,002,056	8.86x	11,469,900	7.21x
2022	437,037,015	33,406,000	13.08x	--	13.08x

(1) Includes debt service on the Bonds. Excludes debt service on refunded bonds which will be payable from escrowed securities and severance and supplemental severance tax debt obligations sold to the State Treasurer which are retired within the same fiscal year.

Sources: New Mexico State Board of Finance and Fiscal Strategies Group.

See also, the table entitled “SEVERANCE TAX BONDING FUND PROJECTED RECEIPTS” herein.

SEVERANCE TAX REVENUE

The minerals extracted from the State that contribute the largest portion of Severance Tax revenues are natural gas, crude oil and coal. Severance Taxes from natural gas and crude oil together accounted for approximately 97.1 percent of total Fiscal Year 2012 Bonding Fund tax receipts. This percentage is calculated net of Intergovernmental Tax Credits.

The State’s Energy, Minerals, and Natural Resources Department (“EMNRD”) records and generates data on mineral resources in the State. EMNRD produces annual reports on the State’s mineral resources. The TRD compiles reports of taxable volume, value, deductions and tax receipts by commodity and land type. The State Consensus Revenue Estimating Group (the “Consensus Group”) is composed of economists from the executive and legislative branches of New Mexico state government. The Consensus Group’s annual production estimates and projections of Severance Tax receipts are made jointly by the Department of Finance and Administration (the “DFA”), the TRD, the Department of Transportation and the Legislative Finance Committee. See “Appendix C: FORM OF ATTORNEY GENERAL’S NO LITIGATION LETTER” for a discussion of pending litigation and other proceedings concerning the collection of Severance Taxes.

Severance Tax Collections and Reporting

Operators, purchasers and working interest owners are required to submit monthly reports to the TRD showing the total value, volume and kind of products sold from every production unit each month. Taxes must be paid at the same time and are due 55 days after the month of production. Each production report must be accompanied by a company identification number, which facilitates automated processing of return information. Production and associated tax liability are reported by “production unit” and a designation for a well or group of wells that is assigned by the TRD based on the master operation, property name identification and pool. A suffix is added to the production unit number to designate the specific land type and taxing authority including county, school district, and municipality. During calendar year 2012, the TRD received an average of 729 oil and natural gas returns per month containing an average of 142,775 lines of detailed information about production from different production units.

Complete reporting forms must be mailed or delivered, or their information electronically transmitted, on or before the 25th day of the second month after the calendar month for which the report is required. Taxpayers whose total tax liability for the month (including the oil and gas emergency school tax, the oil and gas conservation tax and the oil and gas ad valorem tax, as well as the oil and gas severance tax) exceeds \$25,000 must provide payment by automated clearinghouse or by wire transfer on or before the due date. Taxpayers who fail to report or pay in a timely fashion are assessed interest at the rate established for individuals under Internal Revenue Code Section 6621 computed on a daily basis beginning the day after the due date and continuing until the date the tax is reported or paid. A penalty is assessed when a taxpayer fails to pay any tax or file any report by the due date because of negligence or disregard of rules and regulations. A penalty is charged at a rate of 2 percent per month, up to a maximum of 20 percent of the tax due.

The State maintains an automated database system (“ONGARD” for Oil and Natural Gas Administration and Revenue Database) to monitor production and sales activities of oil and natural gas producers. ONGARD functions include: managing the inventory of lands within the state and tracking all leases to determine whether royalty payments are owed to the State; monitoring all oil and natural gas wells for compliance with unitization agreements and other production-related information; and

processing tax and royalty payments due to the State. The integrated database gives the State enhanced capabilities to compare and evaluate production, tax and royalty reports, and to issue automated exception reports.

Severance taxes received by the TRD are deposited into the Oil and Gas Suspense Fund. Using the ONGARD system, the TRD reconciles monthly information reports with the payments received to identify the appropriate amounts to distribute to each tax beneficiary. Oil and gas severance tax amounts that have been reconciled and as to which TRD has determined no substantive risk of protest or litigation is present are then transferred monthly to the Bonding Fund.

Severance Tax on Indian Land

The State can tax non-Indian oil and natural gas production on tribal land, according to United States Supreme Court precedent in *Cotton Petroleum Co. v. State of New Mexico*, 490 U.S. 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 (1989). The State's authority to impose severance taxes on Indian oil and natural gas production on tribal land was upheld by the United States District Court in New Mexico in *Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922. In 2009 however, in *Ute Mountain Ute Tribe v. Homans*, No. CIV 07-772 JP/WDS, the United States District Court for the District of New Mexico (Judge Parker) held that the State may not impose severance taxes on non-tribal operators extracting oil and natural gas on the tribal land of the Ute Mountain Ute Tribe. The Tenth Circuit Court of Appeals overturned the district court opinion and held that the State severance taxes are not preempted by federal law. *Ute Mountain Ute Tribe v. Rodriguez*, 2011 WL 3134838 (10th Cir. 2011). The Ute Mountain Ute Tribe petitioned for an en banc review, which the court denied on September 12, 2011. The United States Supreme Court denied the Ute Mountain Ute Tribe's petition for a writ of certiorari on February 21, 2012.

Information reported on the "ONGARD" website by TRD based on oil and gas tax return data indicates that natural gas production and crude oil production on Indian land was approximately 3.8 percent and 0.6 percent, respectively, of total taxable statewide production in Fiscal Year 2012. The TRD estimates that oil and natural gas production on Indian land generated \$7.8 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2012 (net of Intergovernmental Production Tax Credit). Coal production on Indian land was 33.9 percent of total statewide production in Fiscal Year 2012. No potash, copper or carbon dioxide ("CO₂") is produced on Indian land.

Section 7-29C-1 NMSA 1978, enacted by the 1995 Legislature, authorized a credit against state production and property taxes for similar taxes imposed by tribal governments. The credit applies to crude oil and natural gas from new wells drilled on or after July 1, 1995 on land within Indian reservation boundaries on March 1, 1995. The amount of the credit is 75 percent of the lesser of state taxes or tribal taxes imposed. If the applicable tribal taxes were raised after March 1, 1995, then the amount of the State's credit is lowered. The ONGARD website reports that total credits claimed under this provision were about \$2.3 million in Fiscal Year 2012. About \$0.9 million of these credits were applied against oil and natural gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

The 2001 Legislature enacted Sections 7-29C-2, 7-9-88.2 and 9-11-12.2 NMSA 1978, which provided a similar 75 percent intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo Nation. The TRD reports that this credit reduced Bonding Fund revenue by \$2.7 million in Fiscal Year 2012.

The enactment of Section 7-31-27 NMSA 1978 created the Jicarilla Apache Tribal Capital Improvement Tax Credit, but this credit does not apply against the severance tax revenues due on the same production. This tax credit is a maximum of 0.7 percent of the taxable value of oil and natural gas products produced on Jicarilla Apache Tribal lands, in addition to the tax credit authorized in Section 7-29C-1 and is claimed as a reduction of emergency school tax amounts. Proceeds of the tax credit must be used exclusively to fund capital improvement projects on Jicarilla Apache tribal lands, although funds may not be used to finance commercial activity.

Recent Local Law Developments

Over the past few years, several local governments in the State have proposed or adopted laws which could have the effect of limiting natural resource extraction in those jurisdictions. No local government in which a significant extraction of natural resources occurs has enacted laws limiting natural resource extraction.

For example, in April 2013, Mora County, a sparsely populated county in the north central section of the State enacted a self-styled Community Water Rights and Local Self Government Ordinance, which, among other things, states: “It shall be unlawful for any corporation to engage in the extraction of oil, natural gas, or other hydrocarbons within Mora County”. Similar legislation has been proposed in San Miguel County, also in the north central section of the State, and in Las Vegas, a municipality in that county. Legislation adopted in Las Vegas by its city council was not signed by its mayor. In 2008, Santa Fe County amended its land development code to address oil and gas exploration, drilling, production, transportation, abandonment and remediation.

To date, the proposal and enactment of local laws has not had a material effect on the amount of severance tax revenues collected by the State. While future actions by local governments relating to natural resource extraction is not predictable, litigation challenging any restrictive local enactments would be a likely consequence of such actions.

NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE

Natural Gas Reserves and Well Completions

Table 8 presents the U.S. Energy Information Administration (“EIA”) estimates of natural gas “proved reserves” in New Mexico over the years 2000 to 2010. This is the latest data available from the EIA. Proved reserves are estimates of recoverable volumes under existing economic and operating conditions. They represent the narrowest measurement of energy resources. Each year the EIA updates its estimates to reflect new information, new discoveries and the production during the year. Increases due to revisions and new discoveries usually offset some or all of the decline due to current production.

New Mexico’s proved natural gas reserves were estimated to be 16,529 billion cubic feet (bcf) at the end of calendar year 2010, down from 18,509 bcf at the end of calendar year 2000, a decade earlier. Reserves decreased by about 1,980 bcf during the period, and production was about 15,000 bcf. Additions through new discoveries and revised estimates have offset 86.8 percent of the production during the decade. The current reserve estimate represents a New Mexico reserve-to-current-production ratio of 12.6:1 years.

New Mexico’s proved natural gas reserves increased in the early 1990’s due to exploration and development in coal seams that was triggered by the federal income tax credit (Section 29 of the Internal Revenue Code). The credit was worth more than \$1.00 per thousand cubic feet (mcf) of production and grew with inflation, but it is no longer available for production occurring after 2002. In Fiscal Year 2012

production from coal seam formations accounted for approximately 27.4 percent of total statewide natural gas production.

The “proven reserves-to-production” ratio is a measure analogous to inventory-to-production for manufacturers. It represents the known resources that could be developed at today’s prices. As is the case for other industries, oil and natural gas producers have to balance their need for adequate inventories with the cost of exploring and developing the reserves.

Replacement of reserves by new discoveries and further development of existing formations is a key component of the State’s long-term production forecast. New discoveries and further development are expected to offset much of future production. As a result, annual production is expected to decline only gradually. Over time, technological improvements like horizontal drilling have advanced the discovery of new reserves and the production capability for reserves. The reserve-to-current production ratio has steadily increased from 10:1 in 2000 to 12.6:1 in 2010. Accounting rules in place for 2008 and prior years required companies to calculate proved reserves based on end-of-year prices. New accounting standards adopted by the Securities and Exchange Commission will now require companies to use an annual average price. Reserves are the amounts companies expect with reasonable certainty can be produced with current technology at current prices. Therefore, as prices increase, all other things being equal, we can expect reserves to increase.

TABLE 8

New Mexico Natural Gas Reserves⁽¹⁾
(Natural Gas numbers in billion cubic feet)

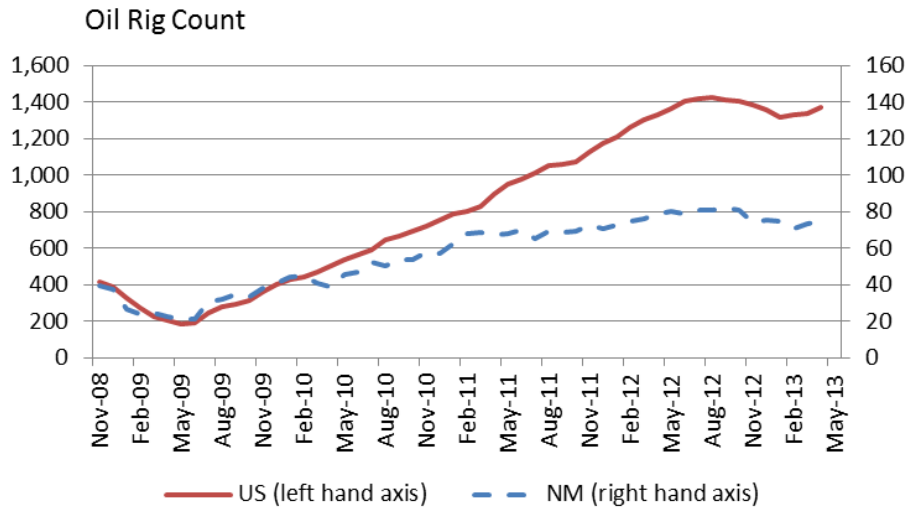
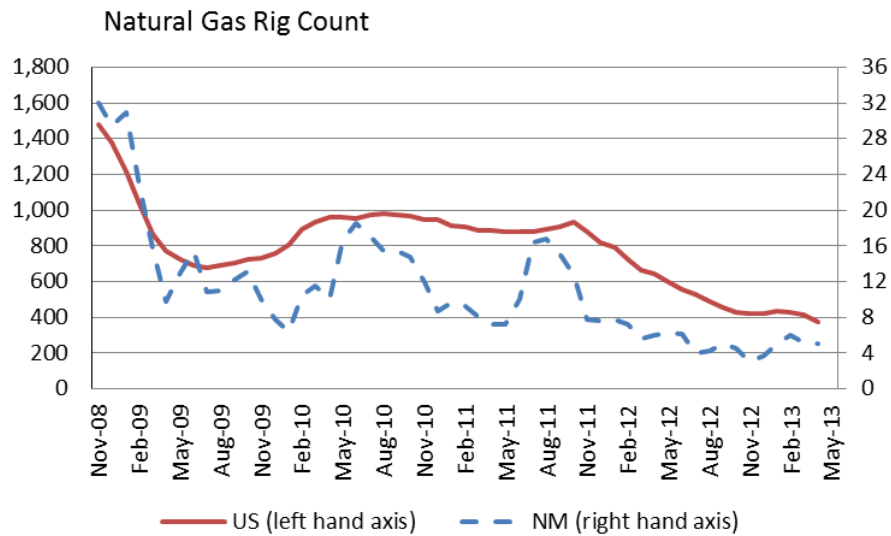
Calendar Year	Beginning Reserves	Net Additions/ Adjustments	Estimated Production	Ending Reserves
2000	16,750	3,405	1,646	18,509
2001	18,509	1,706	1,656	18,559
2002	18,559	1,493	1,599	18,453
2003	18,453	1,326	1,553	18,226
2004	18,226	3,011	1,550	19,687
2005	19,687	1,186	1,529	19,344
2006	19,344	1,301	1,541	19,104
2007	19,104	760	1,467	18,397
2008	18,397	353	1,403	17,347
2009	17,347	687	1,390	16,644
2010	16,644	1,197	1,312	16,529

(1) As measured by wet after lease separation. Wet after lease separation represents the volume of natural gas that is marketable after exclusion of pentanes, hydrocarbons and nonhydrocarbons. The presence of these chemicals renders natural gas unmarketable.

Source: Department of Finance and Administration, U.S. Energy Information Administration.

Information on oil and gas drilling activity published by the Baker Hughes Company is presented in the following graph. Baker Hughes reports the number of drilling rigs actively exploring for oil and gas in the United States. Over the last decade, drilling activity in New Mexico has generally followed trends in the United States as a whole. Drilling increased in 2000-2001 in response to a sharp increase in natural gas prices. After falling during the recession of 2002, drilling activity climbed steadily until the sharp decrease of energy prices in 2009. Since then oil drilling has rebounded strongly, but further growth appears to have slowed since mid-2012. Natural gas drilling has yet to return to the record levels seen in 2008, and recent increases in natural gas supply have caused a marked decline in drilling activity. According to the Baker Hughes Company, there has been a significant shift from traditional vertical wells

to horizontal wells in recent years. The use of horizontal drilling, combined with hydraulic fracturing, has increased production per well dramatically, albeit at a significant additional cost.



Source: Department of Finance and Administration and Baker Hughes.

In 1999, following a joint venture between Sonat Raton and PennzEnergy Corporation for an extensive development program in the Raton Basin in northeastern New Mexico, production from the Raton Basin steadily increased until Fiscal Year 2006 when it leveled off at approximately 25.8 million cubic feet. Production has since ranged from approximately 25.6 million cubic feet in Fiscal Year 2008 to 27.2 in Fiscal Year 2012. Historically, natural gas prices from production in the Raton Basin exceeded prices in the San Juan Basin due to differences in pipeline access to markets, but that price difference ceased at the end of 2005. In Fiscal Year 2012 production from the Raton Basin was approximately 2.2 percent of total natural gas production in the State, the San Juan Basin 63.1 and the Permian Basin 34.7 percent.

In May 2008, EMNRD (Oil Conservation Division) adopted new “pit rules” regulating the maintenance of open pits. Some industry representatives assert that the increased costs associated with protecting the groundwater during oil and gas operations will have a negative effect on the number of drilling rigs working in New Mexico. While any such cost increase could reduce the amount of money invested in the state, the effect of the cost increase on drilling activity is difficult to determine because drilling incentives are also dependent on the fluctuations in commodity prices. Regulatory changes in other states may also affect the incentive to invest in New Mexico. In June 2013, the Oil Conservation Commission executed an order amending the pit rules relating to, among other things, waste pit permits, siting, design, construction and closures. The Commission has stated that the amendments streamline and clarify the rules making it easier for oil and gas operators, especially small-scale operators, to comply.

Table 9 presents information on the number of natural gas well completions in New Mexico. After peaking at 1,777 completions in 2007, natural gas well completions fell to 244 in 2012. In part this was a response to the sharp drop of natural gas prices in 2009. In addition, companies have shifted their attention to drilling oil wells because the relative value of oil compared with natural gas has increased dramatically in recent years. Currently, the ratio of oil prices to natural gas prices is roughly 23-to-1, compared with 9-to-1 in 2007.

TABLE 9

Number of Natural Gas Well Completions by Calendar Year

2001	1,421
2002	1,292
2003	1,555
2004	1,703
2005	1,777
2006	1,758
2007	1,482
2008	1,202
2009	849
2010	546
2011	389
2012	244

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division.

Natural Gas Markets

United States consumption of natural gas grew in all but one year since 1986, reaching 23 trillion cubic feet (tcf) in calendar year 2002. From 2002 until 2006, total consumption remained flat despite the growing economy as consumers switched to lower cost alternatives. Beginning in 2006, U.S. consumption began to grow, reaching 25.5 tcf in 2012. Since the fall of natural gas prices in 2009, the relatively low price of natural gas has led power generators to substitute natural gas for coal to the greatest extent possible. Recent industry reports suggest that combined cycle power plants fueled by natural gas are now the lowest cost source of new electricity supplies.

According to the EIA, after peaking around 23 tcf in the mid-1970’s, annual production of natural gas declined in response to falling prices to a low of 16.8 tcf in 1986. Since then production has increased steadily in response to rising prices and technological innovations that have lowered production costs. Total production was 24.0 tcf in 2012 according to EIA.

The gap between domestic production and domestic consumption has been met by growing imports, which increased from 0.8 tcf in 1986 to 3.1 tcf in 2012. Net imports have fallen sharply in the last five years, as domestic production has expanded while domestic demand has grown more slowly, reducing the demand for imports.

Average annual wellhead prices for the U.S. and New Mexico are presented in Table 10. Prices increased steadily from 2003 to 2008, but have fallen sharply since then. The gradual economic recovery has been enough to lift prices somewhat from their low-point in 2009. However, the expansion of domestic supplies has been sufficient to limit the increase of prices.

TABLE 10

**Average Wellhead Price by Calendar Year
(\$ per thousand cubic feet)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
National Average Wellhead Price	\$4.88	\$5.46	\$7.33	\$6.39	\$6.25	\$7.97	\$3.67	\$4.48	\$3.95	\$2.66
New Mexico Producers	\$4.56	\$4.97	\$6.91	\$6.18	\$6.88	\$8.40	\$4.38	\$5.43	\$5.87	\$4.12
NM as a percentage of National Average	93.4%	91.0%	94.3%	96.7%	110.1%	105.4%	119.3%	121.2%	148.6%	154.9%

Sources: Department of Finance and Administration (U.S. Energy Information Administration).

New Mexico producers have benefited from somewhat higher-than-average wellhead natural gas prices since 2006. This is largely due to the quality of New Mexico natural gas, which contains a high percentage of natural gas liquids. Natural gas liquid products are primarily used in gasoline blends and to some degree compete with crude oil products. As such, they are priced at a premium to dry gas and tend to track oil prices closely.

Natural Gas Production

Total natural gas production in New Mexico increased sharply in the early 1990's due to increased coal seam production in the San Juan Basin. This production was stimulated by federal income tax credits that expired at the end of calendar year 2002. Total statewide production began to decline in 2002, falling below 1,600 bcf in Fiscal Year 2003. Fiscal Year 2012 production totaled 1,229 bcf. Gross sales revenue increased steadily from 2003 to 2008 as the price of natural gas continued to increase. Gross sales revenue peaked at \$12 billion in 2008. Prices fell sharply in 2009 and have remained in the range of \$5.00 to \$5.60 since then, resulting in gross sales revenue of approximately \$6.1 billion in Fiscal Year 2012. Taxable production volume, sales revenue and average price per thousand cubic feet for Fiscal Years 2003 through 2012 are presented in the following table.

TABLE 11

**Natural Gas Subject to Taxation
Production, Revenues and Average Price
Fiscal Years 2003-2012**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Sales										
Volume (bcf)	1,576	1,545	1,547	1,523	1,516	1,428	1,390	1,282	1,224	1,229
Gross Sales										
Revenues (millions)	\$6,213	\$7,359	\$9,030	\$11,462	\$9,935	\$12,002	\$7,797	\$6,657	\$6,805	\$6,145
Gross Average										
Price per mcf	\$3.94	\$4.76	\$5.84	\$7.53	\$6.56	\$8.40	\$5.61	\$5.20	\$5.50	\$5.50
Net Taxable										
Value (millions)	\$5,030	\$6,045	\$7,451	\$9,514	\$8,074	\$9,700	\$6,083	\$5,098	\$5,223	\$4,689
Net Average										
Price per mcf	\$3.19	\$3.91	\$4.82	\$6.25	\$5.33	\$6.79	\$4.38	\$3.97	\$4.22	\$3.82

Source: Department of Finance and Administration (the "ONGARD System").

The following table sets forth the production levels of the State's largest natural gas producers in calendar year 2012.

TABLE 12

Ten Largest Natural Gas Producers in New Mexico and 2012 Production

	Thousand Cubic Feet
BURLINGTON RESOURCES OIL & GAS COMPANY, LP	281,002,384
CONOCOPHILLIPS COMPANY	162,171,716
OXY USA, INC.	108,014,201
ENERGEN RESOURCES CORPORATION	69,478,849
COG OPERATING, LLC	66,919,571
XTO ENERGY, INC.	66,049,195
DEVON ENERGY PRODUCTION COMPANY, LP	62,861,501
BP AMERICA PRODUCTION COMPANY	62,716,489
WPX ENERGY PRODUCTION, LLC	47,762,680
CHEVRON USA INC.	37,997,073

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division.

Severance Taxes on Natural Gas

Severance taxes are levied by State statute on the sale or transport out of state of natural gas produced in the State. State taxation of minerals production for the general fund began as early as 1933. The Severance Tax Bonding Act, enacted in 1961, earmarked a portion of the existing severance tax to pay debt service on severance tax bonds, with remaining revenues going to the general fund. The severance tax at that time was 2.5 percent of the marketable sales value, with deductions allowed for royalties to governments and for certain processing and transportation expenses. Beginning in 1973, the Severance Tax Permanent Fund was created, receiving excess severance tax revenues not required for debt service payments.

The tax rate was increased to 3.75 percent of value in 1974. Beginning in 1977, the tax rate was converted to a per unit basis, \$0.05 per mcf of natural gas, with a deduction allowed for royalties to

governments. A surtax was added, equal to the base tax rate times the percentage increase in the Consumer Price Index (CPI) from the base year. This surtax rate was updated annually. The base tax rate was increased to \$0.087 per mcf in 1980, and the surtax provision continued to apply.

By July 1, 1986 the surtax had reached \$0.076 and the total tax rate was \$0.163 per mcf. With the sharp decline in wellhead natural gas prices in 1986, the effective severance tax rate was over 8 percent of gross sales value. The combined effective tax rate on natural gas production, including general fund taxes, was over 11 percent, significantly higher than in neighboring natural gas-producing states. The 1987 Legislature responded to declining prices by converting the tax to 3.75 percent of value on a phased in basis. Beginning July 1, 1990, the new tax rate applied to all production.

The 1995 Legislature authorized reduced severance tax rates for certain categories of production. A 10-year exemption from Severance Taxes was provided for production from previously non-producing wells (“restoration”). A 50 percent rate reduction was provided for incremental production from a qualifying work over project (“recompletion”).

In response to sharply lower oil prices and declining production of oil and associated natural gas, the 1999 Legislature adopted new severance tax incentives for production from recompletion wells and stripper wells. For natural gas, a stripper well is defined as one having average daily production of less than 60,000 cubic feet per day. For oil wells, the threshold is 10 barrels per day. Instead of a 50 percent rate reduction (from 3.75 percent to 1.875 percent) for only the incremental production from recompletion wells, a tax rate of 2.45 percent was applied to all production from qualified wells.

For stripper well production, the 1999 legislation introduced a sliding scale of applicable tax rates, depending on the prevailing taxable value of products.

The following table summarizes incentive tax rates applied to various categories of oil and natural gas production in New Mexico as of Fiscal Year 2012. However, due to the rise in oil and natural gas prices, none of these incentive programs are currently in effect and are not expected to come into effect in the five-year forecast period based on the Consensus Group’s revenue forecast. Should prices decline in the future, some of these incentives may become applicable again.

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TABLE 13

Oil and Natural Gas Tax Incentive Programs

<u>Incentive Category</u>	<u>Incentive Tax Rate</u>	<u>Threshold Price Below Which Incentive Rate Applies</u>	<u>Qualified Production As a Percent of Fiscal Year 2012 Total</u>
Production Restoration Project	0.0000% ⁽¹⁾	\$24.00 per barrel ⁽²⁾ \$24.00 per barrel ⁽²⁾	0.0% Oil ⁽⁴⁾
Well workover wells	2.4500%	\$24.00 per barrel ⁽²⁾ \$24.00 per barrel ⁽²⁾	0.0% Oil ⁽⁴⁾ 0.0% Natural Gas ⁽⁴⁾
Stripper wells	1.8750%	\$ 1.15 per mcf-Gas ⁽³⁾ \$15.00 per barrel-Oil ⁽³⁾	0.0% Natural Gas ⁽⁴⁾ 0.0% Oil ⁽⁴⁾
	2.8125%	\$ 1.35 per mcf-Gas ⁽³⁾ \$18.00 per barrel-Oil ⁽²⁾	0.0% Natural Gas ⁽⁴⁾ 0.0% Oil ⁽⁴⁾
Enhanced oil recovery	1.8750%	\$28.00 per barrel ⁽²⁾	0.0% Oil ⁽⁴⁾

- (1) The incentive rate applies for 10 years after the restoration project is completed. Each year's production is tested against the threshold price.
- (2) Twelve-month average price for West Texas Intermediate crude oil as reported on Oil Postings for last day of each month.
- (3) Average annual taxable value of natural gas or oil sold in New Mexico during the preceding calendar year.
- (4) No oil or natural gas volumes are expected to qualify for these incentives during the period because average taxable value exceeds the threshold levels.

Source: Sections 7-29A and 7-29B New Mexico Statutes Annotated 1978.

Projections of Severance Tax Revenues from Natural Gas

The natural gas price outlook is based on analysis by the Consensus Group, comprised of economists from both the Legislative and Executive branches of New Mexico government. The Consensus Group relies on forecasts by the U.S. Energy Information Administration, the Global Insight and Moody's Analytics economic forecasting services, and public information about NYMEX futures contracts.

For Fiscal Year 2012, New Mexico producers received an estimated weighted average price of \$5.00 per mcf, down from \$5.50 in Fiscal Year 2011. In December 2012, the Consensus Group estimated an average price for Fiscal Year 2013 of \$4.50 per mcf and \$5.00 for Fiscal Year 2014. Prices are expected to increase to \$5.40 and \$5.60 per mcf for Fiscal Years 2015 and 2016, respectively. The forecast of gradual price increases is based on increased demand as the national economic recovery gathers steam. In addition, some fuel-switching to natural gas is expected as natural gas-fired power plants become the preferred source for new electricity generation facilities due to environmental concerns with alternative power sources. These prices reflect the full value of all natural gas products, including natural gas liquids. The latter have been adding significantly more value to natural gas production in recent years, offsetting the decrease of prices for "dry" natural gas.

Natural gas volume production decreased by 0.8 percent in Fiscal Year 2012, from 1,240 bcf in Fiscal Year 2011 to 1,229 bcf in Fiscal Year 2012. Because of higher prices and lower production, gross revenue for New Mexico producers decreased 9.9 percent in Fiscal Year 2012. In December 2012, the Consensus Group's revenue forecast assumed that natural gas production would decline by approximately 3.6 percent in Fiscal Year 2013, and by 2.9 percent each year in Fiscal Years 2014 through 2016.

The severance tax base for natural gas is defined as the wellhead value less deductions for the expense of transporting and processing product to the first point of sale. In addition, deductions are

allowed for royalties paid to governmental entities (federal, state and tribal). Over the past 10 years, deductions have ranged from 17.0 percent of gross value in Fiscal Year 2006 to 24.8 percent in Fiscal Year 2012. For the December 2012 forecast, the Consensus Group assumed deductions of 23.7 percent for Fiscal Years 2013 through 2017. Rates for the pipeline transportation have been increasing in the San Juan Basin. Since the deductions percentage is a ratio of deductions to gross value, lower prices and volumes would also result in a higher deductions percentage, assuming the absolute value of deductions does not change.

TABLE 14

**New Mexico Natural Gas Volume, Price and Severance Tax Projections
Fiscal Years Ending June 30**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Natural gas sales (bcf)	1,185	1,151	1,121	1,090	1,048
Average sales price (\$ per mcf)	\$4.50	\$5.00	\$5.40	\$5.60	\$5.50
Severance Taxes on Natural Gas (in thousands)	\$152,576	\$164,665	\$173,203	\$174,651	\$164,922

Source: The Consensus Group.

OIL PRODUCTION AND SEVERANCE TAX REVENUE

Oil Reserves and Production

The table below presents the EIA’s estimate of oil “proven reserves” from 2000 to 2010. This is the latest data available from the EIA. Proved reserves are those a company believes with reasonable certainty can be produced with current technology at current prices. They represent the narrowest measurement of the country’s energy resources. Each year the EIA updates its estimates to reflect new information, new discoveries and production during the year. The EIA reports on proven reserves of crude oil in the State on the basis of company surveys. Accounting rules in place for 2008 and prior years required companies to calculate proved reserves based on end-of-year prices. New accounting standards adopted by the Securities and Exchange Commission will now require companies to use an annual average price.

Production declined gradually from 70 million barrels in 2001 to approximately 60 million barrels in Fiscal Year 2006 through Fiscal Year 2008. Beginning in Fiscal Year 2009, production began to increase steadily, reaching a new high of nearly 80 million barrels in Fiscal Year 2012. In 2010, New Mexico reserves represented approximately 14.2 years of production. This is the latest EIA data available. This “proven reserves-to-production” ratio is a measure analogous to inventory-to-production for manufacturers. It represents the known resources that could be developed at 2010 prices. As is the case for other industries, oil producers have to balance their need for adequate inventories with the cost of exploring and developing the reserves.

TABLE 15

**New Mexico Oil Reserves
Crude Oil⁽¹⁾**

<u>Year</u>	<u>Beginning Reserves</u>	<u>Additions/ Adjustments</u>	<u>Estimated Production</u>	<u>Ending Reserves</u>
2001	719	66	70	715
2002	715	64	69	710
2003	710	34	67	677
2004	677	57	65	669
2005	669	82	61	690
2006	690	75	60	705
2007	705	90	60	735
2008	735	(20)	61	654
2009	654	99	53	700
2010	700	181	58	823

(1) Barrels in millions.

Source: Department of Finance and Administration (U.S. Energy Information Administration and the “ONGARD System”).

Potential new development of oil resources is indicated by exploration and drilling activity. Secondary or tertiary recovery projects (water or carbon dioxide injection) typically require new development wells. The following chart presents oil well completions during the period 2003 through 2012. There has been a significant increase in oil completion activity in recent years. This reflects the successful application of horizontal drilling and hydraulic fracturing in the Permian Basin located in the southeastern corner of the state. This activity has resulted in the increased production levels recorded in the last two fiscal years.

TABLE 16

Number of Oil Well Completions by Calendar Year

2003	677
2004	766
2005	894
2006	1,150
2007	896
2008	1,271
2009	1,010
2010	1,261
2011	1,190
2012	1,161

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division.

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The following table sets forth the production levels of the largest oil producers in the State in calendar year 2012.

TABLE 17

Ten Largest Oil Producers in New Mexico and 2012 Production

	<u>Barrels</u>
COG OPERATING, LLC	14,571,178
APACHE CORPORATION	5,950,707
DEVON ENERGY PRODUCTION COMPANY, LP	5,666,485
CHEVRON USA INC.	5,596,938
CIMAREX ENERGY CO. OF COLORADO	5,073,221
BOPCO, LP	4,327,938
CONOCOPHILLIPS COMPANY	3,590,144
OCCIDENTAL PERMIAN LTD.	3,513,801
YATES PETROLEUM CORPORATION	3,170,432
MEWBOURNE OIL CO	2,991,511

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division.

Severance Taxes on Oil

Severance taxes are levied on oil on the basis of sales value at the time of either sale or transportation from the State. Information on oil sales occurring in the last 10 Fiscal Years are presented in the following table.

TABLE 18

**Oil Subject to Taxation
Production, Revenues and Average Prices
Fiscal Years 2003-2012**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Sales Volume (bbl in millions)	68.4	67.0	63.1	60.5	60.1	60.0	62.3	62.9	67.0	79.7
Gross Sales Revenues (millions)	\$1,930	\$2,140	\$2,859	\$3,634	\$3,553	\$5,628	\$4,037	\$4,470	\$5,547	\$7,144
Gross Average Price per bbl	\$28.24	\$31.93	\$45.34	\$60.08	\$59.11	\$93.74	\$64.84	\$71.29	\$84.20	\$89.64
Net Taxable Value (millions)	\$1,754	\$1,945	\$2,595	\$3,290	\$3,189	\$5,049	\$3,618	\$4,007	\$4,958	\$6,380
Net Average Price per bbl	\$25.66	\$29.02	\$41.15	\$54.40	\$53.06	\$84.11	\$58.12	\$63.91	\$75.72	\$80.05

Source: Department of Finance and Administration (the "ONGARD System").

The severance tax rate on oil was increased to 3.75 percent of sales value in 1974. Beginning in 1977, the rate was converted to \$0.45 per barrel, with a surtax indexed to the CPI. In 1980, the tax rate was converted back to 3.75 percent of value.

In 1992, the Legislature provided a 50 percent reduction of the severance tax rate applied to oil produced through enhanced recovery methods. Enhanced methods include carbon dioxide miscible fluid

displacement, water flood, pressure maintenance and thermal methods. The reduced rate applies to all production from an enhanced recovery project following certification of a positive production response by EMNRD's Oil Conservation Division.

The 1995 Legislature authorized reduced severance tax rates for certain categories of production. A 10-year exemption from Severance Tax was provided for production from previously non-producing wells ("restoration"). A 50 percent rate reduction was provided for incremental production from a qualifying work over project ("recompletion"). During Fiscal Year 1999, 100,000 barrels of oil had qualified for the restoration tax exemption. During the same period, 500,000 barrels of oil had qualified for the recompletion rate reduction. Combined, these volumes represent less than 1 percent of annual production of oil. Qualified volumes are expected to grow slowly over time. The 1999 Legislature expanded the incentive program for recompletion wells and created a new incentive for stripper wells. Presently, no production qualifies for the incentives because the price of oil is above the ceiling prices provided in the incentives. The December 2012 revenue forecast by the Consensus Group assumes that the incentives will not apply through Fiscal Year 2017.

Projections of Severance Tax Revenues from Oil

Volume of Production: The natural rate of production decline from an oil field, absent application of enhanced recovery methods ("EOR") or additional drilling for exploration and development, is usually estimated at 10 percent per year. During most of the 1990's, producers prevented a decline in total production through a combination of new well drilling, well maintenance activity and EOR investment. Production has increased in recent years, reaching 80 million barrels in Fiscal Year 2012. The Department of Finance and Administration's more conservative projection includes an annual increase in production of 5.0 percent for Fiscal Year 2013, 4.0 percent for Fiscal Year 2014, 3.0 percent for Fiscal Year 2015 and 2.0 percent for Fiscal Year 2016.

Prices: Over the past 10 Fiscal Years weighted average annual oil prices received by New Mexico producers have ranged from \$21.96 in Fiscal Year 2002 to a high of \$93.74 in Fiscal Year 2008. The revenue forecast by the Consensus Group released in December 2012 assumes a price per barrel of \$85.07 in Fiscal Year 2013, \$84.75 in Fiscal Year 2014, \$83.50 in Fiscal Year 2015, \$82.50 in Fiscal Year 2016 and \$83.00 in Fiscal Year 2017.

Revenues: In Fiscal Year 2012, severance tax revenues from oil were \$240.0 million, net of the Intergovernmental Production Tax Credit. The five-year forecast by the Department of Finance and Administration, reflected in Table 19, projects revenues will increase steadily as the national economy improves. The forecasts are also net of the Intergovernmental Production Tax Credit.

TABLE 19
New Mexico Oil Volume, Price, and Severance Tax Projections
Fiscal Years Ending June 30

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Oil sales (million barrels)	83.7	87.0	89.6	91.4	92.4
Average price (\$/barrel)	\$85.07	\$84.75	\$83.50	\$82.50	\$83.00
Severance Taxes on Oil (in thousands)	\$238,400	\$247,004	\$250,661	\$252,613	\$256,685

Source: The Consensus Group; the Department of Finance and Administration.

COAL PRODUCTION AND SEVERANCE TAX REVENUE

Coal Reserves and Production

The State's main coal-bearing strata are the Mesa Verde and Fruitland Formations in the San Juan Basin and the Raton and Vermejo Formations in the Raton area. Currently, all coal is being produced in the San Juan Basin. The quality of coal located in the State ranges from high-heat content bituminous coal to lower rank sub-bituminous coal. Coal found in the State is relatively low in sulfur content, ranging from 0.5 to 1.1 percent, compared to the national average of 1 to 2 percent. The State's coal varies widely in ash and moisture content. The majority of New Mexico coal is used for electrical generation.

According to the EIA, as of January 1, 2012, the State had the following estimated recoverable reserves for 2011: 2,768 million short tons of underground coal and 4,092 million short tons of surface coal for a total of 6,860 million short tons. Estimated recoverable reserves include the coal in the demonstrated reserve base considered recoverable after excluding coal estimated to be unavailable due to land use restrictions or currently economically unattractive for mining, and after applying assumed mining recovery rates. The State had the following demonstrated reserve base: 6,083 million short tons of underground coal and 5,840 million short tons of surface coal for a total of 11,923 million short tons. The demonstrated reserve base includes publicly available data on coal mapped to measured and indicated degrees of accuracy and found at depths and in coal bed thicknesses considered technologically minable at the time of determinations.

During Fiscal Year 2012, there were four mining companies producing coal in New Mexico: BHP Navajo Coal Company; El Segundo Coal Company, LLC; Lee Ranch Coal Company; and San Juan Coal Company. BHP Navajo Coal Company and the San Juan Coal Company are owned by BHP Billiton Marketing, Inc. The El Segundo Coal Company and the Lee Ranch Coal Company are operated by Peabody Natural Resources, a subsidiary of Peabody Energy Corporation.

All of the coal produced in the BHP Navajo Mine goes to the Four Corners Power Plant in New Mexico, which is a mine-mouth power plant. It is the largest power producing plant by generation capacity in New Mexico and transmits electricity throughout New Mexico, as well as Arizona and California. The Arizona Public Service Company operates the plant. Output from the BHP Navajo Coal Company was 7.8 million tons in Fiscal Year 2012, down 4.9 percent from Fiscal Year 2011.

Until 2007, Chevron operated two mines, McKinley North and South. The North Mine is on the Navajo Reservation. The South Mine is a checkerboard of Navajo allotment, federal, state, and private lands. Chevron closed its South Mine in 2007 and its North Mine in December 2009 when the price of coal was too low to be mined economically. The El Segundo Coal Company and the Lee Ranch Coal Company are owned by Peabody Natural Resources, which has acquired contracts to produce coal in mines formerly operated by Chevron. Output from the Lee Ranch Coal Company was 1.2 million tons in Fiscal Year 2012, down 33.3 percent from Fiscal Year 2011. The El Segundo Coal Company commenced operations in June 2008. In Fiscal Year 2012, the El Segundo Coal Company produced 8.0 million tons of coal, up 2.5 percent from Fiscal Year 2011. Peabody Natural Resources is preferentially pulling coal out of its El Segundo Mine, which partially explains why production from the El Segundo Mine has increased significantly while output from the Lee Ranch Coal Company has decreased significantly since Fiscal Year 2008 when it produced 5.4 million tons. In addition, 20 to 30 percent of Peabody's coal is sold to industrial customers, which were likely affected by the recent economic recession. Currently, the El Segundo has long-term coal agreements with Arizona Public Service Company and Tucson Electric Power. Arizona Electric Power Cooperative and Western Fuel Association are supplied coal under shorter-term contracts. Lee Ranch Mine supplied coal to Western Fuels

Association and Tucson Electric Power under long-term contracts. Other customers include Arizona Public Service And Arizona Electric Power Cooperative. At the time that the El Segundo Mine commenced operations, the Tucson Electric Power Company expected to take 3 million tons per year for 20 years for its Springerville Generating Station and Arizona Public Service Company and as much as 4 million tons of coal per year for 19 years for its Cholla Generating Station in eastern Arizona.

All of the coal produced by San Juan Coal Company goes to the San Juan Generating Station, which is also a mine-mouth power plant owned by the Public Service Company of New Mexico and other utilities. The Public Service Company of New Mexico operates the plant. Output from the San Juan Coal Company was 6.1 million tons in Fiscal Year 2012, down 3.3 percent from Fiscal Year 2011. The San Juan Coal Company intentionally stockpiled coal in Fiscal Year 2008 to enable a more steady supply, so that at least a part of the decline in production was expected and unrelated to a decline in demand. The San Juan Coal Company has been burying ash produced by coal incineration by the San Juan Generating Station. The Sierra Club filed a lawsuit against San Juan Coal Company and Public Service Company of New Mexico, claiming that there has been water contamination due to leakage of the buried ash. The parties entered into a Consent Decree which was filed with the court on March 28, 2012. The Consent Decree settles all claims, including those involving the coal ash disposal, and requires the defendants to implement certain environmental projects. The settlement does not impact the operation of the coal mine.

Severance Tax Revenue on Coal

Coal production in New Mexico is subject to a severance tax and a severance surtax. The severance tax is set at a fixed rate of \$0.57 per ton of surface coal and \$0.55 per ton of underground coal. The surtax increases each year based on increases in the Consumer Price Index. However, statutory exemptions to the surtax have resulted in an increasingly smaller portion of the coal production being subject to the surtax.

Table 20 sets forth data on coal production, prices, revenues and average tax rates for the past five fiscal years. As reflected in the table, gross average prices have ranged from \$28.97 per ton in Fiscal Year 2010 to \$33.65 in Fiscal Year 2012. Output in short tons over the same period has ranged from 22.8 million in Fiscal Year 2008 to 25.5 million in Fiscal Year 2009. Total coal sales are expected to decline gradually due to increased competition from other electricity sources and environmental concerns. An increasing portion of total sales is expected to be eligible for the surtax exemption. A total of approximately \$2.0 million in severance surtax was collected in Fiscal Year 2011 and \$0.6 million in Fiscal Year 2012.

The surtax rate for surface-mined coal in Fiscal Year 2010 was \$1.02 per ton and \$0.99 per ton for coal mined underground; in Fiscal Year 2011, the surface-mined tax rate was \$1.13 and the underground-mined tax rate was \$1.09 per ton; in Fiscal Year 2012, the surface-mined tax rate was \$1.17 and the underground-mined tax rate was \$1.13 per ton. All coal mined underground has always been exempt from the surtax. In Fiscal Year 2013, the surface-mined surtax rate will be \$1.27 per short ton and the underground-mineral surtax rate will be \$1.23.

After a number of years of stable revenues, 2011 marked a significant decrease of coal severance tax from \$21.1 million in Fiscal Year 2010 to \$12.4 million in Fiscal Year 2011. This decrease was caused by renegotiation of several long term mine-mouth contracts. Coal sold and delivered under the new contracts is exempt from the coal surtax. The resources excise tax collections increased by 10.6 percent from \$4.98 million in Fiscal Year 2011 to \$5.51 million in Fiscal Year 2012.

TABLE 20**Coal Production, Prices, Revenues, and Taxes
Fiscal Years 2008 to 2012**

	2008	2009	2010	2011	2012
Production:					
Total Sales Volume (tons)	22,801,290	25,482,801	23,213,759	24,202,247	23,024,642
Surface Mined Surtax Exempt	5,862,728	7,671,768	7,144,637	16,148,057	16,413,332
Surface Mined Non-Exempt	11,080,122	11,618,253	10,019,543	1,768,875	533,727
Underground Mined Surtax Exempt	5,858,440	6,192,780	6,049,579	6,285,315	6,077,582
Prices:					
Weighted Average Price per Ton for All Coal	\$29.18	\$31.09	\$28.97	\$29.55	\$33.65
Sales Revenue:					
Total Sales Revenue	\$665,449,922	\$792,304,607	\$672,551,118	\$715,148,886	\$774,782,796
Taxes Collected and Intergovernmental Tax Credits (ITC):					
Gross Severance Tax and Severance Surtax Due	\$ 21,743,664	\$ 24,044,491	\$ 23,330,785	\$ 15,668,404	\$ 13,626,955
Intergovernmental Tax Credit (ITC)	\$4,534,144	\$3,810,231	\$ 2,257,604	\$ 3,267,415	\$ 2,747,567
Net Severance Tax and Severance Surtax Liability (Net of ITC)	\$ 17,209,520	\$ 20,234,260	\$ 21,073,181	\$ 12,400,989	\$ 10,879,388
Effective Taxes (Net of ITC):					
Effective Tax Rate	2.59%	2.55%	3.13%	1.73%	1.40%
Effective Tax per Ton for all Coal (Net of ITC)	\$0.75	\$0.79	\$0.91	\$0.51	\$0.47

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the "GenTax System").

OTHER MINERAL PRODUCTION AND SEVERANCE TAXES**Carbon Dioxide**

The Bravo Dome CO₂ field encompasses 1.2 million acres in Harding, Union and Quay Counties in the northeastern area of the State. It contains estimated resources of 16.3 tcf, of which 7.0 to 10.6 tcf are considered economically recoverable. Although the State has long produced limited quantities of liquid and solid CO₂ for use in the food and the engineering industries, the main commercial value of CO₂ deposits is derived from the use of the product in its gaseous form in enhanced oil recovery projects in the Permian Basin of Texas and New Mexico. Future sales ultimately will depend on the CO₂ requirements of such projects and on the State's proportion of the market, which is shared with Colorado's Sheep Mountain and Little Sheep Mountain, McElmo Dome and Doe Creek Fields. Sales of CO₂ were approximately 113.1 bcf in Fiscal Year 2012, a decrease of 6.0 percent from 120.7 bcf during Fiscal Year 2011. The weighted average wellhead price of CO₂ sales for Fiscal Year 2012 was \$1.32 per mcf reported at the production facility, an increase of 9.1 percent from \$1.21 per mcf during Fiscal Year 2011. Severance Taxes on CO₂ are levied at the rate of 3.75 percent of taxable sales value. Deductions have ranged from 46.0 percent in Fiscal Year 2004 to 22.9 percent in Fiscal Year 2008. Weighted average deductions were 25.2 percent in Fiscal Year 2012.

Other Minerals

Many other minerals and natural resources are taxed in the State upon their severance from the earth or, in some cases, their sale or shipment. Existing tax rates are listed in Table 21. In many cases, flat percentage deductions are allowed to account for certain production costs. The result is that the gross value is a percentage of the "full value." The "full value," in turn, is sometimes based upon published prices rather than actual revenues. Generally, for products with a price at the point of production, value is

that price less deductions allowed for actual costs for hoisting, loading, and crushing of up to 50 percent of price. For products that must be processed before sale, deductions are allowed for cost of processing and freight charges to the point of sale. Several exceptions apply, as detailed below.

For potash, the gross value is 40 percent of the posted field or market price, less those actual expenses of hoisting, crushing and loading necessary to place the severed product in marketable form and at a marketable price but allowable deductions may not exceed 50 percent. The gross value for each type of potash and potash product requiring processing or beneficiation (other than sizing) is 33.33 percent of the proceeds realized from the sale of muriate of potash and sulphate of potash magnesia, as standard grades, and 33.33 percent of the value of such products consumed in the production of other potash products, less 50 percent of such reported value as a deduction for expenses of hoisting, loading, crushing, processing, and beneficiation.

Gross values for copper, lead and zinc, gold, and silver are 66.66 percent of specified Comex, London Metal Exchange cash price, London Metal Exchange Final, and London spot, U.S. Equivalent, respectively, as published in Metals Week. The gross value for gold is the sales value established from published price date of the quantity of gold recoverable from the concentrate or other product which is sold or is shipped, transmitted or transported out of New Mexico without sale. The gross value for silver is 80 percent of the sales value established from published price date of the quantity of silver recoverable from the concentrate or other product which is sold or is shipped, transmitted or transported out of New Mexico without sale. For molybdenum, gross value is the value of molybdenum contained in concentrates shipped or sold from a mine site, but in no event shall it be less than market value. For copper, lead, zinc, gold, silver and molybdenum, deductions of 50 percent of the sales value are allowed for the expenses of hoisting, loading, crushing, processing and beneficiation, regardless of actual expenses incurred.

For sand and gravel, in the absence of substantial evidence of a different posted field or market price, it is presumed that the gross value is \$1.75 per ton. In the absence of evidence of lower deductible expenses the maximum 50 percent deduction will be allowed. In determining taxable value, rent and royalty payments to the federal government or the State government are deductible from gross value.

TABLE 21

Severance Tax Rates on Other Minerals

<u>Mineral Resources</u>	<u>Fiscal Year 2011 Collections</u>	<u>Fiscal Year 2012 Collections</u>	<u>Tax Rate</u>	<u>Gross Value as Percent of Full Value</u>
Potash	\$1,854,528.00	\$1,960,646.30	2.500%	not fixed
Copper	395,823.60	571,012.10	0.500	16.67%
Timber, Pumice, Gypsum, Clay, Fluorspar, Other	53,810.00	52,561.40	0.125	not fixed
Molybdenum	20,425.40	4,260.60	0.125	50.00
Lead, Zinc	Not detailed	Not detailed	0.125	16.67
Gold	3,518.80	19,460.50	0.200	50.00
Silver	2,788.80	6,012.70	0.200	30.00
Uranium	Not detailed	Not detailed	3.500	50.00 ⁽¹⁾
Other than Potash, Copper, Molybdenum	\$78,404.00	\$87,118		

(1) Taxable Value as a Percentage of Full Value

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office.

Severance tax revenue from potash was \$2.0 million in Fiscal Year 2012, up from \$1.9 million in Fiscal Year 2011. Severance tax revenue from copper, which is limited because of the statutorily defined narrow tax base, was \$571,021 in Fiscal Year 2012, a significant increase from \$395,824 in Fiscal Year 2011 after peaking at \$760,288 in Fiscal Year 2008. Weighted average copper prices were \$4.09 per pound in Fiscal Year 2012.

OTHER TAXES OF NATURAL RESOURCES NOT PLEDGED

Rates for unpledged production and property taxes on New Mexico natural resources are summarized below. As discussed in prior sections of this Official Statement, proceeds from the Severance Tax and the Oil and Gas Severance Tax are pledged to the Bonding Fund for payment of interest, premium and principal of the Bonds. **Proceeds of other taxes shown below are not pledged to the payment of principal, premium, if any, or interest on Severance Tax Bonds.**

Production and Property Taxes on Oil and Natural Gas

Current effective production tax rates expressed on ad valorem and unit bases are shown below. The rates were based on data from Fiscal Year 2012 and reflect an average sales price of \$89.64 per barrel for oil and \$5.00 per thousand cubic feet (mcf) for natural gas. The gross rates presented in the table below show taxes paid as a percentage of gross sales value before subtracting allowable deductions and tax credits. The gross tax per unit is also based on gross sales value. The net tax per unit, however, is based on taxable value net of allowable deductions and tax credits.

TABLE 22

**Tax Rates on Oil and Natural Gas
Fiscal Year 2012**

	<u>Volume</u>	<u>FY 12 Price</u>	<u>Crude Oil</u>			<u>Natural Gas</u>		
			<u>Gross Rate</u>	<u>Gross Tax Per Barrel</u>	<u>Net Tax Per Barrel</u>	<u>Gross Rate</u>	<u>Gross Tax Per mcf</u>	<u>Net Tax Per mcf</u>
Oil	79,700,000	\$89.64						
Natural Gas	1,229,000,000	\$5.00						
Type of Tax:								
Oil and Gas								
Emergency School								
Tax			3.15%	\$2.82	\$2.52	4.00%	\$0.20	\$0.15
Oil and Gas								
Severance Tax			3.75%	\$3.36	\$3.00	3.75%	\$0.19	\$0.14
Oil and Gas								
Conservation Tax			0.24%	\$0.22	\$0.19	0.19%	\$0.01	\$0.01
Subtotal - excludes ad valorem taxes			7.09%	\$6.40	\$5.71	7.94%	\$0.40	\$0.30

Source: Department of Finance and Administration (the "ONGARD System") as of December 2012.

The Emergency School Tax rate of 3.15 percent imposed on natural gas was raised to 4 percent effective July 1, 1993. This action was taken partially to compensate for the large decreases in revenues due to the 1987 tax changes for natural gas. Further, it was believed that the tax increase was tolerable to industry because of relatively higher prices. The School Tax rate imposed on crude oil continues to be 3.15 percent.

Statutory rates on oil for the Emergency School Tax (3.15 percent), the Oil and Gas Severance Tax (3.75 percent) and the Conservation Tax (0.19 percent) are effectively reduced by deductions allowed for trucking costs and for Federal, State and Indian royalties. House Bill 208 passed by the 2010 Legislature and signed into law by Governor Richardson increased the Conservation Tax rate on oil from 0.19 percent to 0.24 percent when the average price of WTI in the previous quarter exceeds \$70.00 per barrel, effective June 1, 2010. The average price for all quarters in Fiscal Year 2012 exceeded \$70.00. The *oil and gas production ad valorem* tax and the *oil and gas production equipment ad valorem* tax are imposed in lieu of property taxes on mineral reserves and equipment located on the leasehold. Tax rates applied to these tax bases are local rates and vary by jurisdiction. The ad valorem production tax is subject to the same deductions as for School Tax, Severance Tax and Conservation Tax. The tax base for the Oil and Gas Production Equipment Ad Valorem Tax is the wellhead price, not reduced by the value of royalties.

Production, Sales, and Property Taxes on Coal

Total State production and property taxes on coal totaled approximately \$24.0 million in Fiscal Year 2012, down from approximately \$24.8 million in Fiscal Year 2011. Coal production, also, decreased from approximately 24.2 million tons in Fiscal Year 2011 to approximately 23.0 million tons in Fiscal Year 2012. Thus, the average effective tax per ton increased from approximately \$1.02 in Fiscal Year 2011 to approximately \$1.04 per ton for Fiscal Year 2012. With total sales revenue of over \$774.8 million in Fiscal Year 2012, the average effective tax was 3.1 percent of total sales revenue. This does not include the gross receipts tax. The average burden of production, property, and gross receipts taxes on a ton of coal produced and sold during Fiscal Year 2012 is shown in Table 23.

TABLE 23

Tax Burden on Coal for Fiscal Year 2012 ⁽¹⁾

<u>Type of Tax</u>	<u>Tax per Ton</u>	<u>Effective Tax Rate</u>	<u>Taxes Collected</u>
Severance Tax and Surtax (Net of ITC)	\$0.47	1.40%	\$ 10,879,388
Resource Excise Tax	\$0.24	0.71%	\$ 5,485,686
Conservation Tax	<u>\$0.06</u>	<u>0.18%</u>	<u>\$ 1,389,707</u>
Total Production Taxes	<u>\$0.77</u>	<u>2.29%</u>	<u>\$ 17,754,779</u>
Property Tax ⁽²⁾	\$0.27	0.81%	\$ 6,272,934
Gross Receipts Tax	<u>\$2.21</u>	<u>6.57%</u>	<u>\$ 50,897,810</u>
Total Production and Non-Production Taxes	<u>\$3.25</u>	<u>9.56%</u>	<u>\$ 74,925,523</u>
Price per Ton			\$ 33.65
Total Production (Short Tons)			23,024,642
Total Value			\$ 774,782,796

⁽¹⁾ The figures reported in this table come from the New Mexico Taxation and Revenue Department's GenTax System. They reflect only the information contained in all tax returns and amendments filed during Fiscal Year 2012. These figures differ from actual distributions made by the Taxation and Revenue Department's Financial Services Bureau, as the distributions include penalties, interest, and other modifications such as previously unallocated or unidentified receipts. Total production is based on volumes reported on severance tax returns, which differ from the volumes reported on resource excise tax returns.

⁽²⁾ Property taxes were billed for tax year 2012.

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the GenTax System, Financial Services Bureau and Property Tax Division's Central Assessment Unit).

Statutory rates for the resources excise tax and the conservation tax are effectively reduced by a deduction for Federal, State and Indian royalties. The effective severance tax rate on coal reflects the mix

of old and new contract sales and of underground and surface mines. Property tax pertains to both equipment and production values. Fundamental differences in tax bases preclude a true comparison between property taxes and other taxes shown above. However, property taxes are included in this analysis to prevent understating the tax burden.

In addition to production taxes, gross receipts tax is imposed on coal produced and sold within the State. During Fiscal Year 2012, 73.6 percent of all coal produced in the State and supplied to electricity generating stations was supplied to power plants in New Mexico. The remaining 26.4 percent was transported by rail to electricity generators in Arizona. 95.2 percent of all coal produced in New Mexico is subject to the gross receipts tax. The combined state and local tax rate for Fiscal Year 2013 is 6.426 percent of taxable gross receipts.

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of such issue of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant

through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

THE STATE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCES HEREIN TO THE BONDHOLDERS OF THE BONDS WILL MEAN CEDE & CO., AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by State statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the State does not have responsibility for distributing such notices to the Beneficial Owners.

The State does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owner of the Bonds.

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SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following summarizes certain provisions of the Bond Resolution relating to the Bonds. This summary does not purport to be complete and reference is made to the Bond Resolution for a full and complete statement of its provisions.

Covenants

So long as any Bonds are outstanding, the State and the Board have covenanted and agreed with the owners of Bonds that: (a) the State will use its best efforts to collect and deposit in the Bonding Fund proceeds from Severance Taxes as set forth in the Severance Tax Bonding Act which, when combined with other amounts the State Legislature, in its sole discretion, may from time to time deposit in the Bonding Fund, will equal at least two hundred percent (200 percent) of the amount of the principal of and interest scheduled to be due in each fiscal year of the State on the Senior Severance Tax Bonds, including the Bonds; (b) the State will promptly pay the principal of and the interest on the Bonds, at the places, on the dates and in the manner specified in the Bond Resolution and in the Bonds; (c) the State will keep proper books of record and account, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to Severance Taxes, the Bonding Fund and each project account; (d) any registered owner or Beneficial Owner of any of the Bonds or any duly authorized agent of such registered owner or Beneficial Owner, shall have the right, at all reasonable times, to inspect all records, accounts and data relating to the Bonds, the collection of Severance Taxes and the Bonding Fund; provided, however, that pursuant to Section 6-14-10E NMSA 1978, records with regard to the ownership of or pledges of the Bonds are not subject to inspection or copying; (e) the State will prepare annual statements or audits of collections and disbursements of Severance Taxes in sufficient detail to show compliance with requirements of the Bond Resolution and the State will furnish a copy of such audit to any owner of Bonds upon written request therefor; (f) in order to prevent any accumulation of claims for interest after maturity, the State will not directly or indirectly extend or assent to the extension of time for the payment of interest on any of the Bonds; (g) the State will make no use of the proceeds of the Bonds or any funds reasonably expected to be used to pay the Bonds which will cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), or which would result in the loss of the exclusion from gross income for federal income tax purposes of the interest on the Bonds; (h) the State (i) will take or cause to be taken such actions which may be required of it for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes, and (ii) will not take or permit to be taken any actions which would adversely affect that exclusion, and the State or persons acting for it, will, if necessary to maintain such exclusion, among other acts of compliance, (1) apply, or cause to be applied, the proceeds of the Bonds to the purpose of the borrowing, (2) restrict the yield on investment-type property acquired with those proceeds, (3) make timely rebate payments to the federal government in accordance with Section 148 of the Code and the Bond Resolution, (4) maintain books and records and make calculations and reports, and (5) refrain from certain uses of proceeds, all in such manner and to the extent necessary to assure such exclusion of that interest under the Code.

Defeasance

If the State shall pay all of the outstanding Bonds, or shall cause them to be paid and discharged in accordance with the next paragraph of this section, or if all payments of principal of and interest on the Bonds, due or to become due, shall otherwise be paid to the owners of the outstanding Bonds, then the Bond Resolution shall cease to be effective and become null and void (except for those provisions surviving in accordance with the last paragraph of this section), and the covenants, agreements and obligations of the Board and the State under the Bond Resolution shall be released, discharged and satisfied.

All or any part of the Bonds shall be deemed to have been paid and discharged if: (1) the Registrar/Paying Agent shall, in advance of any payment to the owners of the outstanding Bonds, have received sufficient moneys for the payment in full of the principal of and interest on the Bonds, or part thereof, or (2) there shall have been placed in trust for the payment of the Bonds and irrevocably committed to such payment, non-callable Defeasance Obligations (defined below) which are certified by an independent public accounting firm of national reputation to be of such maturities or redemption dates and interest payment dates, and scheduled to bear such interest, as will be sufficient, together with any moneys on deposit with the Registrar/Paying Agent available to pay principal of and interest on the Bonds, without further investment or reinvestment of either the principal amount or the interest earnings on such Defeasance Obligations (which earnings are to be held likewise in trust and so committed, except as provided herein), for the payment in full of all principal of and interest on the Bonds, or part of the Bonds, deemed to have been paid, at their maturity.

As used in the Bond Resolution, “Defeasance Obligations” means, as permitted by law:

(i) direct obligations of, or obligations the full and timely payment of the principal of and interest on which is unconditionally guaranteed by, or obligations issued by or backed by the full faith and credit of corporations sponsored by, the United States of America;

(ii) obligations issued or guaranteed as to full and timely payment of principal and interest by any agency or person controlled by and acting as an instrumentality of the United States of America, pursuant to authority granted by the Congress of the United States of America; and

(iii) obligations described in Section 103(a) of the Code (a) provisions for the payment of the principal of, premium, if any, and interest on which (1) shall have been made by the irrevocable deposit, with a bank or trust company acting as a trustee or escrow agent for holders of such obligations, of non-callable securities described in clauses (i) and (ii) above, the maturing principal of and interest on which, when due and payable, without further investment or reinvestment, will provide sufficient moneys to pay when due the principal of and interest on such obligations, and (2) which securities described in clause (i) and (ii) are not available to satisfy year any other claim, including any claim of such trustee or escrow agent or of any person claiming through such trustee or escrow agent or to whom such trustee or escrow agent may be obligated, including claims in the event of the insolvency of such trustee or escrow agent or proceedings arising out of such insolvency or (b) rated by either Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business or Moody’s Investors Service, Inc., or similar rating agency in its highest rating category (without regard to any refinement or gradation by numerical modifier or otherwise).

Any moneys held in trust in accordance with the defeasance provisions of the Bond Resolution may be invested only in non-callable Defeasance Obligations having maturity dates, or having redemption dates which, at the option of the holder of such Defeasance Obligations, shall not be later than the date or dates at which moneys will be required for the purposes described above. Within fifteen (15) days after any Bonds are deemed to be paid and discharged, a written notice of such deemed payment and discharge shall be given to each registered owner of Bonds as shown on the registration books kept by the Registrar/Paying Agent on the date on which such Bonds are deemed paid and discharged. Such notice shall state the numbers of the Bonds deemed paid and discharged or state that all Bonds are deemed paid and discharged and set forth a description of the obligations held.

Notwithstanding that Bonds may be deemed to have been paid, any provisions of the Bond Resolution which relates to the maturity of Bonds, interest payments and dates thereof, exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Registrar/Paying Agent in

connection with all of the foregoing, shall remain in effect and be binding upon the State and the Registrar/Paying Agent until final payment of all Bonds notwithstanding the release and discharge of the Bond Resolution. Notwithstanding any provision of the Bond Resolution to the contrary, any provisions of the Bond Resolution which relates to the exclusion of interest from gross income for federal tax purposes shall remain in effect and be binding upon the State and the Registrar/Paying Agent.

Amendment of Bond Resolution

The Bond Resolution may be amended or supplemented from time to time without the consent of or notice to the holders of the Bonds for any of the following purposes: (a) before or after issuance of the Series 2013A Bonds to add to, subtract from, or amend or clarify the list of Projects; (b) to cure any ambiguity, omission, formal defect or inconsistency; or (c) to make any change that, in the judgment of the Board, in reliance upon an opinion of counsel, does not have a material adverse effect on the rights of the owners of any Bonds; or (d) to achieve compliance with any applicable federal securities or tax laws or to ensure the exclusion of interest on the Bonds from the gross income of the owners of the Bonds for federal income tax purposes.

Except as provided above, the Bond Resolution may only be amended or supplemented by resolution adopted by the Board in accordance with applicable law, with or without receipt by the State of any additional consideration, but with the written consent of the owners of a majority in principal amount of the Bonds then outstanding; provided, however, that no such resolution shall have the effect of permitting: (i) an extension of the maturity of any Bond; or (ii) a reduction in the principal amount of, the rate of interest on, or the redemption premium on any Bond; or (iii) a reduction of the principal amount of Bonds required for consent to such amendatory or supplemental resolution; or (iv) the establishment of priorities as between Bonds issued and outstanding under the provisions of the Bond Resolution; or (v) the modification of, or otherwise affecting, the rights of the owners of less than all of the Bonds then outstanding.

Remedies of Holders of Bonds

The registered owners, or Beneficial Owners, of not less than 25 percent in aggregate principal amount of the Bonds then outstanding may bring an action to protect the rights of the registered owners and Beneficial Owners of Bonds under the Bond Resolution in any court of competent jurisdiction, for the specific performance of any covenant or agreement contained in the Bond Resolution or to enjoin any act or thing which may be unlawful or in violation of any right of any owner of the Bonds. All such proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all owners of the Bonds then outstanding. The failure of any registered owner or owners or Beneficial Owner or Beneficial Owners of Bonds to so proceed shall not relieve the State or the Board of any obligation to perform any duty under the Bond Resolution. Each right or privilege of such owner and Beneficial Owner is in addition and cumulative to any other right or privilege, and the exercise of any right or privilege by or on behalf of any registered owner or Beneficial Owner shall not be deemed a waiver of any other right or privilege.

Payment of Principal and Interest

The Bonds and the interest accruing on the Bonds shall be payable and collectible out of the Bonding Fund, which is pledged for such payment as provided in the Severance Tax Bonding Act. Interest on the Bonds shall be payable by check or draft mailed to their registered owners, as shown on the registration books for the Bonds maintained by the Registrar/Paying Agent at the address appearing in such books at the close of business on the fifteenth (15th) day of the calendar month next preceding each applicable interest payment date (the "Record Date"), or, if such date is not a business day, the first

business day thereafter, or in such other manner as may be agreed upon by the Registrar/Paying Agent and the registered owner of a Bond. Interest which is not timely paid or duly provided for shall cease to be payable to the owners of the Bonds (or of one or more predecessor Bonds) as of the Record Date, but shall be payable to the registered owners of the Bonds (or of one or more predecessor Bonds) at the close of business on a special record date (the “Special Record Date”) for the payment of that overdue interest to be fixed by the Registrar/Paying Agent. The Special Record Date shall be fixed by the Registrar/Paying Agent whenever moneys become available for payment of the overdue interest, and notice of the Special Record Date shall be given to owners of Bonds not less than ten (10) days prior to such date. The principal of and interest on the Bonds is payable upon presentation and surrender of the Bonds without deduction for exchange or collection charges at the office of the Registrar/Paying Agent. Principal of and interest on the Bonds are payable in lawful money of the United States of America.

While registered in the name of DTC or its nominee, payments of principal of and interest on the Bonds shall be made to DTC or its nominee as set forth in the Letter of Representation between DTC and the State.

TRANSCRIPT AND LEGAL OPINIONS

The Board will prepare an official transcript of proceedings of the authorization and issuance of the Bonds.

Legal matters incident to the issuance of the Bonds and the exclusion from gross income for Federal and State of New Mexico income tax purposes of interest on the Bonds (see “TAX MATTERS” below and the form of opinion of Bond Counsel attached hereto as Appendix D) are subject to the approving legal opinions of Brownstein Hyatt Farber Schreck, LLP, Bond Counsel to the State (“Bond Counsel”). Certain legal matters will be passed upon for the State of New Mexico by Brownstein Hyatt Farber Schreck, LLP, Disclosure Counsel. Certain legal matters will be passed upon for the State of New Mexico by the Office of the Attorney General of the State of New Mexico.

TAX MATTERS

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Bonds. The issuer has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes.

In the opinion of Brownstein Hyatt Farber Schreck, LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, interest on the Bonds is excluded from gross income for Federal income tax purposes. Bond Counsel is also of the opinion that the interest on the Bonds is not a specific preference item or included in adjusted current earnings for purposes of computing the alternative minimum tax imposed by Section 55 of the Code.

In rendering its opinion, Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications, and compliance with certain covenants of the issuer. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the issuer. In addition, Bond Counsel has not been engaged, and will not undertake, to monitor the issuer’s compliance with the covenants or to inform any person as to whether the covenants are being complied with; nor has Bond Counsel undertaken to determine or to inform any person as to whether any actions taken or not

taken, or events occurring or not occurring, after the date of the issuance of the Bonds may affect the federal tax-exempt status of the interest on the Bonds.

Bond Counsel is also of the opinion that the difference between the principal amount of the Bonds and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of each Bond of the same maturity was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest basis over the term of each Bond. For purposes of determining gain or loss on the sale or other disposition of a Bond, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price is required to decrease such purchaser's adjusted basis in such Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Bonds. Owners of the Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning the Bonds.

Interest on the Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information including an accurate taxpayer identification with the number to any person required to collect such information pursuant to Section 6049 of the Code.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Bonds from gross income for Federal income tax purposes. For example, the American Jobs Act of 2011 proposed by President Obama on September 12, 2011 contains a provision that would, if enacted in its present form, result in additional federal income tax for the years beginning after 2012 on taxpayers that own tax-exempt bonds, including the Bonds, if they have incomes above certain thresholds. Although a bill including this proposal recently failed to advance in the Senate on a procedural vote, it cannot be predicted whether this proposal, or other proposals, will be enacted in the future. Furthermore, Bond Counsel expresses no opinion as to any Federal, State or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of bond counsel other than Bond Counsel.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for Federal income tax purposes, a Beneficial Owner's Federal, State or local tax liability may otherwise be affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the Beneficial Owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to

purchase or carry the Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to Federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25 percent of the gross receipts of such Subchapter S corporation is passive investment income and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Unless separately engaged, Bond Counsel is not obligated to defend the issuer or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the issuer and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of the IRS positions with which the issuer legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the issuer or the Beneficial Owners to incur significant expense.

Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of New Mexico personal income taxes as described herein.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on or ownership of the Bonds. Prospective purchasers or owners should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability, inclusion of Social Security or other retirement payments in taxable income and the state and local tax rules in New Mexico and other states.

LITIGATION

At the time of the original delivery of the Bonds, the Board will deliver a no-litigation certificate to the effect that no litigation or administrative action or proceeding is pending, or, to the knowledge of the appropriate State officials, threatened, restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Bonds, the effectiveness of the legislation authorizing the issuance of the Bonds, the levying or collecting of any taxes for the payment of the debt service on the Bonds (other than those cases described in Appendix C, which proceedings are not, in the opinion of the State Attorney General, reasonably expected to have a material effect on the bondholders), or contesting or questioning the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Bonds.

The State is a party to various legal proceedings seeking damages or injunctive relief and generally incidental to its operations which proceedings are unrelated to the Bonds, and to the security therefor. The ultimate disposition of such proceedings is not presently determinable. Such proceedings are not, in the opinion of the State Attorney General, reasonably expected to have a material adverse

effect on the Bonds or the security for the payment of the Bonds for the following reason: Severance Taxes are the primary source of payment for the Bonds which are limited obligations of the State. See Appendix C for a summary of litigation and administrative action or proceedings that impact Severance Taxes.

FINANCIAL ADVISORS

The Board has retained Fiscal Strategies Group, Inc., as Financial Advisor in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds. Fiscal Strategies Group, Inc. has contracted with Public Resources Advisory Group (together with Fiscal Strategies Group, Inc., the “Financial Advisors”) in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds. The Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement nor the information, covenants and representations contained in any of the Bond documentation with respect to the federal income tax status of the Bonds. The Financial Advisors are independent advisory firms and are not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The financial advisory fee for services performed with respect to the Bonds is contingent upon the issuance and delivery of the Bonds but is payable from the Bonding Fund.

RATINGS

The Bonds have received ratings from Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, as set forth on the cover of this Official Statement.

Such ratings reflect only the views of the respective organizations. An explanation of the significance of each rating may be obtained from the rating agency furnishing such rating. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of either rating can be expected to have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE UNDERTAKING

The Board will agree, by means of a continuing disclosure undertaking (the substantial form of which appears in Appendix E) to be delivered to the purchaser of the Bonds at closing, for the benefit of owners of the Bonds, to provide certain annual financial information relating to the State by no later than 210 days after the end of each fiscal year of the State, commencing with the fiscal year ending June 30, 2012, and to provide notices of occurrence of certain enumerated events, if material. The Board will further agree in the continuing disclosure undertaking that if its audited financial statements are not provided as part of the annual financial information, the Board will provide such audited statements when available. The annual financial information and audited financial statements (when available) will be filed by the Board with the Municipal Securities Rulemaking Board and with any New Mexico State Information Depository. In the event of a failure of the Board to comply with any provision of the continuing disclosure undertaking, any owner of Bonds (including beneficial owners of the Bonds) may seek specific performance by court order from a State court in Santa Fe County, New Mexico.

The continuing disclosure undertaking is being executed by the Board to assist in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the “Rule”). Continuing disclosure undertakings previously entered into by the

Board in relation to the State's Capital Projects General Obligation Bonds and Severance Tax Bonds state that if audited financial statements are not available by the time the other annual financial information must be provided, unaudited financial statements shall be provided as part of the annual financial information. In connection with its continuing disclosure obligations for Fiscal Year 2008, the State timely filed its annual financial information on January 23, 2009. At that time, neither unaudited nor audited financial statements from the State of New Mexico State general fund Annual Financial Report (the "general fund Audit") and the State of New Mexico Office of the State Treasurer Financial Statements (the "STO Audit") for the fiscal year ended June 30, 2008, were available. The annual financial information disclosed this fact and provided that as soon as they were available the unaudited and audited financial statements would be submitted. On February 17, 2009, the State filed the unaudited financial statements from the general fund Audit. On March 5, 2009, the State filed the audited financial statements from the STO Audit. On March 31, 2009, the State filed the audited financial statements from the general fund Audit. The Board believes that it is now in compliance with all its continuing disclosure undertakings.

On January 14, 2013, the Board on behalf of the State filed a notice of listed event (the "Notice") in connection with the \$149,000,000 State of New Mexico Severance Tax Bonds, Series 2008A-1 (the "Series 2008A-1 Bonds") with the Municipal Securities Rule Making Board through its Electronic Municipal Marketplace Access website. The Series 2008A-1 Bonds were refunded and defeased but not redeemed. Pursuant to the Escrow Agreement, the Escrow Agent remitted the interest payment due January 1, 2013 in the amount of \$1,650,200 to the State Treasurer on January 2, 2013. The State Treasurer submitted such interest payment to the Depository Trust Company on January 8, 2013. Section 2(d)(i) of the Continuing Disclosure Undertaking dated as of June 25, 2008, executed and delivered by the Board in conjunction with the issuance and delivery of the Series 2008A-1 Bonds, requires that the Board file the Notice describing the interest payment delinquency. As a result of the delinquent interest payment, the State Treasurer's Office is evaluating its internal controls to determine what steps may be necessary, including additional training and cross-training, to avoid this oversight in the future.

For the Fiscal Years ending June 30, 2008 through 2012, the Board, on behalf of the State, made timely filings in accordance with continuing disclosure undertakings previously entered into by the Board in relation to the State's Capital Projects General Obligation Bonds; however, such filings did not contain certain State mill levy operating data information. This information was contained in official statements used in connection with the issuance and sale of the State's Capital Projects General Obligation Bonds, including without limitation, the official statement used in connection with the issuance and sale of the State's Capital Projects General Obligation Bonds, Series 2013 dated March 19, 2013. The Board, on behalf of the State, intends to include such information in all future continuing disclosure undertakings filings.

The continuing disclosure undertaking will be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of: (i) the date the principal and interest on the Bonds is paid or deemed paid; (ii) the date the Board is no longer an "obligated person" with respect to the Bonds within the meaning of the Rule; and (iii) the date on which those portions of the Rule which require the continuing disclosure undertaking are held invalid or repealed.

MISCELLANEOUS

The foregoing summaries, descriptions and references do not purport to be comprehensive or definitive, and such summaries, descriptions and references are qualified in their entirety by reference to each statute, document, exhibit or other materials summarized or described. The instruments and other materials referred to in this Official Statement may be examined, or copies thereof will be furnished in reasonable amounts, upon written request to the New Mexico State Board of Finance, 131 South Capitol Street, Bataan Memorial Building, Room 181, Santa Fe, New Mexico 87501, or by telephone at (505) 827-4980.

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Statements made in this Official Statement involving matters of opinion, forecasts or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. The Appendices are integral parts of this Official Statement and must be read with all other parts of this Official Statement.

This Official Statement has been authorized and issued by the Board.

STATE BOARD OF FINANCE
OF THE STATE OF NEW MEXICO

By: _____
President

APPENDIX A

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

The State, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state, containing approximately 121,593 square miles. The current population of the State is 2,085,538. The State has a semiarid subtropical climate with light precipitation. Its climate is characterized by sunshine and bright skies in both winter and summer. Every part of the State receives no less than 70 percent sunshine year-round. Humidity ranges from 30 to 60 percent. Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The Executive Branch of State government consists of a Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, and Commissioner of Public Lands. These officials are elected to four-year terms beginning January 1 after their election. An elected Executive Branch officer may succeed himself or herself in office once. The primary functions of the Executive Branch are currently carried out by the offices of each elected Executive Branch officeholder, in addition to 22 departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature, and approximately 9 cabinet-level agencies. Elections for all statewide offices were held on November 6, 2012.

The State Board of Finance has seven voting members consisting of the Governor, the Lieutenant Governor, the State Treasurer, and four members appointed by the Governor with the advice and consent of the Senate. No more than two appointed members may be from the same political party. The Department of Finance and Administration (the "DFA") Secretary serves as the Executive Officer of the Board and is a non-voting Board member. The Board, in addition to other powers and duties provided by law, has general supervisory authority over the fiscal affairs of the State and over the safekeeping and depositing of all money and securities belonging to, or in the custody of, the State. The Governor serves as the President of the Board.

The DFA is the principal financial organization of State government and performs through its divisions the duties and functions relating to State and local government financing and general administration. The executive and administrative head of the DFA is the Secretary, who is appointed by the Governor with the advice and consent of the Senate. The State Board of Finance is a division of the DFA. The Director of the Board is appointed by the Secretary with the approval of the Board.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms and members of the House are elected for two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to 60 calendar days in odd-numbered years and 30 calendar days in even-numbered years. Special sessions of the Legislature may be convened by the Governor. Extraordinary sessions may be convened by the Legislature under certain limited circumstances. Legislators do not receive any salary, but do receive per diem and mileage allowances while in session or performing official State business.

The judicial branch is composed of a statewide system including Magistrate and District Courts, the Court of Appeals and the Supreme Court. The District Courts are the trial courts of record with general jurisdiction.

State Budget for Fiscal Years 2010, 2011, 2012, 2013 and 2014

Fiscal Year 2010. Recurring general fund revenues were \$4.8 billion in Fiscal Year 2010. The price of oil realized in New Mexico averaged \$71.29 per barrel and the price of natural gas averaged \$5.20 per mcf for Fiscal Year 2010.

Fiscal Year 2010 revenues also included \$479.9 million of non-recurring revenues resulting from transfers of balances from other funds to the general fund, cancellation of certain capital projects, and austerity measures affecting state agency operating budgets. In addition, \$172.6 million was transferred to the Appropriation Account from the Tax Stabilization Reserve Fund. The solvency measures also included furloughs, and use of federal American Recovery and Reinvestment Act of 2009 (“ARRA”) funds. New Mexico received over \$2 billion in federal stimulus funding from ARRA for use in Fiscal Years 2009 through 2011. In addition to the solvency measures noted above, the budget was balanced using annual tobacco settlement payments to supplement Medicaid spending and shifting 1.5 percent of annual State pension contributions from the employer to employees. General fund reserves were \$278.0 million at the end of Fiscal Year 2010, 5.2 percent of current-year recurring appropriations.

Fiscal Year 2011. In Fiscal Year 2011, recurring general fund revenues increased by 12.7 percent to approximately \$5.4 billion on a year-over-year basis. The price of oil averaged \$84.60 per barrel and the price of natural gas averaged \$5.50 per mcf in Fiscal Year 2011. General and selective sales taxes increased by 12.2 and 18.3 percent, respectively, reflecting an increase in the statewide gross receipts tax and the compensating tax from 5 to 5.125 percent that took effect on July 1, 2010, closure of a compensating tax loophole relating to the applicability of compensating tax to sellers with no nexus to the state, and an increase in the cigarette tax rate of \$0.75 per package of cigarettes. Income taxes increased by 19.3 percent, including the impact of eliminating a deduction for state and local taxes paid. Mineral production taxes in Fiscal Year 2011 increased by 8.5 percent from Fiscal Year 2010 and rents and royalties increased by 12.9 percent. General fund balances ended the year at \$504.7 million at the end of Fiscal Year 2011, 9.7 percent of current-year recurring appropriations. During the 2010 Legislative Session, the Legislature mandated the Governor to proportionately reduce allotments to all general funded entities, excluding most Medicaid programs to ensure solvency in Fiscal Year 2011. As a result of the July 2010 revenue estimate, one allotment reduction in the amount of 3.2 percent was implemented for most programs on September 1, 2010. Additionally, the Governor requested state agencies reduce expenditures which resulted in an increase in general and other fund reversions and an increase of reserve balances.

Fiscal Year 2012. In Fiscal Year 2012, recurring general fund revenues increased to \$5.8 billion. The price of oil averaged \$89.64 per barrel and the price of natural gas averaged \$5.00 per mcf in Fiscal Year 2012. The Fiscal Year 2012 budget contained approximately \$5.4 billion of recurring appropriations. Among the measures taken to balance the budget were decreasing the fire protection fund distribution by \$1.3 million, reducing the film tax credit by \$23.3 million, shifting an additional 1.75 percent of annual State pension contributions from employer to employees to save \$49.7 million, improving the system for payment of unemployment insurance by State agencies resulting in cost savings of \$3 million, and implementing government efficiencies to save \$2.5 million. General fund reserves were \$712.9 million at fiscal year-end after accounting for a \$70 million contingent liability established in the Fiscal Year 2012 General Fund financial statements for potential charges related to unreconciled cash transactions. The ending balance represents approximately 13.1 percent of current-year recurring appropriations for Fiscal Year 2012. The Governor has expressed goals of maintaining reserves of 10 percent in future fiscal years, and providing for five-year expenditure forecasts to accompany consensus revenue forecasts.

Fiscal Year 2013. Based on the consensus revenue group projections for Fiscal Year 2013 made in December 2012, recurring general fund revenues are projected to decrease by approximately 1.6 percent over Fiscal Year 2012. Total recurring revenue is estimated to be approximately \$5.7 billion. The price of oil is expected to average \$85.00 per barrel and the price of natural gas is expected to average \$4.50 per mcf. Much of the decline in revenue is projected to occur in severance taxes, mineral rents and royalties and general sales tax revenues, the latter of which are projected to decrease as a result of cuts to federal government contracts under sequestration. In addition to these declines, New Mexico is expected to receive about \$20 million less in Federal Mineral Leasing revenue share in Fiscal Year 2013 as a result of federal budget cuts. The Fiscal Year 2013 budget includes \$5.7 billion in recurring appropriations, which represents a 4.2 percent increase in spending. Federal spending cuts could reduce appropriations by an estimated \$70 million. General fund reserves are estimated to be \$604.1 million at the end of Fiscal Year 2013, approximately 10.7 percent of Fiscal Year 2013 recurring appropriations. This figure has not been adjusted to reflect the decline in general fund revenue as a result of Federal Mineral Leasing spending cuts.

Fiscal Year 2014. Based on the consensus revenue group projections for Fiscal Year 2014 made in December 2012, recurring general fund revenues are projected to increase by approximately 3.9 percent over Fiscal Year 2013. Total recurring revenue is estimated to be approximately \$5.9 billion. The Fiscal Year 2014 budget includes \$5.9 billion in recurring appropriations. This represents a 4.2 percent increase in spending, and includes funding for a 1 percent state employee salary increase and a 3 percent salary increase for state police. The legislative and executive budget recommendations were similar in total funding, but differed slightly in the details. Both branches of government agreed to allow modest but conservative growth in anticipation of reduced federal funding under sequestration. The budget includes a 2.7 percent increase in public safety, a 4.6 percent increase in public education, and a 2.8 percent increase in Medicaid funding. With these appropriations, Fiscal Year 2014 reserves are estimated to be \$642.2 million or 10.9 percent of recurring appropriations. This figure does not include an estimated decrease in Federal Mineral Leasing in Fiscal Year 2014 of \$32.4 million.

During the 2013 legislative session, Governor Martinez signed into law tax reform legislation that is intended to make New Mexico more competitive with neighboring states and encourage diversification of the state economy. The bill, which was a compromise between the governor and legislative leadership, will phase in a reduction of the top corporate tax rate from 7.6 percent to 5.9 percent, allow a single sales factor election for manufacturers, and mandate combined reporting for large retailers while providing incentive for those retailers to bring non-retail operations to New Mexico. The tax package also tightens existing credits for high wage jobs and a gross receipts manufacturing deduction to ensure the legislation benefits intended activities, phases out a revenue sharing subsidy to local governments, and increases the percentage of the film credit on television series while preserving the credit cap of \$50 million. The package (without taking into account expected increased economic activity) is estimated to increase general fund revenues by approximately \$10 million in Fiscal Year 2014 and \$5 million in Fiscal Year 2015, and thereafter decrease general fund revenues by \$47 million in Fiscal Year 2016 and \$71 million in Fiscal Year 2017. Projections expect the decreasing revenues in subsequent years to ultimately be offset by the phase out of the local government subsidy.

Pension and Other Retirement Funds and Benefits

Legislative History. As with many other states, the State has ongoing funding issues regarding its pension and other retirement funds. In Fiscal Year 2012, the State experienced continued deterioration in the funded ratios and increases in the accrued liabilities of its two pension programs. As set forth below, steps have been proposed by the program funds to reform pension programs and to better ensure the continued viability of the programs.

The Legislature enacted the Educational Retirement Act, Section 22-11-1 et seq. NMSA 1978, the Public Employees Retirement Act, Section 10-11-1 et seq. NMSA 1978, and the Retiree Health Care Act, Sections 10-7C-1 through 10-7C-19, NMSA 1978, which created the retirement plans that cover most employees of the State and its political subdivisions. These retirement plans are managed by the Educational Retirement Board (“ERB”), the Public Employees Retirement Association (“PERA”), and the New Mexico Retiree Health Care Authority (“NMRHCA”) and described below. The Legislature establishes all financing provisions of the plans and the provisions are not subject to negotiation. Financing provisions include employee and employer contributions, fund investment provisions and benefit provisions. In 1998, the voters amended the State Constitution, adopting Section 22 of Article XX, which states that upon meeting the minimum service requirements of an applicable retirement plan created by law for employees of the State or any of its political subdivisions or institutions, a member of a plan shall acquire a vested property right with due process protections under the applicable provisions of the New Mexico and United States Constitutions. The amendment also stated that nothing in Section 22 shall be construed to prohibit modifications to retirement plans that enhance or preserve their actuarial soundness. As with other pension funds nationwide, New Mexico’s pension funds were affected by the significant market turmoil related to the downturn in the nation’s economy that began in 2008. While as of June 30, 2012, the funds had recovered substantially all of the losses incurred during the 2008 – early 2009 period, issues persist regarding the long-term financial status of the funds.

Recent legislative changes enacted during the 2009, 2010 and 2011 legislative sessions also amended various provisions of the Educational Retirement Act, the Public Employees Retirement Act, and the New Mexico Retiree Health Care Act to improve the long-term stability of these funds.

House Bill 573 (Chapter 288, Laws 2009) increased the years of service requirement from 25 years to 30 years for new members who joined ERB and PERA on or after July 1, 2010. Existing ERB and PERA members remain under the 25-year service requirement. In addition, House Bill 573 increased payroll contributions by employers and employees to the New Mexico Retiree Health Care Fund (the “NMRHCF”). House Bill 573 also included training requirements for members of the ERB and PERA boards.

House Bill 631 (Chapter 286, Laws 2009) added a section to the Educational Retirement Act to extend the rule whereby ERB members could retire with full benefits if their combined service and age at retirement met or exceeded 75, to a combined service and age at retirement of 80 for new ERB members hired after July 1, 2010.

House Bill 351 (Chapter 287, Laws 2009) increased the employer/employee contribution to the NMRHCF from 1.95 percent to 3 percent for most employers and employees. The contribution increase was slightly higher for employees in an enhanced retirement plan. The increase is being phased-in over a four-year period. Due to the passage of this legislation, the NMRHCA estimates that solvency will be extended from approximately 2018 to 2027.

House Bill 854 (Chapter 124, Laws 2009) modified most employer and employee contributions to the State’s retirement funds for Fiscal Years 2010 and 2011, shifting 1.5 percent of the annual contribution rate from employers to employees for those employees with a full-time equivalent annual salary greater than \$20,000.

House Bill 628 (Chapter 178, Laws 2011) extended the existing 1.5 percent shift made in House Bill 854 through Fiscal Year 2013 and shifted an additional 1.75 percent of the annual contribution rate from employers to employees for Fiscal Year 2012, with the potential of that shift continuing in Fiscal Year 2013 if the Secretary of the DFA certified to the Legislative Finance Committee, the ERB and PERA that: (a) general fund revenues in Fiscal Year 2012 would not be at least \$100 million more than

forecast to be in the Fiscal Year 2012 budget; and, (b) total state reserve funds at the end of Fiscal Year 2012 would be less than 5 percent or more of general fund appropriations in Fiscal Year 2012. In January 2012, the Secretary of the DFA indicated that the requirements to continue the additional 1.75 percent contribution shift would not be met. Accordingly, the additional 1.75 percent of the annual contribution rate shifted back from the employees back to the employers for Fiscal Year 2013. The 1.5 percent contribution shift from the employers to the employees remains in place through Fiscal Year 2013. House Bill 628 also required an actuarial study by PERA and ERB prior to September 20, 2013 to analyze whether contribution rate changes have had an adverse actuarial effect on the retirement systems.

House Bill 129 (Chapter 6, Laws 2011) required retired members who return to work with an educational employer pursuant to Paragraphs A, B or F of Section 22-11-25.1 NMSA 1978 to pay non-refundable contributions to the Educational Retirement Fund equal to the amount paid by non-retired employees. Formerly, the employers had paid those contributions. Employers continue to pay the employees' contributions to the Fund for retired members who return to work under the statute.

2013 Legislative Developments. A significant number of bills relating to the State's pension and other retirement funds and benefits were introduced in the 2013 legislative session, which concluded on March 16, 2013.

PERA Amendments. Senate Bill 27 (Chapter 225, Laws 2013), which was endorsed by the PERA board, amends the Public Employees' Retirement Act. The bill reduces the cost of living adjustments for all current and future retirees; delays the application of cost of living adjustments for certain future retirees; suspends the cost of living adjustments for certain return-to-work retirees; provides for an increase in the statutory employee contribution rate of 1.5 per cent (subject to certain requirements) for employees earning \$20,000 or more in annual salary; provides for an increase in the statutory employer contribution of 0.4 per cent beginning in fiscal year 2015; increases age and service requirements; lengthens the base average salary calculation amount from three to five years for future employees; increases the vesting period for employees from five to eight years for most members; lowers the annual service credit by 0.5 for most members; and makes several other clarifying and technical changes. Senate Bill 27 was passed by the legislature and sent to the Governor, who signed the legislation on April 5, 2013.

ERB Amendments. Senate Bill 115 (Chapter 61, Laws 2013), endorsed by the ERB (duplicated at introduction with House Bill 64) amends the Educational Retirement Act. The bill increases employee contributions to 10.1 percent in fiscal year 2014 and 10.7 per cent in fiscal year 2015; keeps in place scheduled increases in employer contribution rates; creates a new tier membership for persons who become members of the ERB fund after July 1, 2013; creates certain actuarial limitations on benefits of new tier members; places limitations on future cost of living increases for current and future retirees which are tied to the future funded ratios of the plan; and makes certain other clarifying and technical changes. Senate Bill 115 was passed by the legislature and sent to the Governor, who signed the legislation on March 29, 2013. Senate Bill 115 will become effective July 1, 2013. The projected actuarial funded ratio in 2043 with changes made by Senate Bill 115 is 100.7%.

Judicial and Magistrate Retirement Amendments. Senate Bill 25 amends the Judicial Retirement Act and the Magistrate Retirement Act. The bill adjusts employee contributions; converts employer contributions to a percentage of employee salary; increases age and service requirements; adjusts and limits cost of living increases and ties increases to the future funding ratios of the plan; makes certain adjustments to benefit and vesting calculations; and makes certain other clarifying and technical changes. Senate Bill 25 was passed by the legislature and sent to the Governor, who vetoed the legislation. The proposed amendments would have affected approximately 250 individuals.

Legislative Retirement Amendments. Senate Bill 114 provides temporary changes to the eligibility provisions of laws relating to state legislative pensions. The bill provides that certain legislators who failed to make timely contributions to the plan may qualify by making a payment of seven hundred dollars and also provides for certain other benefits for other members through making additional contributions. Senate Bill 114 was passed by the legislature and sent to the Governor, who vetoed the legislation. The proposed amendments would have affected approximately 100 individuals.

Other Legislation. Various other bills relating to pension and other retirement funds and benefits were introduced in the 2013 Legislative Session including Senate Bill 26 (PERA changes), Senate Bill 71 (retiree health care changes), Senate Bill 86 (PERA and ERB changes), Senate Bill 121 (PERA public safety member changes), Senate Bill 168 (PERA public safety member changes), Senate Bill 317 (PERA cost of living adjustments), House Bill 95 (Judicial and Magistrate retirement adjustments), House Bill 96 (ERB sick leave adjustments), House Bill 147 (PERA return to work adjustments) and House Bill 252 (public safety fund contributions to PERA). These bills did not pass, but certain of the provisions of these various bills were included in some form in those items of legislation that were passed.

Educational Retirement Board-Historic Financial Information. The ERB had 132,223 members as of June 30, 2012, including active, retired, inactive vested and inactive non-vested members. The market value of Educational Retirement Fund (the "Fund") as of June 30, 2012 was \$9.5 billion, which was up from a low of \$6.0 billion in February 2009. The ERB had investment gains for the Fiscal Year 2012 of 1.6 percent. Based on preliminary data, the market value of the Fund as of December 31, 2012 increased to \$9.9 billion. Investment returns for the quarter and 12-month period ending December 31, 2012 were 1.4 percent and 13.6 percent, respectively.

In April 2011, the ERB voted to change its assumed rate of return on the pension fund's investments from 8.0 percent to 7.75 percent. As of June 30, 2012, the actuarial value of assets was \$9.5 billion and the unfunded accrued actuarial liability ("UAAL") was \$6.2 billion based on the 7.75 percent assumed rate of return. The pooled nature and structure of the Fund, which covers all employees working in K-12, higher education and special state schools, and certain employees in state and special purpose agencies, does not allow the UAAL of the Fund to be apportioned among multiple employers. Others changes were made to the ERB's actuarial assumptions in April 2011, the most significant of which included: changing the funding method to traditional individual entry age normal; revising post-retirement mortality to reflect slightly longer life expectancy; changing retirement rates at ages 65 and 69 and with 25 or more years of service; decreasing salary increases for members with 10 or more years of service; and decreasing membership growth assumptions. The combined effect of the changes in actuarial assumptions, including to the assumed investment return rate, increased the UAAL by \$426.1 million. Based on the 7.75 percent assumed rate of return and the other changes described, the estimated funding ratio (ratio of the actuarial value of assets to actuarial accrued liability) as of June 30, 2011 was 63.0 percent. The funded ratio on June 30, 2012 was 60.7 percent.

The change in the assumed rate of return was recommended by the ERB's outside actuaries and was made after consultations with the ERB's internal investment staff and its general investment consultant. The ERB will continue to monitor both its investment returns and general market conditions and may again change its assumed rate of return as market conditions and experience warrant.

As of June 30, 2012, the UAAL had an infinite amortization period based on the 7.75 percent assumed rate of return. The amortization period, also referred to as the funding period, is a calculation based on actuarial models of the period required to amortize the UAAL, assuming ERB's experience exactly follows actuarial assumptions. As required by Governmental Standards Accounting Board ("GASB") Statement 25, the calculation is based on current contribution rates and does not take into account the statutorily scheduled increases in those rates described below.

Member and employer contribution rates are established by State statute. In 2005, the Legislature amended Section 22-11-21 NMSA 1978 to increase the employer contribution rate by 0.75 percent for each of the seven years beginning July 1, 2005, and to increase member contribution rates by 0.075 percent for each of the four years beginning July 1, 2005. In the 2009 regular legislative session, the Legislature modified employer and member contribution rates for Fiscal Years 2010 and 2011 to shift 1.5 percent of the employer contribution rate to members whose annual salary exceeds \$20,000, resulting in a member contribution rate of 9.4 percent. In the 2011 regular legislative session, the Legislature again modified employer and member contribution rates for Fiscal Year 2012 to extend the 1.5 percent shift and add an additional 1.75 percent shift; for members whose salary exceeds \$20,000, the Fiscal Year 2012 contribution rate was 11.15 percent. As a result of the expiration of the 1.75 percent contribution shift described above, the contribution rate for those members whose salary exceeds \$20,000 is 9.4 percent in Fiscal Year 2013. For those members whose annual salary is \$20,000 or less, the contribution rate remains at 7.9 percent.

In both the 2010 and the 2011 regular legislative sessions, the Legislature also modified employer contribution rates. In Fiscal Years 2010 and 2011, the employer contribution rate for members whose salary is greater than \$20,000 was 10.9 percent. The employer contribution rate for those members was 9.15 percent in Fiscal Year 2012. The employer contribution rate in Fiscal Year 2013 has returned to 10.9 percent. The contribution rate for members whose salary is \$20,000 or less is 12.4 percent in Fiscal Years 2010, 2011, 2012, and 2013. In Fiscal Year 2014, the employer contribution rate for all members employed, regardless of salary, will increase to 13.15 percent. Beginning in Fiscal Year 2015, the employer contribution rate will be 13.9 percent for all members employed. As noted above, GASB Statement 25 does not permit the consideration of contribution rates not yet in effect, so the funding period is reported based on the contribution rates actually in effect as of the date the contribution is made. In addition, New Mexico universities and colleges make an additional contribution of 3 percent of the salary of those employees who elect to participate in the Alternative Retirement Plan (“ARP”), a defined contribution retirement plan available to certain faculty and professional employees, to satisfy the UAAL attributable to participation in the ARP.

GASB Statement 25 also requires ERB to report the annual required contribution of the employer (the “ARC”) and the percentage of the ARC contributed. ERB meets 100 percent of its statutorily required employer contributions annually. The following table lists the ARC and the ERB funded ratio for Fiscal Years 2008 through 2012.

Table A-1

ERB Funded Ratio

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Funded Ratio</u>
2008	\$368,196,682	71.5%
2009	\$375,430,722	67.5
2010	\$357,220,043	65.7
2011	\$377,884,749	63.0
2012	\$400,461,343	60.7

Source: Educational Retirement Board.

In September 2011, the ERB adopted goals of achieving an 80 percent funded ratio by 2030 and a 95 percent funded ratio by 2040. The amendments to the Educational Retirement Act made through enactment of Senate Bill 115 (Chapter 61, Laws 2013) are intended to assist the ERB in achieving these goals.

ERB pensions are adjusted annually beginning on the later of either July 1 of the year in which a member reaches age 65 or July 1 following the year a member retires. The adjustment is ½ of the CPI percentage increase, except that it will not exceed 4 percent or be less than 2 percent in absolute value. If the absolute value of the CPI percentage increase is less than 2 percent, the adjustment is the same as the CPI percentage increase. Pensions cannot be decreased if there is a decrease in the CPI.

In 2010, the ERB changed the manner in which interest was calculated on members' contributions that are subject to refund so that it would be calculated in a manner similar to a savings account. As a result of a programming error, interest was miscalculated on refunds during July and August 2010 leading to overpayment of approximately \$1.7 million to 693 individuals. The software was corrected after staff became aware of the error. Subsequently, the ERB undertook steps to recover the overpayments. To date, between \$1.1 and \$1.2 million has been recovered. The ERB has entered into payment plans with a number of the recipients through which it expects to recover additional funds and is continuing to pursue recovery from others who were overpaid.

The Public Employees Retirement Association-Historic Financial Information. PERA had 85,106 members as of June 30, 2012. As of September 30, 2012, the total market value of PERA Fund was \$12.3 billion. The September 30, 2012 quarterly PERA total fund investment return was 5.07 percent and the 12 month total fund investment return as of that date was 16.7 percent. On a preliminary basis, the market value of the PERA Fund as of December 31, 2012 increased to \$12.4 billion with an investment return of 2.01 percent for the quarter.

Cavanaugh Macdonald Consulting, LLC completed an actuarial valuation of the PERA Fund, Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund ("VFF") as of June 30, 2012. In July 2012, the PERA Board accepted the actuary's revised assumptions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 3.5 percent per annum, a real rate of return on investment of 7.75 percent and salary increases for longevity and merit at 4.0 percent, each compounded annually.

Actuarial information for each fund as of June 30, 2012 is shown in Table A-2.

TABLE A-2

Summary of State Retirement Funds Managed by PERA
(Dollars in thousands)

	PERA ⁽¹⁾	Judicial	Magistrate	VFF	Legislative
Membership	85,106	263	140	6,638	294
<u>Actuarial Information</u>					
Accrued Liability ⁽²⁾	\$17,788,044	\$147,923	\$58,037	\$28,219	\$27,429
Actuarial Value of Assets ⁽³⁾	\$11,612,047	\$75,507	\$30,878	\$47,382	\$25,168
Unfunded (Overfunded) Accrued Liability	\$6,175,997	\$72,416	\$27,158	\$(19,162)	\$2,260
Present Value of Statutory Obligations	\$21,300,016	\$174,822	\$63,225	\$31,671	\$30,288

(1) Includes both the state and municipal divisions.

(2) Includes the accrued liability of both the retired and active members.

(3) The valuation of assets is based on an actuarial value of assets whereby gains and losses relative to an 7.75 percent annual return are smoothed in over a four-year period.

Source: Public Employees Retirement Association.

As of June 30, 2012, PERA has an amortization or funding period designated as infinite, based on the employer and member contribution rates in effect as of July 1, 2012. Member and employer rates are

established pursuant to Section 10-11-1 through 10-11-141 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 65.3 percent as of June 30, 2012 and the UAAL of the PERA Fund has been calculated to be approximately \$6.2 billion. The State's portion of the UAAL of the PERA Fund is 50.1 percent, or \$3.1 billion. As of June 30, 2011, the funded ratio was 70.5 percent and the UAAL of the PERA Fund was calculated to be approximately \$4.8 billion. The primary cause of the deterioration of the funded ratio and increase in accrued actuarial liability is the investment losses applied over the four plan years between 2009 and 2012. On a market value basis, PERA's funded ratio is approximately 65.1 percent as of June 30, 2012. The PERA Board has reviewed the results of its June 30, 2012 actuarial valuation, which indicates that additional contributions and significant benefit reforms are required in order to properly fund the PERA retirement plans. The PERA Board's reform proposal (Senate Bill 27) will have an immediate impact on reducing the \$6.2 billion unfunded liability and restore the fund to approximately 100 percent funded status by 2042.

GASB Statement 25 requires PERA to report its ARC and the percentage of the ARC contributed. PERA meets 100 percent of its statutorily required employer contributions annually. The following tables list the funded ratios for each individual PERA fund for Fiscal Years 2008 through 2012.

TABLE A-3

Funded Ratio of State Retirement Funds Managed by PERA

<u>Fiscal Year</u>	<u>PERA</u>	<u>Judicial</u>	<u>Magistrate</u>	<u>VFF</u>	<u>Legislative</u>
2008	93.3%	78.3%	93.2%	285.8%	93.4%
2009	84.2	60.5	66.3	242.5	86.9
2010	78.5	61.2	65.8	231.3	82.9
2011	70.5	56.0	59.8	173.4	89.2
2012	65.3	51.0	53.2	167.9	91.8

Source: Public Employee Retirement Association.

New Mexico Retiree Health Care Authority-Historic Financial Information. The RHCA was enacted for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service positions in the State and their eligible dependents. NMRHCA offers both pre Medicare and Medicare plans, as well as dental, vision and life insurance plans to eligible retirees. There were approximately 51,000 enrolled members as of July 2012 and approximately 300 participating public entities.

While NMRHCA experienced an investment loss in Fiscal Year 2012 of approximately 2 percent, NMRHCA has been able to add over \$50 million to its trust fund over the past two years. NMRHCA's market value as of December 31, 2012 was \$256.5 million.

The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished or extinguished by the Legislature, and that the Act does not create any contract, trust or other rights in public employees to health care benefits.

NMRHCA, the agency that administers the Retiree Health Care Act, has a revenue base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and amounts distributed annually from the Taxation Administration Suspense Fund ("TAA Fund"). Employer and employee contribution rates are established in statute as is the amount distributed from the TAA Fund. Respective employer/employee contribution rates were 2 percent and 1 percent of the participating employee's salary for Fiscal Year 2012.

Based on the GASB Statement 43 valuation for Fiscal Year 2012, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust and, hence using a discount rate of 5 percent, the UAAL has been calculated to be approximately \$3.6 billion. As required by GASB Statement 43, this calculation takes into consideration only current assets of the NMRHCA Fund. The NMRHCA continues to look for additional opportunities to further strengthen the financial standing of the NMRHCA. The NMRHCA Board of Directors has passed a five-year solvency plan to ensure the long term financial stability of the program through a series of targeted benefit reductions and increases to contribution levels from participating employees and their employers. In addition to increased retiree cost sharing through plan design changes, the solvency plan calls for proportionately higher premiums for retirees who retired younger (decreased premium subsidies to pre-Medicare retirees), didn't work or pay into the system as long (increasing years of service required to receive maximum subsidy) and decreased subsidies for family members. Taken as a whole, the plan is projected to extend the life of the NMRHCA's trust fund into 2045.

As recently as five years ago, the NMRHCA was projected to be insolvent as early as 2014. However, actions taken by the NMRHCA decreasing subsidy levels, increasing premiums and modifying plan designs, coupled with increases in employer/employee contribution rates have extended the NMRHCA's solvency to approximately 2029.

GASB Statement 43 also requires the NMRHCA to report its ARC and the percentage of the ARC contributed. The following table lists the NMRHCA ARC and percentage of the ARC contributed for Fiscal Years 2008 through 2012.

TABLE A-4

NMRHCA Annual Required Contribution

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2008	\$286,538,244	33.8%
2009	\$297,999,753	37.6
2010	\$309,919,743	34.1
2011	\$326,994,988	36.9
2012	\$340,074,787	39.8

Source: New Mexico Retiree Health Care Authority.

Severance Tax Permanent Fund and the Land Grant Permanent Fund

The Severance Tax Permanent Fund ("STPF") was established in the State Treasury in 1973 to receive the residual revenues from the Bonding Fund and serve as an endowment for future capital projects. In 1976, the electorate approved a constitutional amendment giving the STPF constitutional status. In 1982, the electorate approved a second constitutional amendment that removed the discretionary power of the Legislature to appropriate funds from the corpus of the STPF, thereby creating a permanent endowment fund. Distributions from investments of the STPF, however, may be appropriated by the Legislature in the same manner as other general revenues are appropriated. Severance tax receipts have been the primary source of funding for the STPF. The State Investment Council ("SIC") invests the corpus and non-appropriated income of the STPF. The market value of the STPF as of June 30, 2012 was approximately \$3.9 billion, an increase of approximately 0.2 percent from the prior Fiscal Year. Performance for the one year period ended June 30, 2012 was 2.7 percent below the Fund benchmark, and investment performance for the quarter ended June 30, 2012 was 0.3 percent below the fund policy index. Funds on deposit in the STPF are not pledged to and may not be used to pay any Bonds.

The Land Grant Permanent Fund (“LGPF”) is designed solely to benefit the public educational system of the State and other specified institutions. The origins of the LGPF are found in the federal Fergusson Act of 1898, which granted two sections of land in every township for the benefit of the public schools in the territories of New Mexico. Also under this Act, specific acreage was granted to individual education, medical and penal institutions in the territory. The initial grant totaled in excess of 5.5 million acres. In 1910, the Enabling Act granted additional lands to various beneficiaries in New Mexico, including the public schools, which received the largest share. This brought the total lands placed in trust for the common school system and other beneficiaries to over 13 million acres. Over the years, some land has been sold (and the proceeds used to increase the corpus of the LGPF), so the current total is nine million surface acres and 13.4 million subsurface acres.

Pursuant to Section 19-1-1 NMSA 1978, the State Land Office is charged with the custody and disposition of the land granted to the State. The Commissioner of Public Lands sells or leases these properties in accordance with the provisions of the appropriate statutes. The SIC invests the corpus and income of the LGPF. As of June 30, 2012, the market value of the LGPF was approximately \$10.73 billion, an increase of approximately 0.7 percent over the prior fiscal year. Performance for the year ended June 30, 2012 trailed its benchmark by 2.2 percent, while investment returns for the quarter were 0.6 percent below the LGPF’s policy index. The corpus of the LGPF is constitutionally protected from appropriation and LGPF assets are not pledged to and may not be used to pay debt. The LGPF is also protected by the Federal Enabling Act of 1910.

In November 1996, the State electorate approved a constitutional amendment regarding distributions from both of the State’s permanent funds. Distributions are now calculated on a total return basis rather than assuming an income distribution method. In addition, distributions to beneficiaries are now based on a formula under which a statutorily specified percentage of the previous average five-year market value of the fund is distributed.

In September 2003, the State electorate approved a constitutional amendment increasing the rate of distribution from the LGPF from the previous 4.7 percent to a new base distribution of 5 percent of the LGPF’s five-year average market value beginning in Fiscal Year 2005. Certain additional distributions shall be made to implement and maintain educational reforms as provided by law. An additional 0.8 percent has been and will be distributed in Fiscal Years 2005 through 2012 and an additional 0.5 percent will be distributed in Fiscal Years 2013 through 2016. A three-fifths majority of each house of the Legislature may suspend this additional distribution.

In May 2009 in connection with an ongoing investigation undertaken by the New York Attorney General relating to the use of third party placement agents in connection with investment transactions of that state’s retirement fund, Saul Meyer, the founding partner of Aldus Equity Partners (“Aldus”), an investment advisor to that fund, was indicted in New York for allegedly paying illegal kickbacks in connection with investment recommendations to that fund. Aldus had acted as an investment advisor to the SIC and ERB on private equity investments until being terminated shortly after the May 2009 indictment of Mr. Meyer. In October 2009, Mr. Meyer pled guilty to a fraud charge relating to investments made by the New York retirement fund and recommended by Aldus. In connection with that plea, Mr. Meyer stated that from 2004 to 2009 Aldus had acted as an advisor to the SIC and the ERB and that, contrary to his fiduciary responsibilities to the SIC and ERB, he ensured that Aldus recommended certain proposed investments pushed on him by politically connected individuals or their associates who stood to benefit financially or politically from the investments, and that the investments were not necessarily in the best interests of the State. Several days later in October 2009, Gary Bland, the State Investment Officer, resigned. In December 2012, Mr. Meyer received a deferred sentence and no jail time. To date, no criminal charges have been filed by state or federal investigators in New Mexico. In line with new statutory authority, in May 2011, the SIC in conjunction with the Day Pitney Law Firm and

New Mexico Attorney General, filed recovery lawsuits against more than a dozen placement agents, former Investment Officer Bland, and other individuals, alleging that these individuals improperly benefited from pay-to-play and kickback schemes involving SIC investments. The legal recovery efforts are ongoing.

In response to these and other events and the negative returns suffered by the State's various investment funds during the market turmoil associated with the downturn in the nation's economy in 2008 and 2009, the Board and the Legislative Council Service ("LCS") co-sponsored an Independent Fiduciary and Operational Review of State Investment Policies, Procedures and Practices prepared by Ennis, Knupp & Associates, Inc. (the "Review"). The scope of the work of this Review included, among other things, review and recommendations for appropriate governance and organizational structure, investment best practices for investing agencies. The findings and recommendations of the Review were reported to the Board at a meeting on January 13, 2010. In order to address certain recommendations of the Review, during the 2010 legislative session the Legislature, among other things, modified the composition of the SIC, clarified the authority of the SIC and the State Investment Officer, provided for the appointment of the State Investment Officer by the SIC and changed the method of appointment of public members of the SIC. In 2012, the SIC asked the consulting group (now known as) Hewitt-EnnisKnupp to revisit the SIC's recent efforts to improve the SIC's investment and governance practices, and assist the SIC in its continuing efforts to expand reforms. As of February 2013, the SIC has implemented or is in the process of implementing more than 79 of the 82 original reform recommendations made by EnnisKnupp.

Financial Processes and Procedures

State Auditing and Accounting Systems. The financial affairs of every agency in the State are examined and audited each year by the State Auditor, personnel of the State Auditor's office designated by the State Auditor, or by the independent auditors approved by the State Auditor, as required by Section 12-6-3 NMSA 1978. The audits are conducted in accordance with generally accepted auditing standards. The audit reports include financial statements that are presented in accordance with generally accepted accounting principles.

In July 2006, the State implemented a Statewide Human Resources, Accounting and Management Reporting System ("SHARE System"). The SHARE System replaced the State's existing central accounting system, central payroll system, personnel system, treasury reconciliation accounting and cashing system, and 114 additional systems then in place at various State agencies. Since June 2007, the State has officially used SHARE as its books of record.

Following the transition to SHARE, the State Treasurer's audit has contained audit findings of varying severity related to the timeliness of the book to bank reconciliation. This issue stems from certain SHARE System limitations as well as required improvements to overall SHARE business processes. In the 2009 Legislative session, an appropriation in the amount of \$1.2 million was made to DFA to address some of these issues. The material weakness related to timeliness of the book to bank reconciliation was reduced to a significant deficiency in the State Treasurer's Fiscal Year 2010 annual financial statements, and further reduced to a control deficiency in the Fiscal Year 2011 annual financial statements.

As of June 30, 2012, the balance sheet of the General Operating Reserve Fund reports an allowance for potential loss of \$70 million with a corresponding loss provision. The potential loss is reported as a special item on the statement of revenues, appropriations and changes in fund balances, since it is considered to be unusual, and its placement within the financial reporting entity of the State of New Mexico is under the control of management. In June 2012, an independent expert diagnostic report revealed that State General Fund Investment Pool (the "Pool") balances have not been reconciled at the business unit/fund level since the inception of SHARE.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (the “DFA/FCD”) is taking aggressive action to address the situation. DFA/FCD has commenced the Cash Management Remediation Project (the “Remediation Project”) in partnership with the New Mexico State Treasurer’s Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert. The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the Pool in a manner that is complete, accurate, and timely. The Remediation Project is anticipated to result in changes to the SHARE configuration, cash accounting policies and procedures, business practices, and banking structure that will allow for the completion of timely and accurate reconciliation of balances on a point-forward basis only.

An approach and plan to address historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items. The effect of any unreconciled differences not allocable to other Pool participants will be reported in the General Operating Reserve Fund.

State Budgetary and Appropriation Process. All State agencies are required by Section 6-3-19 NMSA 1978 to submit completed budget forms to the DFA Budget Division by September 1 of each year. Guidelines and forms are provided to State agencies in advance of the September 1 deadline. Budget hearings to examine the merits of budget requests are scheduled through the fall and are usually completed by mid-December. The DFA Budget Division presents comprehensive budget recommendations to the Governor, as required by Section 6-3-15(B) NMSA 1978.

The Governor is required by Section 6-3-21 NMSA 1978 to submit a budget for the upcoming fiscal year to the Legislature in early January. The Governor’s budget includes the executive recommendations for public education; higher education; State agencies; and historical information on prior expenditures, revenues and revenue projections, among other information. The State budget is contained in a General Appropriation Act, which also may contain proposals for supplemental and deficiency appropriations for the current fiscal year.

Upon passage by the Legislature, the Governor may sign the General Appropriation Act, veto it, veto line items or veto parts of it. After the Governor has signed the General Appropriation Act, the DFA Budget Division approves the agency budgets and monitors the expenditure of the funds beginning on July 1, the first day of the fiscal year.

State Treasurer’s Investment Responsibilities

Pursuant to Sections 6-10-10(I) through 6-10-10(O) NMSA 1978, the State Treasurer, with the advice and consent of the State Board of Finance, may invest money not immediately needed for government operations. These investment responsibilities are conducted in accordance with the State Treasurer’s Investment Policy (the “Investment Policy”) which is adopted by the State Treasurer and approved by the State Board of Finance. The Investment Policy states that in keeping with the office’s fiduciary responsibility, all investment decisions made by the State Treasurer will adhere to the following three fundamental principles: safety, liquidity and return. The Investment Policy applies to all financial assets of the State invested by the Treasurer in the exercise of the Treasurer’s statutory authority or invested as directed by other agencies which have specific investment authority and for which the Treasurer acts as the investing authority. The State Treasurer is the investing authority for the State’s general fund, the Local Government Investment Pool, Bond Proceeds Investment Pools, bond debt service funds, and other special funds.

The State Treasurer's Office invested a portion of the general fund and the State Bond Proceeds Investment Pool in the Reserve Primary Fund ("RPF"), a money market fund, in Fiscal Year 2007 and 2008 respectively. On September 15, 2008, the balance of the general fund's RPF investment was \$448.7 million, and the balance of the State Bond Proceeds Investment Pool's RPF investment was \$311.6 million. On September 16, 2008, the RPF net asset value fell below \$1.00 and holdings in the fund were frozen. Since then, RPF has returned approximately \$0.9904 per share to shareholders. On the recommendations of the independent public accounting firm performing the Fiscal Year 2011 audit of the State Treasury, the remaining positions in the RPF, \$4.33 million of the general fund and \$3.01 million of the State Bond Proceeds Investment Pool, were written-down in Fiscal Year 2011. Once all pending litigation is settled, the remaining balance of the fund will be distributed, but this final recovery of funds is expected to be quite small.

According to the Investment Policy, an Investment Committee is appointed by the State Treasurer and the Board with the specific purpose and responsibility of establishing, maintaining and administering the Investment Policy. The Investment Committee consists of five (5) voting members: the State Treasurer, or designee; the State Treasurer's Chief Investment Officer (with the State Cash Manager as an alternate), who serves as Investment Committee Chair; the Director of the State Board of Finance or designee; and two additional members. These additional members must be participants in the private investment community or have expert knowledge or professional experience in public finance or public fund investing. One member is appointed by the State Treasurer and approved by the Board and one member is appointed by the Board and approved by the State Treasurer.

The Investment Committee is charged with the following responsibilities:

Reviewing the Investment Policy, no less than annually, and recommending, if advisable, modifications in the Investment Policy from time to time;

Assessing, no less than annually, the utility and efficacy of established internal controls as loss prevention measures with respect to the investment portfolio;

Determining, no less than annually, whether legislation affecting the investment activities of the State Treasurer should be recommended;

Recommending investment procedures that may be useful or required in maintaining currency with public money investment practices;

Deliberating on such topics as economic outlook, portfolio diversification and maturity structure, potential risks, the target rate of return on the investment portfolio;

Identifying potential violations of and suggesting remedial actions to achieve conformity with the Investment Policy;

Recommending, no less than annually, action on depositories, custodians, broker/dealers and investment managers and advisors; and

Assessing whether the Investment Policy is being properly implemented by the individuals and entities involved in the administration and management of investment activities.

In addition to Investment Committee oversight and recommendations, the State Treasurer contracts with an independent investment advisor to provide guidance and advice on investments, market

conditions and benchmarks. The investment advisor provides quarterly performance reports on all of the State Treasurer’s portfolios and information relating to the economic outlook and market trends.

Economic and Demographic Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the 2012 United States Census was 2,085,538. From 2000 to 2010, the State’s population grew 13.2 percent, while the national population grew 9.7 percent.

There are four Metropolitan Statistical Areas (“MSAs”) in the State. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is comprised of Doña Ana County; the Santa Fe MSA is comprised of Santa Fe County; and the Farmington MSA is comprised of San Juan County. The fastest growing counties in the State are Sandoval, Doña Ana, Bernalillo, Santa Fe, Valencia and San Juan. The following table sets forth information on population growth in New Mexico and nationally.

TABLE A-5

**Population
New Mexico and the United States
2003-2012**

<u>Year</u>	<u>Population</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
2003	1,868,121	290,242,027	1.0%	0.9%
2004	1,890,215	292,936,109	1.2	0.9
2005	1,914,699	295,618,454	1.3	0.9
2006	1,940,631	298,431,771	1.4	1.0
2007	1,966,357	301,393,632	1.3	1.0
2008	1,984,179	304,177,401	0.9	0.9
2009	2,007,315	306,656,290	1.2	0.8
2010 (est.)	2,059,179	308,747,508	2.6	0.7
2011 (est.)	2,078,674	311,587,816	0.9	0.9
2012 (est.)	2,085,538	313,914,040	0.3	0.7

Source: U.S. Census Bureau, Population Division. Last Revised: January 2013.

Major industries in the State include oil and natural gas production, manufacturing, service, tourism, services, arts and crafts, agribusiness, government and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State’s economy. The following table sets forth information on employment by industry over the period of 2002 through 2011.

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TABLE A-6**Total New Mexico Full-time and Part-time Employment by North American Industry Classification System 2002-2011**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Growth 2010-2011</u>	<u>Growth 2002-2011</u>
Total employment	979,946	999,286	1,023,303	1,046,746	1,076,098	1,100,589	1,103,123	1,070,984	1,060,446	1,065,886	0.5%	8.8%
Wage and salary employment	800,588	812,914	829,861	845,127	868,119	878,205	881,348	848,392	840,219	840,690	0.1%	5.0%
Proprietors employment	179,358	186,372	193,442	201,619	207,979	222,384	221,775	222,592	220,227	225,196	2.3%	25.6%
Farm proprietors employment	14,530	16,045	15,632	15,588	15,255	18,193	17,745	17,581	18,664	19,797	6.1%	36.2%
Nonfarm proprietors employment	164,828	170,327	177,810	186,031	192,724	204,191	204,030	205,011	201,563	205,399	1.9%	26.2%
Farm employment	20,845	22,838	22,619	23,262	22,829	25,804	24,416	24,549	25,307	26,300	3.9%	26.2%
Nonfarm employment	959,101	976,448	1,000,684	1,023,484	1,053,269	1,074,785	1,078,707	1,046,435	1,035,139	1,039,586	0.4%	8.4%
Private employment	750,194	762,831	783,120	804,832	838,993	864,918	865,478	830,307	817,883	825,756	1.0%	10.1%
Forestry, fishing, related activities and other ⁽¹⁾	5,096	4,979	5,181	5,239	5,136	5,164	5,332	5,131	5,238	5,360	2.3%	5.2%
Mining ⁽²⁾	17,957	18,576	19,245	21,171	23,726	25,165	28,359	24,470	27,133	31,092	14.5%	73.1%
Utilities	4,078	4,114	4,040	4,075	4,121	4,418	4,570	4,805	4,576	4,537	-0.9%	11.3%
Construction ⁽³⁾	61,864	64,135	68,382	73,978	79,826	80,568	77,969	67,210	61,864	59,668	-3.6%	-3.6%
Manufacturing	43,908	41,544	40,542	41,106	42,710	42,753	40,600	36,358	34,626	35,419	2.3%	-19.3%
Durable goods manufacturing ⁽⁴⁾	30,838	28,715	27,857	28,451	29,821	29,719	27,979	24,358	23,065	23,471	1.8%	-23.9%
Nondurable goods manufacturing ⁽⁵⁾	13,070	12,829	12,685	12,655	12,889	13,034	12,621	12,000	11,561	11,948	3.4%	-8.6%
Wholesale trade	27,232	26,633	27,285	28,377	29,288	29,951	28,705	26,657	26,916	26,030	-3.3%	-4.4%
Retail trade ⁽⁶⁾	111,167	112,445	114,169	116,097	116,750	118,998	118,176	114,066	111,136	111,191	0.1%	0.1%
Transportation and warehousing ⁽⁷⁾	24,229	24,158	24,961	25,321	25,953	27,312	26,672	24,317	23,741	24,468	3.1%	1.0%
Information ⁽⁸⁾	18,578	17,927	17,163	17,299	18,445	18,648	18,749	17,313	17,051	16,181	-5.1%	-12.9%
Finance and insurance ⁽⁹⁾	31,251	31,544	31,769	32,039	32,172	33,357	34,809	36,160	34,699	35,218	1.5%	12.7%
Real estate and rental and leasing ⁽¹⁰⁾	30,229	31,922	34,715	38,209	40,313	42,406	41,858	40,019	40,073	40,596	1.3%	35.2%
Professional and technical services	59,834	62,534	65,461	66,337	73,827	81,546	81,578	80,716	78,627	78,570	-0.1%	34.3%
Management of companies and enterprises	6,129	5,440	5,354	6,354	6,425	6,076	5,912	5,571	5,392	5,497	2.0%	-10.3%
Administrative and waste services ⁽¹¹⁾	54,229	53,292	54,598	55,224	58,489	60,429	60,315	55,858	54,559	55,609	1.9%	2.5%
Educational services	12,765	13,932	14,888	15,384	15,919	15,767	15,986	16,152	16,749	17,580	5.0%	37.7%
Health care and social assistance ⁽¹²⁾	94,469	99,899	103,691	105,151	108,016	111,935	114,850	118,184	119,722	121,828	1.8%	29.0%
Arts, entertainment and recreation ⁽¹³⁾	19,994	20,376	20,987	21,463	21,795	22,952	23,311	23,251	23,049	23,311	1.1%	25.6%
Accommodation and food services ⁽¹⁴⁾	77,972	79,682	80,465	81,343	84,403	85,141	84,022	81,722	81,659	82,471	1.0%	16.6%
Other services, except public administration ⁽¹⁵⁾	49,213	49,699	50,224	50,665	51,679	53,332	53,705	52,347	51,073	51,130	0.1%	3.9%
Government and government enterprises ⁽¹⁶⁾	208,907	213,617	217,564	218,652	214,276	209,867	213,229	216,128	217,256	213,830	-1.6%	2.4%

[Footnotes on following page]

- (1) The “Forestry, fishing, related activities, and other” category includes: forestry and logging; fishing, hunting and trapping; agriculture and forestry support activities.
- (2) The “Mining” category includes: oil and gas extraction; mining (except oil and gas); and support activities for mining.
- (3) The “Construction” category includes: construction of buildings; heavy and civil engineering construction; and specialty trade contractors.
- (4) The “Durable good manufacturing” category includes: wood product manufacturing; nonmetallic mineral product manufacturing; primary metal manufacturing; fabricated metal product manufacturing; machinery manufacturing; computer and electronic product manufacturing; electrical equipment and appliance manufacturing; motor vehicles, bodies and trailers, and parts manufacturing; other transportation equipment manufacturing; furniture and related product manufacturing; and miscellaneous manufacturing.
- (5) The “Nondurable goods manufacturing” category includes: food manufacturing; beverage and tobacco product manufacturing; textile mills; textile product mills; apparel manufacturing; leather and allied product manufacturing; paper manufacturing; printing and related support activities; petroleum and coal products manufacturing; chemical manufacturing; and plastics and rubber products manufacturing.
- (6) The “Retail trade” category includes: motor vehicle and parts dealers; furniture and home furnishings stores; electronics and appliance stores; building material and garden supply stores; food and beverage stores; health and personal care stores; gasoline stations; clothing and clothing accessories stores; sporting goods, hobby, book and music stores; general merchandise stores; miscellaneous store retailers; and nonstore retailers.
- (7) The “Transportation and warehousing” category includes: air transportation; rail transportation; water transportation; truck transportation; transit and ground passenger transportation; pipeline transportation; scenic and sightseeing transportation; support activities for transportation; couriers and messengers; and warehousing and storage.
- (8) The “Information” category includes: publishing industries, except Internet; motion picture and sound recording industries; broadcasting, except Internet; Internet publishing and broadcasting; telecommunications; ISPs, search portals and data processing; and other information services.
- (9) The “Finance and insurance” category includes: monetary authorities-central bank; credit intermediation and related activities; securities, commodity contracts, investments; insurance carriers and related activities; and funds, trusts and other financial vehicles.
- (10) The “Real estate and rental and leasing” category includes: real estate; rental and leasing services; and lessors of nonfinancial intangible assets.
- (11) The “Administrative and waste services” category includes: administrative and support services; and waste management and remediation services.
- (12) The “Health care and social assistance” category includes: ambulatory health care services; hospitals; nursing and residential care facilities; and social assistance.
- (13) The “Arts, entertainment and recreation” category includes: performing arts and spectator sports; museums, historical sites, zoos and parks; and amusement, gambling and recreation.
- (14) The “Accommodation and food services” category includes: accommodation; and food services and drinking places.
- (15) The “Other services, except public administration” category includes: repair and maintenance; personal and laundry services; membership associations and organizations; private households; and
- (16) The “Government and government enterprises” category includes: federal, civilian; military; state and local; and state government and local government.

Source: Regional Economic Information System, Bureau of Economic Analysis, May 2013.

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The following tables set forth selected additional economic and demographic data with respect to the State.

TABLE A-7
Employment and Labor Force
New Mexico and the United States
2003 - 2012

<u>Year</u>	<u>Civilian Labor Force</u>		<u>Number of Employed</u>		<u>Unemployment Rate</u>		N.M. as % of U.S. Rate ⁽¹⁾
	<u>New Mexico</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾	<u>New Mexico</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾	<u>New Mexico</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾	
2003	888	146,510	836	137,736	5.9%	6.0%	98%
2004	902	147,401	850	139,252	5.8%	5.5%	105%
2005	913	149,320	866	141,730	5.2%	5.1%	102%
2006	925	151,428	887	144,427	4.1%	4.6%	89%
2007	936	153,124	904	146,047	3.5%	4.6%	76%
2008	947	154,287	905	145,362	4.5%	5.8%	78%
2009 ⁽²⁾	938	153,142	874	139,877	6.8%	9.3%	73%
2010 ⁽²⁾	936	153,889	862	139,064	7.9%	9.6%	82%
2011 ⁽²⁾	932	153,617	862	139,869	7.5%	8.9%	84%
2012 ⁽²⁾	936	154,975	872	142,469	6.9%	8.1%	85%

⁽¹⁾ Figures rounded to nearest thousand.

⁽²⁾ Figures revised as of April 2013.

Source: U.S. Department of Commerce, Bureau of Business & Economic Research. Last Revised: May 2013.

TABLE A-8
Personal Income
New Mexico and the United States
2003 – 2012

<u>Year</u>	<u>Personal Income</u> (Dollars in thousands)		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
2003	\$48,139,404	\$9,369,072,000	3.9%	3.5%
2004	51,578,691	9,928,790,000	7.1%	6.0%
2005	55,341,826	10,476,669,000	7.3%	5.5%
2006	59,274,367	11,256,516,000	7.1%	7.4%
2007	63,035,677	11,900,562,000	6.3%	5.7%
2008	67,337,890	12,451,660,000	6.8%	4.6%
2009	65,585,583	11,852,715,000	-2.6%	-4.8%
2010	68,050,198	12,308,496,000	3.8%	3.8%
2011	71,073,186	12,949,905,000	4.4%	5.2%
2012 ⁽¹⁾	73,159,160	13,401,868,693	2.9%	3.5%

⁽¹⁾ Preliminary as of May 2013.

Source: U.S. Department of Commerce, Bureau of Business & Economic Research. Last Revised: May 2013.

TABLE A-9

**Per Capita Personal Income
New Mexico and the United States
2003 - 2012**

<u>Year</u>	<u>Per Capita Income</u>		<u>N.M. as a % of U.S.</u>	<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>		<u>N.M.</u>	<u>U.S.</u>
2003	\$25,639	\$32,295	79%	2.7%	2.6%
2004	27,092	33,909	80%	5.7%	5.0%
2005	28,641	35,452	81%	5.7%	4.6%
2006	30,209	37,725	80%	5.5%	6.4%
2007	31,675	39,506	80%	4.9%	4.7%
2008	33,490	40,947	82%	5.7%	3.6%
2009	32,200	38,637	83%	-3.9%	-5.6%
2010	32,940	39,791	83%	2.3%	3.0%
2011	34,133	41,560	81%	3.6%	4.4%
2012	35,079	\$42,693	82%	2.8%	2.7%

Source: U.S. Department of Commerce, Bureau of Business & Economic Research. Last Revised: May 2013.

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TABLE A-10
2002-2012
Wages and Salaries by Industry Sector

NAICS Earnings by Place of Work ⁽¹⁾ <u>Applicable to 2002-2012</u>	New Mexico (Dollars in Thousands)		United States (Dollars in Millions)		Cumulative Annual Percent Change 2002 - 2012		Distribution of 2012 Wages & Salaries	
	2012	2002	2012	2002	N.M.	U.S.	N.M.	U.S.
	Farm Wage and Salary	\$259,852	\$175,927	\$23,958	\$16,974	47.7%	41.1%	0.7%
Non-farm Wage and Salary	33,484,889	21,768,869	6,376,376	4,806,753	53.8%	32.7%	99.3%	99.7%
Private Wage and Salary	24,014,545	15,499,869	5,202,622	4,036,501	55.0%	28.9%	72.2%	82.4%
Forestry, Fishing, related activities, and other	61,309	48,710	13,095	9,881	25.9%	32.5%	0.2%	0.2%
Mining	1,387,603	655,321	58,698	29,596	74.4%	98.3%	5.0%	1.1%
Utilities	319,804	216,386	48,962	38,553	47.8%	27.0%	1.0%	0.8%
Construction	1,901,821	1,329,587	289,253	256,653	43.0%	12.7%	5.2%	4.4%
Manufacturing	1,557,409	1,608,961	674,177	744,469	6.8%	5.6%	4.9%	10.8%
Wholesale Trade	1,107,646	810,747	356,373	282,226	36.6%	26.3%	3.2%	5.8%
Retail Trade	2,378,805	1,859,564	402,405	345,355	27.9%	16.5%	7.2%	6.3%
Transportation and Warehousing	813,820	672,520	198,222	164,529	21.0%	20.5%	2.7%	3.2%
Information	620,037	528,684	205,165	213,363	17.3%	6.2%	1.9%	3.3%
Finance and Insurance	1,171,675	789,215	487,074	348,707	48.5%	39.7%	3.4%	7.4%
Real Estate and Rental and Leasing	344,010	241,608	89,609	67,824	42.4%	32.1%	1.0%	1.4%
Professional, Scientific, and Technical Services	3,844,579	1,875,284	593,609	404,183	50.1%	46.9%	10.8%	9.6%
Management of Companies and Enterprises	309,509	227,540	185,820	120,606	36.0%	54.1%	1.0%	3.2%
Administrative and Waste Services	1,380,887	883,242	257,471	189,320	56.3%	36.0%	4.0%	4.1%
Educational Services	323,596	185,864	118,483	62,931	74.1%	88.3%	1.0%	1.9%
Health Care and Social Assistance	3,990,102	1,955,118	730,408	413,244	40.8%	76.7%	12.1%	11.3%
Arts, Entertainment, and Recreation	194,489	136,637	71,072	47,977	42.3%	48.1%	0.6%	1.1%
Accommodations and Food Services	1,323,915	858,820	219,094	151,741	54.2%	44.4%	4.0%	3.5%
Other Services, Except Public Administration	983,529	633,074	203,632	145,543	55.4%	39.9%	3.0%	3.1%
Government and Government Enterprises	9,470,344	6,268,322	1,173,754	770,252	51.1%	52.4%	27.1%	17.2%
Total	\$91,244,175	\$59,229,869	\$17,979,332	\$13,667,181				

⁽¹⁾ The estimates of wage and salary disbursements for 2002-2006 are based on the 2002 North American Industry Classification System (NAICS). The estimates for 2007 forward are based on the 2007 NAICS.

⁽²⁾ Under 2007 NAICS, internet publishing and broadcasting was reclassified to other information services. All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 27, 2013.

APPENDIX B

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Albuquerque, New Mexico**

**FINANCIAL STATEMENTS
June 30, 2012**

TABLE OF CONTENTS

	PAGE
OFFICIAL ROSTER	1
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
 BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements	
Balance Sheet – Governmental Funds	17
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	22
Statement of Revenues and Expenditures – Major Governmental Funds – Budget and Actual (Budgetary Basis)	23
Statement of Fiduciary Net Assets	24
Statement of Changes in Fiduciary Net Assets	25
Notes to Financial Statements	26
 SUPPLEMENTARY INFORMATION	 71
Schedule 1 – Capital Assets Used in the Operation of Governmental Funds – Schedule of Changes by Asset Class and Source	72
Schedule 2 – Combining Balance Sheet – General Obligation Bonds – General Obligation Bond Debt Service Funds	73
Schedule 3 – Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – General Obligation Bond Debt Service Funds	75
Schedule 4 – Combining Balance Sheet – Severance Tax Bonds – Severance Tax Bond Debt Service Funds	78

Schedule 5 – Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Severance Tax Bond Debt Service Funds.....	81
Schedule 6 – Summary of Long-term Debt Obligations – Long-term Debt Rollforward	84
Schedule 6 – Summary of Long-term Debt obligations – Schedule of Debt Service Maturities.....	86
Schedule 6 – Summary of Long-term Debt obligations – Amortization of Bond Issuance Costs.....	88
Schedule 6 – Summary of Long-term Debt obligations – Additional Information.....	90
Schedule 7 – Schedule of Investments – Fiduciary Funds	92
Schedule 8 – Combining Statement of Fiduciary Net Assets.....	101
Schedule 9 – Combining Statement of Changes in Fiduciary Net Assets.....	102
Schedule 10 – Schedule of Collateral Pledged by Depository	103
SCHEDULE OF FINDINGS AND RESPONSES.....	107
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	108
Schedule of Findings and Responses	110
Summary Schedule of Prior Year Audit Findings.....	118
Exit Conference	119

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
OFFICIAL ROSTER
June 30, 2012**

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

Linda T. Roseborough, Chief Investment Officer, Investment Division Director

Paul Cassidy, Member

Paul Boushelle, Member

Stephanie Schardin-Clarke, State Board of Finance Member



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Independent Auditors' Report

Honorable Susanna Martinez, 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, the aggregate remaining fund information and the budgetary 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, 2012, which collectively comprise the State Treasurer's basic financial statements as listed in the table of contents. We have also audited the fiduciary funds presented as supplementary information in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2012, as listed in the table of contents. 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 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 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, 2012, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the State Treasurer as of and for the year ended June 30, 2012, 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, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary funds of the State Treasurer as of June 30, 2012, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012, on our consideration of the State Treasurer's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The additional schedules listed as "supplementary information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 17, 2012

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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.

Financial Highlights

- The State Treasurer's net assets increased by \$23,460,520.
- The General Fund's main revenue was appropriations, which amounted to ninety-nine percent (99.4%) of all revenue.

Overview of the Financial Statements

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

Government-wide Financial Statements. The government-wide financial statements are designed to provide a broad overview of the State Treasurer's finances, in a manner similar to a private sector business. The statement of net assets presents information on all of the State Treasurer's assets and liabilities, the difference between the two being reported as net assets.

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

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or objectives. The State Treasurer, like other State and local government entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State Treasurer can be divided into two categories: governmental funds and fiduciary funds.

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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 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 five individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, General Obligation Bond Fund, Severance Tax Bond Fund, Taxation Revenue Anticipation Note (TRAN) Fund, and the Gaming Suspense 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.

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, State Funds Investment Pool and The Reserve Contingency 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. The Reserve Contingency Pool accounts for funds held in custody for local government 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 26 of this report.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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 71 of this report. Fiduciary schedules begin on page 92.

Government-wide Financial Analysis

Net Assets: Table A-1 summarizes the State Treasurer's net assets for the fiscal year ended June 30, 2012. Total State Treasurer net assets for fiscal year 2012 are \$265,645,207. 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**

YEARS ENDED JUNE 30,	<u>2012</u>	<u>2011</u>
Assets:		
Cash, cash equivalents and repurchase agreements	\$ 282,930,948	\$ 190,436,304
Due from other agencies	87,129,282	40,988,192
Accrued interest and other receivables	461	461
Capital assets, net	<u>75,678</u>	<u>122,029</u>
 Total assets	 <u><u>\$ 370,136,369</u></u>	 <u><u>\$ 231,546,986</u></u>
 Current liabilities:		
Accounts payable and others	\$ 104,368,246	\$ 2,646,446
Compensated absences, amounts due in one year	<u>122,916</u>	<u>109,692</u>
 Total liabilities	 <u>104,491,162</u>	 <u>2,756,138</u>
 Net assets:		
Invested in capital assets	75,678	122,029
Restricted	265,683,559	228,773,510
Unrestricted	<u>(114,030)</u>	<u>(104,691)</u>
 Total net assets	 <u>265,645,207</u>	 <u>228,790,848</u>
 Total liabilities and net assets	 <u><u>\$ 370,136,369</u></u>	 <u><u>\$ 231,546,986</u></u>

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 \$265,645,207 at the close of the most recent fiscal year.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

By far the largest portion of the State Treasurer's net assets reflects amounts to be provided to satisfy its General Obligation and Severance Tax Bond obligations. It is the responsibility of the State Treasurer to record and administer debt on behalf of the agencies and departments of the State of New Mexico. The proceeds of bond issues authorized by the State Board of Finance are transferred to various State agencies in the form of grants.

The State Treasurer anticipates the future tax revenues generated will be adequate to service the debt obligations.

An additional portion of the State Treasurer's net assets, \$265,683,559, 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 \$23,460,520. Key elements of this increase are shown in Table A-2.

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

YEARS ENDED JUNE 30,	2012	2011
Governmental Activities:		
Revenues:		
Program revenues:		
General government	\$ 22,617	\$ 18,099
Total program revenues	22,617	18,099
General revenues:		
State General Fund appropriations, net	3,575,854	3,813,197
State property tax levy	76,097,456	58,624,127
Severance and other taxes	494,789,094	360,876,842
Interest revenue	11,279,240	21,860,898
Miscellaneous revenue	63	649
Total general revenues	585,741,707	445,175,713
Total revenues	585,764,324	445,193,812

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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

YEARS ENDED JUNE 30,	2012	2011
Expenses and other financing sources (uses):		
General government	(7,121,914)	(14,264,942)
Debt service activity	(451,561,518)	(690,213,466)
Other sources:		
Bond proceeds	4,276	3,288,681
Transfers in from other state agencies	(103,624,648)	216,345,597
Net (expenses) revenue	(562,303,804)	(484,844,130)
Increase (Decrease) in net assets	23,460,520	(39,650,318)
Net assets, beginning of year	228,790,848	268,441,166
Restatement	13,393,839	-
Net assets, beginning of year, restated	242,184,687	-
Net assets, end of year	\$ 265,645,207	\$ 228,790,848

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 \$265,692,445, a decrease of \$36,913,934 in comparison with the prior year. The primary reason for the decrease in fund balance is debt service payments exceeding property and severance taxes and transfers in from other state agencies.

The fund balance of the State Treasurer's general fund increased by \$3,885 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 decreased in comparison to the prior year due to large debt service payments offset by property and severance taxes and transfers in from other agencies as disclosed in Schedule 3 – Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – General Obligation

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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

There were no significant variations between the original budget and the final amended budget.

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 2.7%.

Capital Assets and Debt Administration

Capital Assets. The State Treasurer's investment in capital assets for its governmental activities as of June 30, 2012 amounts to \$75,678, net of accumulated depreciation. This investment in capital assets includes equipment. The State Treasurer's capital asset additions were \$0.

Additional information on the State Treasurer's capital assets can be found in Note 5 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, 2012, the State Treasurer was responsible for administering debt service payments on total bonded debt outstanding of \$1,296,826,992, all of which is secured by pledged tax revenues. More detailed information about the State Treasurer's long-term debt is presented in Schedule 6. Long-term debt service requirements decreased, net, by \$99,566,219 from the prior year due to fewer new bonds issued in fiscal year ended June 30, 2012.

Years Ended June 30,	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 348,116,100	\$ 424,046,166
Severance tax bonds	<u>948,710,892</u>	<u>972,347,045</u>
Total principal balances	<u>\$1,296,826,992</u>	<u>\$1,396,393,211</u>

Significant Highlights

During fiscal year 2012, the State Treasurer's Office continued to hold operating costs down, to stay within state budget constraints. The office had several staff retirements and held positions vacant to reduce operating costs. Existing staff members were required to take on additional duties since some positions were not filled. The executive management team continued to identify potential savings, closely reviewing weekly budget status reports, to identify potential cost savings. By the end of fiscal year 2012, cost savings yielded a \$97,246 reversion to the General Fund. Over the past five years, the State Treasurer's budget has been reduced by approximately \$791,000 through vacancies, reductions in building rental costs and other cost-saving measures.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

During fiscal year 2012, the fiduciary funds that are managed by the State Treasurer's Office enjoyed a very successful year. Following the agency's stated objective of selecting investments based primarily on safety, then liquidity, and finally yield, the agency ended fiscal year 2012 with unrealized gains of \$12,668,951 as compared to \$11,469,732 in fiscal year 2011. Earnings decreased to \$25,764,732 in 2012 from \$27,767,844 in 2011 a decrease of 7.21%. The values of the agency's portfolios which are primarily bond portfolios benefited from historically low interest rates as the value of bonds rise as market interest rates fall. The low yields however caused the decline in interest earned. Balances of fiduciary funds managed by the State Treasurer totaled \$3,989,040,030 at June 30, 2012 an increase of 12.5% from June 30, 2011 when balances totaled \$3,545,883,095.

The State Treasurer's office began working with the Department of Finance and Administration (DFA) and the Department of Information Technology (DoIT) on the remediation of the business processes and issues with the Statewide Human Resources, Accounting, and Management Reporting (SHARE) system that resulted in DFA being unable to perform a meaningful reconciliation between its general ledger and funds held by the State Treasurer. On June 20, 2012, the "Current State Diagnostic of Cash Control" report was issued by consultants that were hired to assess the current state of cash reconciliation and make recommendations for remediation. The Diagnostic identified a number of issues that are preventing the completion of a timely and accurate statewide cash reconciliation and recommended an approach to remediate the current cash control issues. Deloitte is the consultant that prepared the diagnostic and will perform project management.

Most issues are a result of deficient implementation of the SHARE system in 2006. The SHARE system which is Oracle Peoplesoft based did not have the full treasury management system implemented at conversion. This resulted in many processes being disjointed and the system that tracks the investment portfolios that the State Treasurer's office manages is not integrated into SHARE.

This remediation project is a quick strike project that is intended to provide a point forward reconciliation in early 2013. The SHARE system is scheduled to have its software upgraded late in calendar year 2013 which will facilitate the implementation of the full treasury management module which will include the deal management module which is an integrated investment tracking system. An IT budget request for \$1.95 million to fund the full implementation will be presented to the legislature in January 2013.

An initiative was undertaken to revise the projection of the timing of major receipts and disbursements. This was done to improve the accuracy of the State Treasurer's cash flow projections as well as to assist with daily cash positioning. All agencies with significant monthly receipts or disbursements transactions were asked to prepare an annual forecast of the amounts and dates that each of these transactions were anticipated to occur. The agency was then asked to use the projection as a guide and if possible, to make the actual transaction match the projection. This process has been successful as overdrafts at the fiscal agent bank have been reduced and the accuracy of the cash forecast has improved. The cash forecast was extended from a month to month projection to a full twelve month projection during FY 2012.

During FY 2012, resources were allocated to provide for a full-time Accountant Auditor – Advanced to exclusively manage the Cash Management Improvement Act of 1990 (CMIA) function. CMIA was enacted to ensure that federal funds that are directed to states would not

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

be drawn prematurely. Conversely, the State Treasurer's office wants to verify that the drawn down of federal funds is also not delayed thereby causing the use of State funds that could be otherwise be invested. The State Treasurer's office has improved the compliance reviews that it performs on agencies that have programs that are covered by CMIA. Agencies collect data on an ongoing basis throughout the year to facilitate a smooth compliance review process. Ensuring that these large receipts and disbursements are properly timed help improve the cash forecasting as well.

During FY2012, the State Treasurer's office began a monthly process of reviewing agencies' fund balances and took action to contact agencies' whose fund balances were negative. Negative fund balances are typically a result of an agency paying out funds before reimbursement is received. While CMIA discussed above covers large federal draws, this initiative is more widespread. An example would be agencies that have made disbursements to fund construction of projects that submit vouchers to request reimbursement from bond proceeds accounts. If reimbursements are not requested and received in a timely fashion, a negative fund balance could occur. Eliminating negative fund balances minimizes the volatility of the State General Fund Investment Pool and reinforces business practices that result in timely reimbursement.

The State Treasurer's Office began the process of reviewing New Mexico statutes, which define the State Treasurer's authorities and responsibilities in law to determine which provisions are obsolete and what amendments are needed to align statutory provisions with current business practices, and banking and investment industry standards. The intent is to draft legislation to amend the statutes and seek legislative and executive support to incorporate these changes into law over the next several years.

In fiscal year 2012, the Operations Division accomplished several initiatives. In August 2011, the entire Human Resources (HR) office was reorganized. A complete audit of HR records was initiated, assuring that all pertinent records were in place and up to date. Records retention and disposition schedules were updated to state archives standards and documents were managed according to these retention and disposition guidelines. HR records and personnel files are now secured and properly maintained.

Over fiscal year 2012 the Human Resources office addressed numerous personnel issues, assuring professionalism, confidentiality, proper documentation and accountability. Both management and employees were provided confidential guidance on HR issues in strict accordance with federal regulations, state laws, State Personnel Board rules, the State Treasurer policies and the Communication Workers of America (CWA) agreement to address HR issues. Investigations were conducted regarding employee complaints, grievances and worker's comp issues with the final outcome resulting in improved employee accountability and performance, better working relationships and preventive measures to reduce injuries.

The staff recruitment process was formalized and streamlined in fiscal year 2012, ensuring the best qualified candidates are considered and selected for position vacancies in accordance with personnel rules and policies.

Staff development programs provided ongoing education and training for the State Treasurer employees, providing training on supervisory skills, working in a union environment, operating state vehicles and defensive driving, use of the new SPO NeoGov system, civil rights, ethics, sexual harassment prevention and EEOC. Other training was resourced on the benefits of the

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

deferred compensation program, the state public employees retirement program and retiree health care coverage.

An employee recognition program was developed, honoring retiring employees and recognizing employee years of service once they have been employed for five years or longer.

The Emergency Response plan and the fire and safety building assessment were also updated in fiscal year 2012, addressing risk management guidelines.

Fiscal year 2012 marked a number of implementations and future planning opportunities. The disaster recovery hot-site was reconfigured to allow for complete server virtualization as well as remote access and remote desktop services. This change will allow users (in the event of an emergency) to now work from any location that has a computer available including home or other state office location. Planning and forecasting was also an important focus in the last part of FY2012 as an analysis was completed of our current investment accounting system, our cash management system and our process relationship to both DFA and DoIT. A strategic alliance was formed with both agencies and we initiated a special IT funding request for 1.9 million dollars for the implementation and configuration of the PeopleSoft "Treasury Management System." This proposed project passed the first phase of approval by being recommended by the Department of Information Technology for funding.

The Investment Division experienced staff changes throughout the year with the appointment of the new Chief Investment Officer at the end of January, replacement of an Account Auditor Advanced position, and cross-trained internal staff to cover two staff while on maternity leave.

In fiscal year 2012, the State Treasurer's Office hosted ratings analysts from Standard & Poor's rating agency to review the status and management of the Local Government Investment Pool (LGIP), which is a pooled investment, managed on behalf of local governments, school districts, higher education institutions, special districts, quasi-governmental agencies and Indian tribes and pueblos. The AAAM rating was reaffirmed based on a strong analysis of credit quality, market price exposure and management.

In the summer of 2012, CliftonLarsonAllen LLP conducted an "Applying Agreed-Upon Procedures" review of the Local Government Investment Pool (LGIP) and the results were that no exceptions were noted with regard to compliance with investment policies, internal controls, GASB 40, or compliance with New Mexico statutes.

The Investment Division of the State Treasurer's Office hosted the 4th Annual LGIP Stakeholder Meeting in August 2012, inviting all participants to attend. The program was held in Albuquerque and included speakers such as Dr. Anthony Chan, Economist with JPMorgan Chase Bank, Jennifer Bridwell from PIMCO, and representatives of the three major rating agencies. Participants heard presentations on management of the LGIP, market conditions, the economic outlook and other specific topics and issues. Participants found the meeting beneficial and it was hosted with minimal cost to the Treasurer's Office.

In fiscal year 2012, the State Treasurer's Office reviewed, made necessary revisions to and received State Board of Finance approval of the State Treasurer's Approved Broker/Dealer list as well as implemented new benchmarks for the State Treasurer's Office investment portfolios as of July 1, 2012.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Two major advancements were implemented in fiscal year 2012 to enhance the State Treasurer's QED investment accounting system. These include the implementation of Securities Information Retrieval Services (SIRS) Global Reference Data from Interactive Data to provide improved reconciliation, analytics and reporting purposes and the creation and activation of the QED Cash Keys and cash accounts adding capability to view all cash activity. These advancements allowed for continuous reconciliations between the state's fiscal agent bank, the custodial bank and State Treasurer's QED investment accounting system. Reconciliations between par value, book value and market value of investment holdings are now current.

Looking forward into fiscal year 2013, the State Treasurer's Office and the Investment Division is currently undertaking a thorough review of state investment statutes and is proposing legislation to clarify statutory language and investment authorizations. Investment procedures will be bifurcated from investment policy and separately documented. The new procedures document and the revised State Treasurer's Investment Policy will be completed by the Spring of 2013.

Contingent on receiving funding, the PeopleSoft Treasury Management System will be integrated into the current SHARE configuration and it will include the Cash Management module and the Deal Management module. Once this integration is complete it will replace QED, the State Treasurer's legacy investment accounting software. Once this integration is completed, the Treasurer's Office will not have to enter financial information into two different systems, reconciliations will be simplified and a number of ongoing audit findings will be addressed.

The Investment Division outreach on behalf of the Local Government Investment Pool was continued in fiscal year 2012 through the following organizations: New Mexico Association of Counties, New Mexico Municipal League and the Local Government Division of the Department of Finance and Administration (DFA). Outreach also included participation in the New Mexico State University EDGE course instruction.

The Investment Division collaborated with the DFA to sponsor UNM Interns that focused on specific investment accounting projects. The division also reviewed DVP and tri-party collateral agreements, developed recommendations and proceeded with implementation. On the topic of collateral, state collateral pool and CDARs programs were researched and discussed with the state's banking community. Additionally, the corporate credit process has been proposed; however, infrastructure is required to implement this process.

The State Treasurer places a high priority on active participation on all of the boards and commissions he serves on as an ex-officio member. He has designated members of the executive staff to serve on his behalf on some boards and commissions if state statutes allow a designee. In fiscal year 2012, a significant amount of time was dedicated to service on boards and commissions.

Economic Factors and Next Year's Budgets and Rates

- Challenging economic conditions require state government to reduce expenditure levels and the State Treasurer's Office will continue to look for cost savings within these budget constraints.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

- The State Treasurer's Office continues to reduce budget through vacancy savings. Through attrition, staffing levels have been reduced and existing staff has been assigned additional job duties.
- The State Treasurer's Office will continue work on its business continuity plan as IT equipment and systems are set up and maintained at the disaster recovery hot site in Albuquerque.
- Budget and staffing levels in the Information Technology Bureau have been reduced, utilizing available resources more efficiently.
- The overall costs of facilities, equipment and transportation have been reduced within current budget constraints.

These factors were considered in preparing the State Treasurer's budget for fiscal year 2013.

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 5135
Santa Fe, New Mexico 87505

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF NET ASSETS
June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 270,726
Repurchase agreements (held in State General Fund Investment Pool)	282,660,222
Due from other agencies	87,129,282
Other receivables	461
Capital assets, net of accumulated depreciation:	
Equipment	<u>75,678</u>
Total assets	<u>370,136,369</u>
LIABILITIES	
Accounts payable	274,765
Accrued payroll	75,869
Accrued payroll taxes	29,623
Due to State General Fund	99,961
Due to Other State Agencies	103,888,028
Compensated absences	<u>122,916</u>
Total liabilities	<u>104,491,162</u>
NET ASSETS	
Invested in capital assets	75,678
Restricted for:	
Debt service	265,683,559
Unrestricted	<u>(114,030)</u>
Total net assets	<u>265,645,207</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 370,136,369</u>

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions/Programs	Expenses	Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets Primary Government
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES			
General government	\$ 7,121,914	\$ 22,617	\$ (7,099,297)
Interest on debt service activity	<u>50,548,432</u>	<u>-</u>	<u>(50,548,432)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 57,670,346</u>	<u>\$ 22,617</u>	<u>(57,647,729)</u>
GENERAL REVENUES:			
State property tax levy			76,097,456
Miscellaneous			63
UNRESTRICTED INVESTMENT EARNINGS			
BOND ACTIVITY:			
Bond proceeds			4,276
Bond principal payments			(401,013,086)
TRANSFER FROM (TO) STATE AGENCY:			
State general fund appropriations			3,673,100
Reversions to State General Fund FY11			(97,246)
Other state agencies			(103,624,648)
Interest			11,279,240
Severance taxes			<u>494,789,094</u>
		Total general revenues and transfers	<u>81,108,249</u>
		CHANGE IN NET ASSETS	<u>23,460,520</u>
		NET ASSETS, BEGINNING	228,790,848
		RESTATEMENT	<u>13,393,839</u>
		NET ASSETS, BEGINNING, restated	<u>242,184,687</u>
		NET ASSETS, ENDING	<u>\$ 265,645,207</u>

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2012

	Major Funds	
	General Fund	General Obligation Bond Fund
ASSETS		
Investment in State General Fund Investment Pool	\$ 270,726	\$ -
Repurchase agreements (held in State General Fund Investment Pool)	-	30,108,156
Other receivables	461	-
Due from other Agencies	-	14,183,262
Total assets	\$ 271,187	\$ 44,291,418
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts payable	\$ 56,849	\$ -
Due to Other Agencies	-	-
Due to State General Fund	99,961	-
Accrued payroll	75,868	-
Accrued payroll taxes	29,623	-
Total liabilities	262,301	-
FUND BALANCES:		
Restricted for:		
Debt service	-	44,291,418
Unrestricted, unassigned	8,886	-
Total fund balances	8,886	44,291,418
TOTAL LIABILITIES AND FUND BALANCES	\$ 271,187	\$ 44,291,418

<u>Severance Tax Bond Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ 270,726
252,552,066	282,660,222
-	461
<u>72,946,020</u>	<u>87,129,282</u>
<u>\$ 325,498,086</u>	<u>\$ 370,060,691</u>
\$ 217,916	\$ 274,765
103,888,029	103,888,029
-	99,961
-	75,868
<u>-</u>	<u>29,623</u>
<u>104,105,945</u>	<u>104,368,246</u>
221,392,141	265,683,559
<u>-</u>	<u>8,886</u>
<u>221,392,141</u>	<u>265,692,445</u>
<u>\$ 325,498,086</u>	<u>\$ 370,060,691</u>

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2012**

Total Fund Balance - Governmental Funds (Balance Sheet - Governmental Funds)	\$ 265,692,445
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Capital assets total acquisition value	301,104
Total accumulated depreciation	<u>(225,426)</u>
Total capital assets, net	75,678

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

Net assets of governmental activities (Statement of Net Assets)	<u>\$ 265,645,207</u>
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The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	Major Funds	
	General Fund	General Obligation Bond Fund
REVENUES		
Federal funds	\$ 22,617	\$ -
Interest income - debt service	-	1,334,438
Total revenues	<u>22,617</u>	<u>1,334,438</u>
EXPENDITURES		
Current:		
Personnel services and employee benefits	2,778,711	-
Operating costs:		
Contractual services	217,359	-
Other administrative expenditures	598,579	-
Debt service:		
Principal and interest on long-term debt	-	75,930,066
Principal and interest on short-term debt	-	-
Other charges	-	387,839
Total expenditures	<u>3,594,649</u>	<u>76,317,905</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,572,032)	(74,983,467)
OTHER FINANCING SOURCES (USES):		
State general fund appropriations	3,550,800	-
Special appropriation	122,300	-
Reversions to State General Fund FY12	(97,246)	-
Severance taxes	-	-
State property tax levy	-	76,097,456
Bond proceeds	-	-
Miscellaneous other sources	63	-
Transfer (to) from other state agency	-	754,588
Total other financing sources (uses)	<u>3,575,917</u>	<u>76,852,044</u>
NET CHANGE IN FUND BALANCES	3,885	1,868,577
FUND BALANCES, BEGINNING OF YEAR	<u>5,001</u>	<u>29,029,002</u>
RESTATEMENT	<u>-</u>	<u>13,393,839</u>
FUND BALANCES, JUNE 30, 2011, restated	<u>5,001</u>	<u>42,422,841</u>
FUND BALANCES, END OF YEAR	<u>\$ 8,886</u>	<u>\$ 44,291,418</u>

<u>Severance Tax Bond Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ 22,617
<u>9,944,802</u>	<u>11,279,240</u>
<u>9,944,802</u>	<u>11,301,857</u>
-	2,778,711
-	217,359
-	598,579
150,666,414	226,596,480
224,965,038	224,965,038
<u>3,079,851</u>	<u>3,467,690</u>
<u>378,711,303</u>	<u>458,623,857</u>
(368,766,501)	(447,322,000)
-	3,550,800
-	122,300
-	(97,246)
494,789,094	494,789,094
-	76,097,456
4,276	4,276
-	63
<u>(104,379,236)</u>	<u>(103,624,648)</u>
<u>390,414,134</u>	<u>470,842,095</u>
21,647,633	23,520,095
<u>199,744,508</u>	<u>228,778,511</u>
-	13,393,839
<u>199,744,508</u>	<u>242,172,350</u>
<u>\$ 221,392,141</u>	<u>\$ 265,692,445</u>

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

Net Change in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ 23,520,095
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

This is the amount by which depreciation expense of \$46,351 exceeded capital outlay expense of \$0 in the current period:	(46,351)
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Some expenses reported in the statement of activities do not require the use of current financial resources, and these are not reported as expenditures in governmental funds:

Increase in compensated absences	<u>(13,224)</u>
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Change in net assets of governmental activities	<u>\$ 23,460,520</u>
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The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENT FUNDS -
BUDGET AND ACTUAL (Budgetary Basis)
Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State General Fund appropriation	\$ 3,550,800	\$ 3,550,800	\$ 3,550,800	\$ -
Federal grants	-	22,617	22,617	-
Other	122,300	122,300	122,363	63
Total revenues	3,673,100	3,695,717	3,695,780	63
EXPENDITURES				
Current:				
Personnel services and benefits	2,864,200	2,839,817	2,778,711	61,106
Contractual services	205,600	222,600	217,359	5,241
Operating costs	603,300	633,300	598,579	34,721
Total expenditures	3,673,100	3,695,717	3,594,649	101,068
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	101,131	\$ 101,131
RECONCILIATION TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE				
Unbudgeted reversions to State General Fund			(97,246)	
NET CHANGE IN FUND BALANCES (GAAP BASIS)			\$ 3,885	

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2012

	<u>Investment Trust Fund</u>
ASSETS	
Cash and investments:	
Cash	\$ 194,963,321
Certificates of Deposit	42,450,000
U.S. Government Securities	1,875,186,653
Corporate Bonds	442,382,759
Municipal Bonds	75,036,703
Repurchase agreements	1,292,665,000
Commercial Paper	39,483,062
CMO/REMIC	<u>16,438,650</u>
Total cash and investments	<u>3,978,606,148</u>
Interest receivable	<u>10,433,882</u>
TOTAL ASSETS	<u>\$ 3,989,040,030</u>
NET ASSETS HELD IN TRUST	<u>\$ 3,989,040,030</u>
TOTAL LIABILITIES AND NET ASSETS HELD IN TRUST	<u>\$ 3,989,040,030</u>

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2012**

	Investment Trust Fund
INVESTMENT INCOME	\$ 26,187,406
EXPENSES	
Management fees	(422,674)
Net investment income	25,764,732
NET PROCEEDS OF DEPOSITS (WITHDRAWALS)	417,392,203
NET ASSETS, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2011	3,545,883,095
NET ASSETS, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2012	\$ 3,989,040,030

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – DEFINITION OF REPORTING ENTITY

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 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.
- (6) Section 6-10-10.1 NMSA 1978. Short-term investment fund created; distribution of earnings; report of investment.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – DEFINITION OF REPORTING ENTITY (CONTINUED)

- a. There is created in the State treasury the "short-term investment fund." The fund shall consist of all deposits from governmental entities and Indian tribes or pueblos that are placed in the custody of the State Treasurer for short-term investment purposes pursuant to this section. The State Treasurer shall maintain a separate account for each governmental entity and Indian tribe or pueblo having deposits in the fund.
- b. If any local public body is unable to receive payment on public money at the rate of interest as set forth in Section 6-10-36 NMSA 1978 from financial institutions within the geographic boundaries of the governmental unit, then a local public finance official having money of that local public body in his custody required for expenditure within thirty days or less may, with the consent of the appropriate local board of finance, if any, remit some or all of such money to the State Treasurer, bank, savings and loan association or credit union for deposit for the purpose of short-term investment as allowed by this section.
- c. Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to this section, the local public body finance official shall notify and make sure funds are made available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the State Treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.
- d. The local public body finance official shall specify the length of time each deposit shall be in the short-term investment fund, but in any event the deposit shall not be made for more than thirty days. The State Treasurer, through the use of the State fiscal agent, shall separately track each such deposit and shall make such information available to the public upon written request.
- e. The State Treasurer shall invest the fund as provided for State funds under Section 6-10-10 NMSA 1978 and may elect to have the short-term investment fund consolidated for investment purposes with the State funds under the control of the State Treasurer, provided that accurate and detailed accounting records are maintained for the account of each participating entity and Indian tribe or pueblo and that a proportionate amount of interest earned is credited to each of the separate government accounts. The fund shall be invested to achieve its objective, which is to realize the maximum return consistent with safe and prudent management.
- f. At the end of each month, all interest earned from investment of the short-term investment fund shall be distributed by the State Treasurer to the contributing entities and Indian tribes or pueblos in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts in the fund were invested. No fees or transfer expenses shall be charged to the participating entities and Indian tribes or pueblos for investment in the short-term investment fund.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – DEFINITION OF REPORTING ENTITY (CONTINUED)

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 New Mexico 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, is 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, 3) consolidated investment pool and 4) The Reserve Contingency Fund.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity

The financial statements for the State Treasurer have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The 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 (amended by GASB 39) 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 non-fiduciary 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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Federal grant revenue associated with the current fiscal period is all considered to be susceptible to accrual and so has 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 (SHARE Fund 18200)** 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 2009 General Appropriation Act (Laws of 2009, Chapter 3, Section F) and is subject to reversion.

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

The General Obligation Bond Fund (see Schedules 2 and 3 in the Supplementary Information section for SHARE Fund numbers) accounts 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 Fund (see Schedules 4 and 5 in the Supplementary Information section for SHARE Fund numbers) accounts 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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

The Reserve Contingency Fund (SHARE Fund 68510) accounts for securities and other investments held in custody for local governments.

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; U.S. government agency obligations; commercial paper; corporate bonds; asset backed obligations; repurchase agreements; bank, savings and loan association or credit union deposits; variable rate notes; tax-exempt securities; securities issued by the State or a political subdivision of the State, or an agency, institution or instrumentality of the State; and money market mutual funds.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – 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.

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

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

Compensated Absences

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Board of Finance issued debt in its government-wide financial statements under general revenues and program expenses as follows:

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

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

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

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

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Net Assets

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

Fund Balance

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or, in some cases, by legislation. See Note 21 for additional information about fund balances.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State's policy to spend committed resources first.

Subsequent Events

Management evaluated subsequent events through December 17, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to December 17, 2012, that provided additional evidence about conditions that existed at June 30, 2012 have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2012.

NOTE 3 – STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED

In June 2012, an independent expert diagnostic report revealed that the State General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management REporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is, "Current State Diagnostic of Cash Control".

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED (CONTINUED)

The State General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the State General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the State Treasurer's balances at the business unit/fund level is not possible.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items. DFA is responsible for the preparation of the book-to-bank reconciliation.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

NOTE 4 – INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL

State law (Section 8-6-3 NMSA 1978) requires the State Treasurer's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the State Treasurer consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

At June 30, 2012 the State Treasurer had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool: \$270,726

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

**NOTE 4 – INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL
(CONTINUED)**

Interest Rate Risk - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit risk - The New Mexico State Treasurer pools are not rated.

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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) limitations that are legally enforceable 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 \$265,683,559.

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

Budgets and Budgetary Accounting

Per the General Appropriation Act, Laws of 2009, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2009 and approving operating budgets, the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget. Encumbrances related to single year appropriations lapse at year end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The legal level of budgetary control is at the appropriation unit level.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

The debt service funds of the State Treasurer are not budgeted.

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 DFA's Budget Division and to the Legislative Finance Committee (LFC).
3. The 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 the 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 only. The debt service funds (General Obligation Bond Funds and Severance Tax Bonding Funds) are non-budgeted funds.
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, 2010 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.

NOTE 6 - DEPOSITS AND INVESTMENTS

Fiscal Agent Bank

As of May 1, 2010, the State Board of Finance entered into an agreement with Wells Fargo Bank in Albuquerque to provide banking services as Fiscal Agent for the State of New Mexico through May 1, 2013.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custody Bank

The State Board of Finance and JP Morgan Chase entered into an agreement whereby JP Morgan Chase would provide banking services as Custody Bank for the State of New Mexico through June 30, 2013, with the option to renew for one additional year at the discretion of the State Board of Finance, not to extend beyond June 30, 2014.

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.

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 \$250,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2012, collateral pledged to public money deposits was as follows:

	Fiscal Agent Account	Certificates of Deposit
Cash in bank (bank balance)	\$ 127,355,555	\$ 42,450,000
Less FDIC insurance coverage	127,355,555	1,426,731
Total unsecured public funds	\$ -	\$ 41,023,269
Collateral requirement (50%-102% of uninsured public funds)	\$ -	\$ 28,590,000
Collateral pledged:		
US Government securities		35,425,335
Surety Bond	15,913,386	1,000,000
(Over) under collateralized	\$ (15,913,386)	\$ (7,835,335)

See Schedule 10 for reconciliation.

Brokered Transactions

The State Treasurer initiated electronic purchase trades with the following brokers during the year ended June 30, 2012:

Broker Name	Number of Transactions
Bank of New York	46
Barclays	22
Bank of America	22
BNP Paribas	12
Barclays	12
Cantor Fitzgerald	1
Citigroup	23
Credit Suisse	9
Deutsche Bank	5
First Tenn BK	9
FTN Financial Securities	2
JP Morgan	147
Jefferies & Co	16
Morgan Keegan	16
Morgan Stanley	9
National Finl SVCS Corp	1
Nomura	4
SEC PAC CLRG & SVCS CORP	1
UBS	12

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Balances

The fair value of investments administered by the State Treasurer at June 30, 2012 follows:

	Amortized Cost	Carrying Amount Fair Value
Cash in Banks	\$ 194,963,321	\$ 194,963,321
Certificates of Deposit	42,450,000	42,450,000
U.S. Government Securities	1,863,522,926	1,875,186,653
Corporate Bonds	441,518,474	442,382,759
Municipal Bonds	74,899,604	75,036,703
Mutual Funds (Investment in LGIP)	249,958,107	249,958,107
Repurchase Agreements	1,292,665,000	1,292,665,000
Commercial Paper	39,484,123	39,483,062
CMO/REMIC	16,434,810	16,438,650
	4,215,896,365	4,228,564,255
Less interfund investments	(249,958,107)	(249,958,107)
Total	\$3,965,938,258	\$3,978,606,148

The fair value includes repurchase agreements of \$282,660,222 of debt service funds reported in the Statement of Net Assets – Governmental Activities and Governmental Funds Activity for general obligation funds and severance tax bond funds. In addition, it includes \$270,726 of cash in the general fund.

General Fund Investment Pool

The General Fund is the State of New Mexico's main operating account. All State revenues are credited to the General Fund. Income taxes, sales taxes, rents and royalties, and other recurring revenues are deposited into the fund. The fund also comprises numerous State agency accounts whose assets, by statute, must be held at the State Treasury. Expenditures are disbursed only in accordance with appropriations authorized by the State Legislature.

Tax-Exempt Bond Proceeds Investment Pool

The Tax-Exempt Bond Proceeds Investment Pool comprises pooled assets received through the issuance of tax-exempt State of New Mexico general obligation bonds, severance tax bonds, and supplemental severance tax bonds. The fund's objective is to preserve capital, provide liquidity, and generate returns relative to the true interest cost of all State of New Mexico debt outstanding and in accordance with the Investment Policy of the Office of the State Treasurer.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Taxable Bond Proceeds Investment Pool

The Taxable Bond Proceeds Investment Pool comprises pooled assets received through the issuance of State of New Mexico severance tax bonds. The fund's objective is to preserve capital, provide liquidity, and generate returns relative to a benchmark and in accordance with the State Treasurer's Investment Policy.

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, 2012, 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. As of June 30, 2012, the WAM(R) of the LGIP was 60 days, and the WAM(F) was 83 days. The fund was rated AAAM by Standard & Poor's as of June 30, 2012.

Reserve Contingency Fund

The Reserve Contingency Fund was created to hold what was formerly a Local Government Investment Pool (LGIP) investment in The Primary Fund (The Fund), a money market mutual fund established and managed by The Reserve Fund. On September 16, 2008, The Fund wrote down the value of its debt securities issued by Lehman Brothers Holdings, Inc. to zero, driving the net asset value of the fund below \$1.00 to \$0.97. At that date, the LGIP had \$381.7 million invested in The Fund, roughly 23% of the LGIP's total assets. On September 29, 2008, The Fund announced that it intended to liquidate its assets and distribute the proceeds on a pro rata basis to investors.

In order to preserve the "AAAM" rating assigned by Standard & Poor's to the LGIP, the State Treasurer's Office effected an agreement on behalf of the LGIP and the state's General Fund CORE portfolio on September 22, 2008. The Agreement provided for the General Fund to purchase all \$381.7 million shares of The Fund held by the LGIP at the par value of \$1.00 per share. The LGIP granted the General Fund a "put" option for those shares at par, plus interest at a stated rate.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

On October 30, 2008, the Fund announced a first distribution of approximately 50% of participant balances to outstanding holders of the Fund.

On December 3, 2008, the Fund announced a second distribution of an additional amount to Fund holders representing approximately 80% of their invested balances.

On February 20, 2009, the Fund announced a third distribution of an additional amount to Fund holders representing approximately 85% of their invested balances.

On February 27, 2009, the State Treasurer's Office informed LGIP participants that it intended to segregate each participant's remaining balance attributable to LGIP holdings in The Fund into a separate fund created by the State Treasurer's Office, the Reserve Contingency Fund. Balances transferred to the Reserve Contingency Fund would be based on each participant's share of the LGIP as of September 15, 2008. Any future distributions from The Fund would flow into the Reserve Contingency Fund and be distributed to LGIP participants on a pro rata basis.

On April 17, 2009, the Fund announced a fourth distribution of an additional amount to Fund holders representing approximately 90% of their invested balances.

On October 2, 2009, the Fund announced a fifth distribution of an additional amount to Fund holders representing approximately 92% of their invested balances.

On January 29, 2010, the Fund announced a sixth distribution of an additional amount to Fund holders representing approximately 95% of their invested balances.

On July 15, 2010, the Fund announced a seventh distribution of an additional amount to Fund holders representing approximately 99.04% of their invested balances.

On September 3, 2010, the Fund announced a change in classification of the Fund to a pass-through entity enabling investors to book losses on their Fund positions as of August 31, 2011. The replacement fund is to be known as the "Primary Fund – In Liquidation".

On November 24, 2010, the Fund announced that Credarian Fund Services LLC became liquidating services agent for the Fund and that all assets of the fund have been transferred to Credarian.

On January 26, 2011, the Primary Fund – In Liquidation announced an 80% decrease in fund balances coincident with the transfer of assets to Credarian reflecting "deemed distributions" of pass-through losses as of the August 30, 2010 conversion date.

On July 29, 2011, Credarian released a statement of assets and potential claims for the Primary Fund – In Liquidation. The statement listed fund assets as of May 14 were \$110 million and potential claims on those assets of \$106 million. The remaining \$3.8 million is subject to additional claims by the estate. Distributions to claimants are ongoing and litigation surrounding potential claims has been initiated. Until there is final resolution of the matter, RCF participants have a pro-rata claim on any distributed assets.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

On October 9th, 2012, the case of Securities and Exchange Commission v. Reserve Management Company, Inc. et al., 09-Civ. 4346 (PGG) (S.D.N.Y.), went to trial. On November 12, 2012, the jury returned a verdict and found that Defendant Reserve Management Company, Inc. ("RMCI") and Defendant Resrv Partners knowingly or recklessly violated certain provisions of the federal securities laws and that RMCI and Defendant Bruce Bent II negligently violated certain provisions of the federal securities laws. The jury found that the SEC had not proved the remainder of its claims against Defendants by a preponderance of the evidence, including claims that Defendant Bruce Bent Sr. violated any federal securities laws or that Bruce Bent II knowingly or recklessly violated any federal securities laws.

One or more parties may appeal from the verdict. The Primary Fund – In Liquidation does not anticipate making any further distributions unless and until the Court resolves various pending motions, including motions by RMCI seeking certain fees and expenses from the Fund.

In total, the Fund has returned 99.04% of assets invested to investors as of the date when the Fund assets were frozen and the liquidation process initiated. However, the Reserve Contingency Fund also assumed the cost of the 2008 Put Agreement with the general fund and the net return to participants was less than the return of assets percentage.

Investment Guidelines and Limitations

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

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

1. Preservation of Principal – to ensure the performance of basic governmental functions, the first priority must be accorded to the preservation and protection of the principal of the funds to be invested;
2. Maintenance of Liquidity – the second level of priority must be accorded to maintaining sufficient liquidity to satisfy the reasonably anticipated, continuing operational requirements of State Government; and
3. Maximum Return – the third priority must be accorded to maximizing investment return, 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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 investment of public money 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.

The scope of investment authority of the State Treasurer is defined by the applicable investment statutes and constitutional provisions, 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, specifying particular types of investments that may be made by the State Treasurer, which establish certain prerequisites, limitations and other requirements relating to those investments. Moreover, the State Treasurer, in his discretion, may further limit or restrict those investments.

The State Treasurer and the State Board of Finance have determined that only the following statutorily authorized investments may be made, and these investments shall be subject to further limitations or restrictions as follows:

Investments Permitted by Policy

1. U.S. Government Obligations – Securities backed by the full faith and credit of the U.S. government including direct obligations of the U.S. Treasury and obligations of U.S. Government agencies and instrumentalities which are guaranteed by the U.S. Treasury. Investments shall be limited to a maximum maturity of five (5) years at time of purchase, except securities for any advance refunding escrow which may be invested in securities with a maturity of more than five (5) years. These securities may be either fixed rate or variable rate.
2. U.S. Government Agency Obligations – Securities issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises, but which are not backed by the full faith and credit of the U.S. Government. These securities include mortgage-backed certificates, collateralized mortgaged obligations, and debentures issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. Also included are direct obligations of the Federal Farm Credit Bank and the Federal Home Loan Bank. These obligations shall consist of discount notes, notes and debentures with either fixed or LIBOR-based floating rate coupons. Investments in U.S. government agency obligations shall be limited to a maximum maturity of five (5) years at time of purchase.
3. 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 investment grade ratings and shall not be split-rated. If the rating declines below investment grade, the State Treasurer’s Investment Committee (STIC) will meet to evaluate a course of action.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

4. 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. Corporate bonds with maturities up to three (3) years shall be rated A1 or better at the time of purchase. Corporate bonds with maturities between three (3) and five (5) years shall be rated AA or better. If the rating declines below investment grade, then the STIC will meet to evaluate a course of action.
5. 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 all national rating agencies that rate the security. If the rating declines below AAA, or its equivalent, then the STIC will meet to evaluate a course of action.
6. 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 contract shall be invested in unless the contract is fully secured by obligations of the United States, or its agencies or instrumentalities, 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 pledged as collateral 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.
7. 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 state statute and State Board of Finance policies related to interest rate and collateral requirements. CD deposits shall not be made with custodial banks. 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.
8. Variable Rate Notes – Variable rate notes (VRN) may be United States government obligations, commercial paper or repurchase agreements. The use of VRNs is considered to be prudent in the management of the portfolio within certain maturity, indexing and
9. Municipal Securities – Pursuant to 6-14-10.1, the State Treasurer or designee may also invest in municipal securities that at time of purchase are investment grade and have a final maturity of up to three (3) years. If the rating declines below investment grade, then the STIC will meet to evaluate a course of action.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

10. Securities Issued by the State or a Political Subdivision of the State, or any Agency, Institution or Instrumentality of the State or a Political Subdivision – These include, but are not limited to, the New Mexico Mortgage Finance Authority, the New Mexico Finance Authority and the New Mexico Educational Assistance Foundation, if the statute authorizing the issuance of such securities expressly authorizes the State or the State Treasurer to purchase such security.
11. Government Money Market Mutual Funds – Shares of an open-ended diversified investment company that: (i) is registered with the United State Securities and Exchange Commission; (ii) complies with the diversification, quality and maturity requirements of Rule 2a-7, or any successor rule, of the United States Securities and Exchange Commission applicable to money market mutual funds; (iii) assesses no fees pursuant to Rule 12b-1, or any successor rule, of the United States Securities and Exchange Commission, no sales load on the purchase of shares and no contingent deferred sales charge or other similar charges, however designated, provided that the State shall not, at any time, own more than five percent (5%) of a money market mutual fund's assets; and (iv) is rated AAA or equivalent by a nationally recognized rating agency. 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.
12. Local Government Investment Pool: General fund dollars may be invested in the Local Government Investment Pool (LGIP), up to five percent (5%) of the LGIP.

Unauthorized Investments/Investment Actions

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

1. Common or preferred stock
2. Exchange traded future contracts
3. Inverse floaters
4. Whole-loan mortgage obligations
5. Interest only and principal strips 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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2012, \$46,927,673 of the State Treasurer's bank balances of \$364,248,875 was exposed to custodial credit risk as uninsured and uncollateralized.

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 ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2012 for the general fund investment pool are as follows:

Quality Rating	Fair Value	Percentage of Portfolio
AAA:		
Municipal Bonds	1,662,459	0.08%
AA+:		
U.S. Treasuries	375,550,100	17.06%
U.S. Government Agency	643,178,515	29.23%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Quality Rating	Fair Value	Percentage of Portfolio
AA1:		
Municipal Bonds	4,549,437	0.21%
AA:		
Municipal Bonds	15,545,788	0.71%
AA-		
Municipal Bonds	2,090,300	0.10%
A+:		
Corporate Bonds	10,186,200	0.46%
A:		
U.S. Government Agency	13,876,460	0.63%
Not rated and other:		
U.S. Treasuries	25,063,500	1.14%
Municipal Bonds	51,188,719	2.33%
U.S. Government Agency	75,460,758	3.43%
Corporate Bonds	36,647,750	1.67%
Overnight Repurchase Pool	873,001,968	39.67%
Certificates of Deposit	32,750,000	1.49%
Investment in LGIP	40,027,793	1.82%
Grand Total	2,200,779,747	100.00%

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2012, for the local government investment pool are as follows:

Quality Rating	Fair Value	Percentage of Portfolio
AA+:		
U.S. Government Agency	90,181,874	10.31%
U.S. Treasuries	10,013,300	1.15%
Corporate Bonds	110,444,942	12.63%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Quality Rating	Fair Value	Percentage of Portfolio
Not Rated and Other:		
U.S. Treasuries	10,003,900	1.14%
U.S. Government Agency	80,183,180	9.17%
Overnight Repurchase Pool	300,000,000	34.31%
Corporate Bonds	73,139,281	8.36%
CMO/REMIC	16,438,650	1.88%
Cash	144,628,321	16.54%
Commercial Paper	39,483,062	4.52%
Grand Total	874,516,510	100.00%

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2012, for the Bond Proceeds Investment Pool #2 are as follows:

Quality Rating	Fair Value	Percentage of Portfolio
AA+:		
U.S. Government Agency	202,114,663	31.29%
U.S. Treasuries	182,736,500	28.29%
Corporate Bonds	65,700,036	10.17%
A:		
U.S. Government Agency	24,241,108	3.75%
Not rated and other:		
U.S. Government Agency	5,020,060	0.78%
Corporate Bonds	45,247,050	7.00%
Overnight Repurchase Pool	1,989,027	0.31%
Certificates of Deposit	9,700,000	1.50%
Mutual Funds	109,292,564	16.92%
Grand Total	646,041,008	100.00%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2012, for the Bond Proceeds Investment Pool # 1 are as follows:

Quality Rating	Fair Value	Percentage of Portfolio
AA+:		
U.S. Government Agency	71,083,585	14.01%
U.S. Treasuries	40,590,150	8.00%
Corporate Bonds	101,017,500	19.92%
A:		
U.S. Government Agency	25,889,000	5.10%
Not rated and other:		
Overnight Repurchase Pool	117,674,005	23.20%
Cash	50,335,000	9.92%
Mutual Funds	100,637,750	19.84%
Grand Total	507,426,990	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 twenty-five percent (25%) of the total amount invested of each portfolio. Investment in callable investments may be allowed in the local government investment pool, bond proceeds, bond debt service funds and such pension and permanent fund monies for which the State Treasurer is the investing authority. Investment in callable investments is prohibited for tax and revenue anticipation note proceeds (and any other liquidity vehicle).
3. The maximum level of CD deposits for the entire portfolio shall be \$400 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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

4. Investments in commercial paper, corporate bonds and asset-backed obligations shall not exceed forty percent (40%) of assets of each portfolio. Commercial paper and corporate bonds shall be limited, per issuer, to five percent (5%) of each portfolio.
5. Investments in United States agency securities issued by any single agency shall be limited to thirty-five percent (35%) of the combined portfolios.
6. Investment in repurchase agreements from any single provider shall be limited to twenty-five percent (25%) of the combined portfolios.
7. Investment in commercial paper and corporate bonds guaranteed by the full faith and credit of the United States government, with a final maturity not to exceed the expiration date of any such guarantee, shall not exceed forty percent (40%) of the assets of each portfolio. Commercial paper and corporate bonds guaranteed by the full faith and credit of the United States government shall be limited, per issuer, to twenty percent (20%) of each portfolio.
8. United States Government Agency issued mortgage-backed securities and collateralized mortgage obligations shall be limited to twenty-five percent (25%) of a portfolio.
9. Securities issued by a municipal entity shall be limited to fifteen percent (15%) of a portfolio.
10. Securities issued by the State or a political subdivision of the State, or any agency, institution or instrumentality of the State shall be limited to fifteen percent (15%) of the general fund portfolio.

The following lists investments held in the general fund investment pool with a single issuer as a percentage of total:

Issuer	Fair Value	Percentage of Portfolio
US Treasury Obligations:		
US Treasuries	400,613,600	18.20%
US Government Agency Obligations:		
FFCB	70,403,300	3.20%
FHLB	126,252,706	5.74%
FHLMC	182,627,365	8.30%
FNMA	353,232,362	16.05%
Municipal Bonds:		
Alamagordo School District	711,071	0.03%
Bernalillo County	1,154,549	0.05%
Catron & Cibola County Indpt School	143,795	0.01%
Connecticut St	5,051,050	0.23%
Espanola Pub Sch Dist	2,840,111	0.13%
Farmington Mun Sch Dist	4,587,970	0.21%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Issuer	Fair Value	Percentage of Portfolio
Gadsden Indpt Sch Dist	6,732,544	0.31%
Los Alamos County	2,090,300	0.10%
Los Alamos Pub Sch Dist	2,717,564	0.12%
Lovington Mun Sch Dist	2,409,549	0.11%
NMFA	14,642,546	0.67%
NM St Sev Tax	20,516,251	0.93%
Rio Rancho Pub Sch Dist	3,186,530	0.15%
Santa Fe Pub Sch Dist	5,811,890	0.26%
Santa Rosa Cons Sch Dist	628,540	0.03%
UNM	1,812,443	0.08%
Corporate Bonds:		
Abbott Laboratories	10,186,200	0.46%
Citigroup	25,122,750	1.14%
PPPS	4,000,000	0.18%
PPPS	7,525,000	0.34%
Overnight Repurchase Pool	873,001,968	39.67%
Certificates of Deposit	32,750,000	1.49%
Local Government Investment Pool*	40,027,793	1.82%
Grand Total	2,200,779,747	100.00%

The following lists investments held in the local government investment pool with a single issuer as a percentage of total:

Issuer	Fair Value	Percentage of Portfolio
US Treasury Obligations:		
US Treasuries	20,017,200	2.29%
US Government Agency Obligations:		
FFCB	49,972,500	5.71%
FHLB	59,212,964	6.77%
FNMA	61,179,590	7.00%
Corporate Bonds		
Intl Finance Corp	19,999,020	2.29%
Ally Financial Inc. GTD	2,703,996	0.31%
Ally Financial Inc	32,596,514	3.73%
Citigroup Funding Inc.	21,042,569	2.41%
GE Capital Corp	24,269,158	2.78%
JP Morgan Chase & Co.	29,832,705	3.41%
Multibank CRE Vent	9,983,000	1.14%
US Central Federal Cred	4,369,914	0.50%
Western Corp Federal Credit	38,787,347	4.44%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Issuer	Fair Value	Percentage of Portfolio
CMO/REMIC		
Corus Construction Venture	16,438,650	1.88%
Commercial Paper		
Straight A FDG	39,483,062	4.51%
Cash in Bank	144,628,321	16.54%
Overnight Repurchase Pool	300,000,000	34.31%
Grand Total	874,516,510	100.00%

The following lists investments held in the bond proceed investment pool # 2 with a single issuer as a percentage of total:

Issuer	Fair Value	Percentage of Portfolio
US Treasury Obligations:		
US Treasuries	182,736,500	28.29%
US Government Agency Obligations:		
FFCB	4,374,341	0.68%
FHLMC	73,773,632	11.42%
FNMA	153,227,858	23.72%
Corporate Bonds:		
Goldman Sachs Group Inc	10,062,700	1.56%
Morgan Stanley-2 nd	5,032,150	0.78%
US Central FCU	20,100,800	3.11%
Western Corp FCU	10,051,400	1.56%
Citigroup Funding	20,179,400	3.12%
Citibank NA	20,148,800	3.12%
GE Capital Corp	25,371,836	3.93%
Overnight Repurchase Pool	1,989,027	0.31%
Certificates of Deposit	9,700,000	1.50%
Mutual Funds	109,292,564	16.92%
Grand Total	646,041,008	100.00%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

The following lists investments held in the bond proceeds investment pool # 1 with a single issuer as a percentage of total:

Issuer	Fair Value	Percentage of Portfolio
US Treasury Obligations:		
US Treasuries	40,590,150	8.00%
US Government Agency Obligations:		
FFCB	10,021,400	1.98%
FHLMC	31,073,600	6.13%
FNMA	55,877,585	11.02%
Corporate Bonds:		
Citigroup Funding	50,448,500	9.95%
GE Corp	50,569,000	9.97%
Overnight Repurchase Pool	117,674,005	23.20%
Mutual Funds	100,637,750	19.84%
Cash	50,335,000	9.92%
Grand Total	507,226,990	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 investments for comparable maturity dates.
2. **Marketability:** Analysis of relative marketability of alternate investments in case of forced sale 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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

5. General Economic and Interest Rate Outlook: Review and analysis of current literature on interest rate projections to assist in timing transactions and selecting appropriate maturities.

Maturities on investments in the general fund investment pool are as follows:

Quality Rating	Maturities		
	Fair Value	Less Than 1 Year	1 – 5 Years
AAA:			
Municipal Bonds	1,662,459	1,069,471	592,988
AA+:			
U.S. Government Agency	643,178,515	50,996,900	592,581,615
U.S. Treasuries	375,550,100	70,224,300	305,325,800
AA1:			
Municipal Bonds	4,549,437		4,549,437
AA:			
Municipal Bonds	15,545,788	5,051,050	10,494,738
AA-			
Municipal Bonds	2,090,300		2,090,300
A+			
Corporate Bonds	10,186,200	10,186,200	
A			
U.S. Government Agency	13,876,460		13,876,460
Not rated and other:			
U.S. Treasuries	25,063,500	25,063,500	
Municipal Bonds	51,188,719	25,107,352	26,081,367
U.S. Government Agency	75,460,758	19,574,046	55,886,712
Corporate Bonds	36,647,750	4,000,000	32,647,750
Overnight Repurchase Pool	873,001,968	873,001,968	
Certificates of Deposit	32,750,000	32,750,000	
Mutual Funds	40,027,793	40,027,793	
Grand Total	2,200,779,747	1,156,652,580	1,044,127,167

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Maturities on investments in the local government investment pool are as follows:

Quality Rating	Maturities		
	Fair Value	Less Than 1 Year	1 – 5 Years
AA+			
U.S. Government Agency	90,181,874	30,213,774	59,968,100
U.S. Treasuries	10,013,300	10,013,300	
Corporate Bonds	110,444,942	76,027,066	34,417,876
Not rated and other:			
U.S. Treasuries	10,003,900	10,003,900	
U.S. Government Agency	80,183,180		80,183,180
Corporate Bonds	73,139,281		73,139,281
CMO/REMIC	16,438,650	4,297,033	12,141,617
Overnight Repurchase pool	300,000,000	300,000,000	
Cash in Bank	144,628,321	144,628,321	
Commercial Paper	39,483,062	39,483,062	
Grand Total	874,516,510	614,666,456	259,850,054

Maturities on investments in the bond proceeds investment pool # 2 are as follows:

Quality Rating	Maturities		
	Fair Value	Less Than 1 Year	1 – 5 Years
AA+:			
U.S. Government Agency	202,114,663	7,490,500	194,624,163
U.S. Treasuries	182,736,500	45,084,650	137,651,850
Corporate Bonds	65,700,036	65,700,036	
A:			
U.S. Government Agency	24,241,108		24,241,108
Not rated and other:			
U.S. Government Agency	5,020,060	5,020,060	
Corporate Bonds	45,247,050	45,247,050	
Overnight Repurchase Pool	1,989,027	1,989,027	
Certificates of Deposit	9,700,000	9,700,000	
Mutual Funds	109,292,564	109,292,564	
Grand Total	646,041,008	289,523,887	356,517,121

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Maturities on investments in the bond proceeds investment pool # 1 are as follows:

Quality Rating	Fair Value	Maturities	
		Less Than 1 Year	1 – 5 Years
AA+:			
U.S. Government Agency	71,083,585	10,021,400	61,062,185
U.S. Treasuries	40,590,150	25,205,250	15,384,900
Corporate Bonds	101,017,500	101,017,500	
A:			
U.S. Government Agency	25,889,000		25,889,000
Not rated and other:			
Overnight Repurchase Pool	117,674,005	117,674,005	
Mutual Funds	100,637,750	100,637,750	
Cash	50,335,000	50,335,000	
Grand Total	507,226,990	354,555,905	102,336,085

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, 2012 were denominated in United States Dollars.

* This symbol denotes an investment by the State General Fund Investment Pool in the Local Government Fund Investment Pool. Both are part of the Investment Trust Fund, and whenever a combined presentation of the Investment Trust Fund is presented, this investment is removed.

Securities Collateralizing Repurchase Agreements

The State's Investment Policy states that no repurchase agreements shall be entered into 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 Treasurer to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the market value of securities held as collateral slips below one hundred two percent (102%) of the value of the cash transferred plus accrued interest, then additional cash and/or acceptable securities must be delivered to the third party custodian sufficient to cure any deficiency; and

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

2. For repurchase agreements with terms to maturity of greater than one (1) day, the State will value the collateral securities continuously and require that, if additional collateral is required, then that collateral must be delivered within one business day. If a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated; and
3. The collateral on all repurchase agreements will have a maturity date that exceeds the term of the repurchase agreement. If the duration of the collateral is longer than ten (10) years than the term of the repurchase agreement, then the collateral margin must be 103% to compensate for market risk.

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

Quality Rating	Fair Value	Percentage of Portfolio
AA+:		
US Government Agency Obligations	1,369,860,000	100.00
Grand Total	1,369,860,000	100.00

Maturities on collateral are as follows:

Quality Rating	Fair Value	Maturities				
		Less Than 1 Year	1-5 Years	6-10 Years	11-20 Years	Over 20 Years
AA+:						
US Government Mortgage Backed Securities	1,369,860,000	306,000,000			317,186,112	746,673,888
Grand Total	1,369,860,000	306,000,000			317,186,112	746,673,888

Schedule 10 discloses collateral pledged for repurchase agreements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Governmental activities:				
Depreciable assets:				
Equipment	\$ 301,104	\$ -	\$ -	\$ 301,104
Total capital assets	301,104	-	-	301,104
Less accumulated depreciation:				
Equipment	<u>179,075</u>	<u>46,351</u>	<u>-</u>	<u>225,426</u>
Total	<u>\$ 122,029</u>	<u>\$ 46,351</u>	<u>\$ -</u>	<u>\$ 75,678</u>

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

Governmental activities:	
General government	<u>\$ 46,351</u>

NOTE 8 - 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, 2012:

	<u>Balance June 30, 2011</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Compensated absences	<u>\$ 109,692</u>	<u>\$ 146,406</u>	<u>\$(133,182)</u>	<u>\$ 122,916</u>	<u>\$ 122,916</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – CONDENSED FINANCIAL STATEMENTS

Condensed financial statements of the Investment Trust Fund, inclusive of external and internal participants for the fiscal year ended June 30, 2012, are as follows:

Assets:	
Investments	\$ 3,978,606,148
Interest receivable	<u>10,433,882</u>
Total assets	<u>\$ 3,989,040,030</u>
Liabilities:	
Other liabilities	\$ -
Net assets:	
External participant account balances	875,779,255
Other internal participant account balances	
Primary government	<u>3,113,260,775</u>
Total liabilities and net assets	<u>\$ 3,989,040,030</u>

At June 30, 2012, the State Treasurer's investment income earnings were as follows:

Local Government Investment Pool	\$ 2,121,836
Consolidated Investment Pool	8,979,643
State Funds Investment Pool	<u>15,085,927</u>
Total	<u>\$ 26,187,406</u>

NOTE 10 - APPROPRIATIONS

The State Treasurer received the following appropriations for the year ended June 30, 2012:

<u>General Fund</u>	
General appropriation (General Appropriation Act)	\$ 3,550,800
Other state funds (Special Appropriation)	<u>122,300</u>
Total appropriations	<u>\$ 3,673,100</u>

NOTE 11 - COLLATERAL IN TRUST

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 12 – DUE TO/FROM OTHER STATE AGENCIES

Due to State Treasurer's Office	Fund No.	Amount	Due From Agency/Purpose	Fund No.	Amount
Severance Tax Bonding Fund	41000	\$ 72,946,020	Tax & Revenue	82500	\$ 72,946,020
G.O Bonding Fund	03200	2,792,054	BOF	34103	2,792,054
G.O Bonding Fund	28800	3,212,088	BOF	34103	3,212,088
G.O Bonding Fund	10630	4,569,574	BOF	34103	4,569,574
G.O Bonding Fund	11630	438,579	BOF	34103	438,579
G.O Bonding Fund	73010	<u>3,170,967</u>	BOF	34103	<u>3,170,967</u>
Total All Funds		<u>\$ 87,129,282</u>			<u>\$ 87,129,282</u>

Purpose: To receive tax receipts billed by other state agencies.

Due From State Treasurer's Office	Fund No.	Amount	Due To Agency/Purpose	Fund No.	Amount
General Fund	18200	<u>\$ 99,961</u>	Dept. of Finance & Administration	85400	<u>\$ 99,961</u>

Purpose: To fund reversion to State General Fund.

Due From State Treasurer's Office	Fund No.	Amount	Due To Agency/Purpose	Fund No.	Amount
STB Bond Fund	41000	<u>\$ 103,888,029</u>	State Investment Council	33700	<u>\$ 103,888,029</u>

Purpose: Funds due to The NM State Investment Council.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 13 - ARBITRAGE ON TAX EXEMPT BONDS

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

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

The Revenue Reconciliation Act of 1989 amended the six-month rule. For bonds issued after December 19, 1989, the rebate requirement does not apply if: 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	Next Payment Due to IRS
General Obligation Bonds Series 2005	3/1/2010	4/30/2010	X	3/1/2015
General Obligation Bonds Series 2007	3/1/2012	4/30/2012	X	3/1/2017
General Obligation Bonds Refunding Series 2008A	3/1/2013	4/30/2013	X	3/1/2013
General Obligation Bonds Series 2009	5/28/2014	7/28/2014	X	3/1/2019
General Obligation Bonds Series 2011	5/26/2016	7/25/2016		3/1/2021
Severance Tax Bonds Series 2003B	6/30/2006	8/29/2006	X	7/1/2013
Severance Tax Bonds Series 2004B	11/17/2009	1/19/2010	X	7/1/2014
Severance Tax Bonds Series 2005A	6/15/2010	8/16/2010	X	7/1/2012
Severance Tax Bonds Series 2005B-1	6/15/2010	8/16/2010	X	7/1/2012
Severance Tax Bonds Series 2005B-2	6/15/2010	8/16/2010	X	7/1/2012

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 13 - ARBITRAGE ON TAX EXEMPT BONDS (CONTINUED)

	First Computation Date	First Payment Due to IRS	First Computation of Arbitrage Completed	Next Payment Due to IRS
Severance Tax Bonds Series 2006A	6/28/2011	8/19/2011	X	7/1/2011
Severance Tax Bonds Series 2007A	6/28/2011	8/27/2011	X	7/1/2012
Severance Tax Bonds Series 2008A-1	6/25/2013	8/26/2013		7/1/2013
Severance Tax Bonds Series 2008A-2	6/25/2013	8/26/2013		7/1/2013
Severance Tax Bonds Series 2009A	7/30/2014	9/29/2014		7/1/2019
Severance Tax Bonds Series 2010A	3/24/2015	5/26/2015		3/24/2020
Severance Tax Bonds Series 2010B	3/24/2015	5/26/2015		3/24/2020
Severance Tax Bonds Series 2010C	6/30/2015	8/31/2015	X	7/1/2015
Severance Tax Bonds Series 2010D	12/8/2015	2/8/2016		7/1/2017
Severance Tax Bonds Series 2011A-1	12/6/2016	2/6/2017		7/1/2012
Severance Tax Bonds Series 2011A-2	12/6/2016	2/6/2017		7/1/2021
Severance Tax Bonds Series 2012A	6/21/2017	8/21/2017		6/21/2022

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 14 - TRANSFERS

Interfund Transfers

Interfund transfers are completed to move revenue from Fund 41000, 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	\$ 36,970,785	10750	STB – 2006A Debt Svc	\$ 36,970,785
41000	Severance Tax Bonding Fund	12,762,500	10950	STB – 2010A Debt Svc	12,762,500
41000	Severance Tax Bonding Fund	11,278,419	10960	STB – 2010B Debt Svc	11,278,419
41000	Severance Tax Bonding Fund	9,956,360	11190	STB – 2010C Debt Svc	9,956,360
41000	Severance Tax Bonding Fund	19,437,440	11280	STB – 2010 Debt Svc	19,437,440
41000	Severance Tax Bonding Fund	1,236,250	18300	STB – 2004B Debt Svc	1,236,250
41000	Severance Tax Bonding Fund	2,077,200	30820	STB – 2011A-2	2,077,200
41000	Severance Tax Bonding Fund	2,324,500	30830	STB – 2011A-1	2,324,500
41000	Severance Tax Bonding Fund	8,287,400	38800	STB – 2005-B1	8,287,400
41000	Severance Tax Bonding Fund	1,273,042	48400	STB – 2003B Debt Svc	1,273,042
41000	Severance Tax Bonding Fund	13,723,207	53700	STB – 2007A Debt Svc	13,723,207
41000	Severance Tax Bonding Fund	14,914,403	72010	STB – 2008A1 Debt Svc	14,914,403
41000	Severance Tax Bonding Fund	<u>5,607,498</u>	72070	SSTB Ref – 2008A2 Debt Svc	<u>5,607,498</u>
	Total	<u>\$139,849,004</u>		Total	<u>\$139,849,004</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 14 – TRANSFERS (CONTINUED)

General Obligation Bonds:

SHARE Fund	Transfer From	Amount	SHARE Fund	Transfer To	Amount
03200	GO 2005 Debt Service	\$ 200,000	03200	GO 2005 Debt Service	\$ 2,600,000
10630	GO 2009 Debt Service	6,750,000	11630	GO 2011 Series	1,250,000
28800	GO 2007 Debt Service	<u>381,477</u>	29000	GO 2007 Rebate	381,477
			73010	GO 2008A Debt Service	<u>3,100,000</u>
	Total	<u>\$ 7,331,477</u>		Total	<u>\$ 7,331,477</u>

Interagency Transfers

Debt Service:

Severance Tax Bonds:

Transfers In From Other State Agencies

Transfers from (purpose)	Fund No.	Amount	Transfers to (purpose)	Fund No.	Amount
Board of Finance	34103	<u>\$ 7,137,042</u>	Severance Tax Bonding Fund	41000	<u>\$ 7,137,042</u>
Total – Severance Tax Bond Funds		<u>\$ 7,137,042</u>			<u>\$ 7,137,042</u>

General Obligation Bonds:

Transfers In From Other State Agencies

Transfers from (purpose)	Fund No.	Amount	Transfers to (purpose)	Fund No.	Amount
Board of Finance	34103	<u>\$ 754,588</u>	GO 2005 Debt Service	03200	\$ 90,373
			GO 2009 Debt Service	10630	71,868
			GO 2007 Debt Service	28800	<u>592,347</u>
Total – General Obligation Bond Funds		<u>\$ 754,588</u>			<u>\$ 754,588</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 14 – TRANSFERS (CONTINUED)

Transfers Out To Other State Agencies

Transfers from (purpose)	Fund No.	Amount	Transfers to (purpose)	Fund No.	Amount
STB Bond Fund	41000	\$ 11,191	Board of Finance	34103	\$ 11,191
Total – General Obligation Bond Funds		<u>\$ 11,191</u>			<u>\$ 11,191</u>

NOTE 15 - PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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 benefits, 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 for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The State Treasurer's Office is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the State Treasurer's Office are established in State statute 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 fiscal years ending June 30, 2012, 2011 and 2010 were \$260,521, \$294,619 and \$329,143, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 16 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

The State Treasurer's Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 16 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Eligible retirees are: 1) retirees who make 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 RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013, the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan, the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

Also, employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 16 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

The State Treasurer's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$35,649, \$32,334 and \$28,268, respectively, which equal the required contributions for each year.

NOTE 17 - 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, 2011 to June 30, 2012. The limit of coverage is \$5,000,000, with \$1,000 deductible per occurrence. All State Treasurer employees are covered by this bond.

The State Treasurer had no significant reductions in insurance coverage from coverage in the prior year. In the fiscal years ended June 30, 2012, 2011 and 2010, there were no settlements that exceeded insurance coverage.

NOTE 18 - 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, 2012 is \$99,931.

Amounts reverted to the State General Fund during 2012 were as follows:

	<u>Appropriation</u>	<u>Reversion</u>
Reversion to State General Fund fiscal year 2012	\$ 3,550,800	\$ 97,246
Subtotal – Reversion to State General Fund	<u>\$ 3,550,800</u>	97,246
Due to State General Fund prior years		<u>2,715</u>
Total Due to State General Fund		<u>\$ 99,961</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 19 - SHORT-TERM DEBT

Sponge Bonds

The State Board of Finance issues one to three day sponge bonds. Sponge bonds were purchases on the dates specified below. Bond proceeds are recorded by the State Board of Finance. Principal and interest payments were made from the Severance Tax Bonding Fund (SHARE Fund 41000) as follows:

	<u>Purchased</u>	<u>Matured</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
Sponge Bond – Senior Note	12/29/11	12/30/11	\$ 16,444,400	\$ 153	\$ 16,444,553
Sponge Bond – Supplemental Note	12/29/11	12/30/11	98,718,500	919	98,719,419
Sponge Bond – Senior Note	6/28/12	6/29/12	59,775,000	479	59,775,479
Sponge Bond – Supplemental Note	6/29/12	6/30/12	<u>50,025,186</u>	<u>401</u>	<u>50,025,587</u>
Total			<u>\$ 224,963,086</u>	<u>\$ 1,952</u>	<u>\$ 224,965,038</u>

Short-term debt activity for the year ended June 30, 2012 was as follows:

	<u>Balance June 30, 2011</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Issuance Costs</u>	<u>Balance June 30, 2012</u>
Sponge Bonds	<u>\$ -</u>	<u>\$ 224,963,086</u>	<u>\$ 224,965,038</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 20 - BOND ISSUANCE ACTIVITY

During fiscal year 2012, there were three new bond issues as noted below:

- \$ 47,790,000 STB – Series 2011A-1
- \$ 75,715,000 STB – Series 2011A-2
- \$ 57,990,000 STB – Series 2012A

Total activity related to the bonds was approximately as follows: costs \$400,438, premiums \$27,668,187, refunding escrow deposits of \$88,897,678 and total transfers to other State agencies of \$111,505,087.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 21 – FUND BALANCES

The Department's fund balances represent: 1) Restricted purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2012 follows:

	<u>General Fund</u>	<u>General Obligation Bond Fund</u>	<u>Severance Tax Bond Fund</u>
Fund Balances:			
Restricted for:			
Debt service	\$ -	\$ 44,291,418	\$ 221,392,141
Unrestricted, unassigned	<u>8,886</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>\$ 8,886</u>	<u>\$ 44,291,418</u>	<u>\$ 221,392,141</u>

NOTE 22 – RESTATEMENT

In fiscal year 2011 the New Mexico State Treasurer's Office should have accrued income that it received in July 2011 that was for their June 2011 General State Levy Revenue. STO does not have to request this money, rather it is sent to them by DFA automatically by an operating transfer. STO received the operating transfer on July 20, 2011. There were twelve months of revenue included in fiscal year 2011, however, those months were June 2010 through May 2011. The difference between the amount that should have been accrued in prior year, and the amount to be accrued in the current year, is material to the fund financial statement and required restatement. The effect of this restatement was to increase fiscal year 2011's net assets by \$13,393,839.

NOTE 23 – SUBSEQUENT EVENT

Regarding the Reserve Primary Fund – In Liquidation and the Reserve Contingency Fund addressed in Note 6, the following events occurred subsequent to June 30, 2012. On October 9th, 2012, the case of Securities and Exchange Commission v. Reserve Management Company, Inc. et al., 09-Civ. 4346 (PGG) (S.D.N.Y.), went to trial. On November 12, 2012, the jury returned a verdict and found that Defendant Reserve Management Company, Inc. ("RMCI") and Defendant Resrv Partners knowingly or recklessly violated certain provisions of the federal securities laws and that RMCI and Defendant Bruce Bent II negligently violated certain provisions of the federal securities laws. The jury found that the SEC had not proved the remainder of its claims against Defendants by a preponderance of the evidence, including claims that Defendant Bruce Bent Sr. violated any federal securities laws or that Bruce Bent II knowingly or recklessly violated any federal securities laws.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 1 - CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS -
SCHEDULE OF CHANGES BY ASSET CLASS AND SOURCE
Year Ended June 30, 2012

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
GOVERNMENTAL FUNDS				
CAPITAL ASSETS				
Equipment, furniture and fixtures	\$ 301,104	\$ -	\$ -	\$ 301,104
TOTAL GOVERNMENTAL FUNDS				
CAPITAL ASSETS	<u>\$ 301,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 301,104</u>
INVESTMENTS IN GOVERNMENTAL				
FUNDS CAPITAL ASSETS BY SOURCE				
General Fund revenues	\$ 301,104	\$ -	\$ -	\$ 301,104
TOTAL GOVERNMENTAL FUNDS				
CAPITAL ASSETS	<u>\$ 301,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 301,104</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 2 - COMBINING BALANCE SHEET - GENERAL OBLIGATION BONDS -
GENERAL OBLIGATION BOND DEBT SERVICE FUNDS**

June 30, 2012

	SHARE Fund	Assets			Total Assets
		Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	
2003 Series-Debt Service	03100	\$ 773,693	\$ -	\$ -	\$ 773,693
2005 Series Debt Service	03200	2,703,369	2,792,054	-	5,495,423
2007 Series-Debt Service	28800	4,589,895	3,212,088	-	7,801,983
2001 Series-Debt Service	41400	337,036	-	-	337,036
2003B Series - Refunding	41800	8,160,772	-	-	8,160,772
2009 Series-Debt Service	10630	8,596,027	4,569,574	-	13,165,601
2011 Series-Debt Service	11630	566,203	438,579	-	1,004,782
2008A Series-Redemption	73030	220,699	-	-	220,699
2008A Series-Debt Service	73010	3,014,261	3,170,967	-	6,185,228
Total Debt Service		28,961,955	14,183,262	-	43,145,217
2007 Series - Rebate	29000	-	-	-	-
2003 Series - Rebate	41300	4,743	-	-	4,743
2001 Series - Rebate	41500	819,596	-	-	819,596
2003 Refunding Series - Rebate	41900	152,080	-	-	152,080
2005 Series - Rebate	42600	4,400	-	-	4,400
911 - Rebate	48800	111,260	-	-	111,260
Total Rebate Accounts		1,092,079	-	-	1,092,079
2009 Series - Cost of Issuance	10650	32,936	-	-	32,936
2003 Series - Cost of Issuance	11320	21,186	-	-	21,186
Total cost of issuance		54,122	-	-	54,122
COMBINED TOTAL		\$ 30,108,156	\$ 14,183,262	\$ -	\$ 44,291,418

Liabilities			Fund Equity		
Due to Other State Agencies	Accounts Payable	Total Liabilities	Restricted for Debt Service	Total Fund Equity	Total Liabilities & Fund Equity
\$ -	\$ -	\$ -	\$ 773,693	\$ 773,693	\$ 773,693
-	-	-	5,495,423	5,495,423	5,495,423
-	-	-	7,801,983	7,801,983	7,801,983
-	-	-	337,036	337,036	337,036
-	-	-	8,160,772	8,160,772	8,160,772
-	-	-	13,165,601	13,165,601	13,165,601
-	-	-	1,004,782	1,004,782	1,004,782
-	-	-	220,699	220,699	220,699
-	-	-	6,185,228	6,185,228	6,185,228
-	-	-	43,145,217	43,145,217	43,145,217
-	-	-	-	-	-
-	-	-	4,743	4,743	4,743
-	-	-	819,596	819,596	819,596
-	-	-	152,080	152,080	152,080
-	-	-	4,400	4,400	4,400
-	-	-	111,260	111,260	111,260
-	-	-	1,092,079	1,092,079	1,092,079
-	-	-	32,936	32,936	32,936
-	-	-	21,186	21,186	21,186
-	-	-	54,122	54,122	54,122
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,291,418</u>	<u>\$ 44,291,418</u>	<u>\$ 44,291,418</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 3 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GENERAL OBLIGATION DEBT SERVICE FUNDS
Year Ended June 30, 2012

	SHARE Fund	Revenues		Expenditures	
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures
2003 Series-Debt Service	03100	\$ 13,108	\$ -	\$ -	\$ -
2005 Series Debt Service	03200	61,568	14,544,000	-	14,544,000
2007 Series Debt Service	28800	118,215	17,467,750	1,750	17,469,500
2001 Series-Debt Service	41400	4,133	-	-	-
2003-B Series - Refunding	41800	80,377	-	-	-
2009 Series-Debt Service	10630	791,853	25,878,750	1,749	25,880,499
2011 Series-Debt Service	11630	191,557	2,247,316	-	2,247,316
2008A Series-Redemption	73030	-	-	-	-
2008A Series-Debt Service	73010	61,045	15,792,250	2,250	15,794,500
Total Debt Service		1,321,856	75,930,066	5,749	75,935,815
2007 Series-Rebate	29000	-	-	381,477	381,477
2003 Series-Rebate	41300	872	-	-	-
2001 Series-Rebate	41500	8,070	-	-	-
2003 Series-Refunding	41900	1,497	-	-	-
2005 Rebate	42600	1,048	-	-	-
911-Rebate	48800	1,095	-	-	-
Total Rebate Accounts		12,582	-	381,477	381,477
2009 Series - Cost of Issuance	10650	-	-	-	-
2011 Series - Cost of Issuance	11320	-	-	613	613
Total cost of issuance		-	-	613	613
COMBINED TOTAL		\$ 1,334,438	\$ 75,930,066	\$ 387,839	\$ 76,317,905

Other Financing Sources (Uses)

Excess (Deficiency) of Revenues over (under) Expenditures	State Property Tax Levy	Transfers (to) from Other State Agencies	Bond Proceeds	Capital Projects Reversions	Interfund Transfers
\$ 13,108	\$ (247,410)	\$ -	\$ -	\$ -	\$ -
(14,482,432)	12,623,459	90,373	-	-	2,400,000
(17,351,285)	18,719,942	592,347	-	-	(381,477)
4,133	(125,136)	-	-	-	-
80,377	(4,295)	-	-	-	-
(25,088,646)	32,845,545	71,868	-	-	(6,750,000)
(2,055,759)	1,787,016	-	-	-	1,250,000
-	-	-	-	-	-
(15,733,455)	10,498,335	-	-	-	3,100,000
(74,613,959)	76,097,456	754,588	-	-	(381,477)
(381,477)	-	-	-	-	381,477
872	-	-	-	-	-
8,070	-	-	-	-	-
1,497	-	-	-	-	-
1,048	-	-	-	-	-
1,095	-	-	-	-	-
(368,895)	-	-	-	-	381,477
-	-	-	-	-	-
(613)	-	-	-	-	-
(613)	-	-	-	-	-
<u>\$ (74,983,467)</u>	<u>\$ 76,097,456</u>	<u>\$ 754,588</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 3 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GENERAL OBLIGATION DEBT SERVICE FUNDS (CONTINUED)
Year Ended June 30, 2012

	SHARE Fund	Net Change in Fund Balance	Beginning Fund Balance as Originally Reported	Restatement	Beginning Fund Balances as Restated	Fund Balances June 30, 2012
2003 Series-Debt Service	03100	\$ (234,302)	\$ 1,007,995	\$ -	\$ 1,007,995	\$ 773,693
2005 Series Debt Service	03200	631,400	2,437,575	2,426,448	4,864,023	5,495,423
2007 Series Debt Service	28800	1,579,527	3,431,828	2,790,628	6,222,456	7,801,983
2001 Series-Debt Service	41400	(121,003)	458,039	-	458,039	337,036
2003-B Series - Refunding	41800	76,082	8,084,690	-	8,084,690	8,160,772
2009 Series-Debt Service	10630	1,078,767	8,110,318	3,976,516	12,086,834	13,165,601
2011 Series-Debt Service	11630	981,257	23,525	-	23,525	1,004,782
2008A Series-Redemption	73030	-	220,699	-	220,699	220,699
2008A Series-Debt Service	73010	(2,135,120)	4,120,101	4,200,247	8,320,348	6,185,228
Total debt service		1,856,608	27,894,770	13,393,839	41,288,609	43,145,217
2007 Series-Rebate	29000	-	-	-	-	-
2003 Series-Rebate	41300	872	3,871	-	3,871	4,743
2001 Series-Rebate	41500	8,070	811,526	-	811,526	819,596
2003 Series-Refunding	41900	1,497	150,583	-	150,583	152,080
2005 Rebate	42600	1,048	3,352	-	3,352	4,400
911-Rebate	48800	1,095	110,165	-	110,165	111,260
Total Rebate Accounts		12,582	1,079,497	-	1,079,497	1,092,079
2009 Series - Cost of Issuance	10650	-	32,936	-	32,936	32,936
2003 Series - Cost of Issuance	41600	(613)	21,799	-	21,799	21,186
Total cost of issuance		(613)	54,735	-	54,735	54,122
COMBINED TOTAL		\$ 1,868,577	\$ 29,029,002	\$ 13,393,839	\$ 42,422,841	\$ 44,291,418

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 4 - COMBINING BALANCE SHEET - SEVERANCE TAX BONDS -
SEVERANCE TAX BOND DEBT SERVICE FUNDS
June 30, 2012

	SHARE Fund	Assets				Total Assets
		Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	Prepaid Expense	
2002-A Supp. Series - DS	09500	\$ -	\$ -	\$ -	\$ -	\$ -
2009-A Series - Debt Service	10750	33,524,513	-	-	-	33,524,513
2009-A Series - Refunding	10770	-	-	-	-	-
2010-A Series - Debt Service	10950	14,258,182	-	-	-	14,258,182
2010-B Series - Debt Service	10960	11,540,335	-	-	-	11,540,335
2010-C Series - Debt Service	11190	9,065,789	-	-	-	9,065,789
2010-C Series - Refunding	11220	-	-	-	-	-
Series 2011A-1 Refunding	11280	16,190,687	-	-	-	16,190,687
Series 2011A-2 Refunding	30830	2,610,671	-	-	-	2,610,671
Series 2012A - Refunding	30820	2,077,665	-	-	-	2,077,665
2010-D Series - Debt Service	11480	18,082	-	-	-	18,082
2004-B Series Debt Service	18300	1,153,609	-	-	-	1,153,609
2005-B1 Series Debt Service	38800	8,101,279	-	-	-	8,101,279
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	118,661,613	72,946,020	-	-	191,607,633
2005-A Series Debt Service	41200	91,302	-	-	-	91,302
2003-B Series-Debt Service	48400	1,229,488	-	-	-	1,229,488
2004-A Series-Debt Service	49200	-	-	-	-	-
2007-A Debt Service	53700	13,543,296	-	-	-	13,543,296
2007-A Refunding	53800	-	-	-	-	-
2005-B2 Series Debt Service	57100	1,414	-	-	-	1,414
2002-A Series-Debt Service	69900	-	-	-	-	-
2008A-1 Series - Debt Service	72010	14,636,675	-	-	-	14,636,675
2008A-2 Series - Debt Service	72070	5,528,060	-	-	-	5,528,060
2003-A Series-Debt Service	88400	-	-	-	-	-
2006-A Series Debt Service	96300	2,446	-	-	-	2,446
Total Debt Service		252,235,106	72,946,020	-	-	325,181,126
2002-B Supp-Rebate	39200	-	-	-	-	-
2000-C Series-Rebate	40600	-	-	-	-	-
2004-B Series-Rebate	41100	1,007	-	-	-	1,007
2003-B Supp-Rebate	42000	12,638	-	-	-	12,638
2004-A Series-Rebate	42700	-	-	-	-	-
1999-B Series-Rebate	46100	-	-	-	-	-
2005-A Series-Rebate	48300	247,100	-	-	-	247,100
2005-B1 Series-Rebate	57000	11,061	-	-	-	11,061
2001A Series - Rebate	71200	-	-	-	-	-
2003-A Series-Rebate	87300	-	-	-	-	-
2005-B2 Series-Rebate	96000	6,491	-	-	-	6,491
2006-A Series-Rebate	96400	38,663	-	-	-	38,663
Total Rebate Accounts		316,960	-	-	-	316,960
COMBINED TOTAL		\$ 252,552,066	\$ 72,946,020	\$ -	\$ -	\$ 325,498,086

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 4 - COMBINING BALANCE SHEET - SEVERANCE TAX BONDS -
 SEVERANCE TAX BOND DEBT SERVICE FUNDS (CONTINUED)

June 30, 2012

	<u>Fund Equity</u>		
	<u>Restricted for Debt Service</u>	<u>Total Fund Equity</u>	<u>Total Liabilities & Fund Equity</u>
2002-A Supp. Series - DS	\$ -	\$ -	\$ -
2009-A Series - Debt Service	33,524,513	33,524,513	33,524,513
2009-A Series - Refunding	-	-	-
2010-A Series - Debt Service	14,258,182	14,258,182	14,258,182
2010-B Series - Debt Service	11,540,335	11,540,335	11,540,335
2010-C Series - Debt Service	9,065,789	9,065,789	9,065,789
2010-C Series - Refunding	-	-	-
2010-D Series - Debt Service	16,190,687	16,190,687	16,190,687
Series 2011A-1 Refunding	2,610,671	2,610,671	2,610,671
Series 2011A-2 Refunding	2,077,665	2,077,665	2,077,665
Series 2012A - Refunding	18,082	18,082	18,082
2004-B Series Debt Service	1,153,609	1,153,609	1,153,609
2005-B1 Series Debt Service	8,101,279	8,101,279	8,101,279
2000 Series-Debt Service	-	-	-
2002-B Supp. Series - DS	-	-	-
2000-C Series-Debt Service	-	-	-
2001-A Series-Refunding	-	-	-
Severance Tax Bonding	87,502,903	87,502,903	191,607,633
2005-A Series Debt Service	91,302	91,302	91,302
2003-B Series-Debt Service	1,229,488	1,229,488	1,229,488
2004-A Series-Debt Service	-	-	-
2007-A Debt Service	13,543,296	13,543,296	13,543,296
2007-A Refunding	-	-	-
2005-B2 Series Debt Service	1,414	1,414	1,414
2002-A Series-Debt Service	-	-	-
2008A-1 Series - Debt Service	14,636,675	14,636,675	14,636,675
2008A-2 Series - Debt Service	5,526,845	5,526,845	5,528,060
2003-A Series-Debt Service	-	-	-
2006-A Series Debt Service	2,446	2,446	2,446
Total Debt Service	221,075,181	221,075,181	325,181,126
2002-B Supp-Rebate	-	-	-
2000-C Series-Rebate	-	-	-
2004-B Series-Rebate	1,007	1,007	1,007
2003-B Supp-Rebate	12,638	12,638	12,638
2004-A Series-Rebate	-	-	-
1999-B Series-Rebate	-	-	-
2005-A Series-Rebate	247,100	247,100	247,100
2005-B1 Series-Rebate	11,061	11,061	11,061
2001A Series - Rebate	-	-	-
2003-A Series-Rebate	-	-	-
2005-B2 Series-Rebate	6,491	6,491	6,491
2006-A Series-Rebate	38,663	38,663	38,663
Total Rebate Accounts	316,960	316,960	316,960
COMBINED TOTAL	\$ 221,392,141	\$ 221,392,141	\$ 325,498,086

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 5 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - SEVERANCE TAX BOND DEBT SERVICE FUNDS
Year Ended June 30, 2012

	SHARE Fund	Revenues		Expenditures	
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures
2002-A Supp. Series - DS	09500	\$ -	\$ -	\$ -	\$ -
2009-A Series - Debt Service	10750	613,576	36,795,850	-	36,795,850
2009-A Series - Refunding	10770	-	-	-	-
2010-A Series - Debt Service	10950	4,350,592	16,813,925	-	16,813,925
2010-B Series - Debt Service	10960	2,473,343	13,867,300	-	13,867,300
2010-C Series - Debt Service	11190	8,655	9,672,200	-	9,672,200
2010-C Series - Refunding	11220	-	-	-	-
2010-D Series - Debt Service	11280	4,489	6,503,850	-	6,503,850
2011A-1 Series	30830	284,863	-	-	-
2011A-2 Series Refunding	30820	465	-	-	-
2012A - Series	11480	15,114	-	-	-
2004-B Series Debt Service	18300	323	1,232,500	-	1,232,500
2005-B1 Series Debt Service	38800	1,870	8,104,975	-	8,104,975
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	1,705,435	224,965,038	3,079,851	228,044,889
2005-A Series -Debt Service	41200	19,633	-	-	-
2003-B Series-Debt Service	48400	288	1,231,976	-	1,231,976
2004-A Series-Debt Service	49200	-	-	-	-
2007-A Series-Debt Service	53700	87,296	13,481,475	-	13,481,475
2007-A Refunding	53800	-	-	-	-
2005-B2 Series Debt Service	57100	15	7,491,063	-	7,491,063
2002-A Series-Debt Service	69900	-	-	-	-
2008A-1 Debt Service	72010	374,223	16,550,825	-	16,550,825
2008A-2 Debt Service	72070	1,263	5,476,875	-	5,476,875
2003-A Series-Debt Service	88400	-	-	-	-
2006-A Series Debt Service	96300	28	13,443,600	-	13,443,600
Total Debt Service		9,941,471	375,631,452	3,079,851	378,711,303
2002-B Supp-Rebate	39200	-	-	-	-
2000-C Series Rebate	40600	-	-	-	-
2004-B Series-Rebate	41100	220	-	-	-
2003-B Supp-Rebate	42000	125	-	-	-
2004-A Series-Rebate	42700	-	-	-	-
1999-B Series-Rebate	46100	-	-	-	-
2005-A Series-Rebate	48300	2,433	-	-	-
2005-B1 Series-Rebate	57000	108	-	-	-
2001-A Series-Rebate	71200	-	-	-	-
2003-A Series-Rebate	87300	-	-	-	-
2005-B2 Series-Rebate	96000	64	-	-	-
2006-A Series-Rebate	96400	381	-	-	-
Total Rebate Accounts		3,331	-	-	-
COMBINED TOTAL		\$ 9,944,802	\$ 375,631,452	\$ 3,079,851	\$ 378,711,303

Excess (Deficiency) of Revenues over (under) Expenditures	Other Financing Sources (Uses)					
	Severance Taxes	Bond Proceeds	Transfers (to) from Other State Agencies	Interfund Transfers	Payment to Escrow Agent	Severance Tax Permanent Fund Reversions
\$ -	\$ -	\$ -	\$ -	\$ -	-	-
(36,182,274)	-	-	-	36,970,785	-	-
-	-	-	-	-	-	-
(12,463,333)	-	-	-	12,762,500	-	-
(11,393,957)	-	-	-	11,278,419	-	-
(9,663,545)	-	-	-	9,956,360	-	-
-	-	-	-	-	-	-
(6,499,361)	-	-	-	19,437,440	-	-
284,863	-	1,308	-	2,324,500	-	-
465	-	-	-	2,077,200	-	-
15,114	-	2,968	-	-	-	-
(1,232,177)	-	-	-	1,236,250	-	-
(8,103,105)	-	-	-	8,287,400	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(226,339,454)	494,789,094	-	(104,379,236)	(139,849,004)	-	-
19,633	-	-	-	-	-	-
(1,231,688)	-	-	-	1,273,042	-	-
-	-	-	-	-	-	-
(13,394,179)	-	-	-	13,723,207	-	-
-	-	-	-	-	-	-
(7,491,048)	-	-	-	-	-	-
-	-	-	-	-	-	-
(16,176,602)	-	-	-	14,914,403	-	-
(5,475,612)	-	-	-	5,607,498	-	-
-	-	-	-	-	-	-
(13,443,572)	-	-	-	-	-	-
(368,769,832)	494,789,094	4,276	(104,379,236)	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
220	-	-	-	-	-	-
125	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,433	-	-	-	-	-	-
108	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
64	-	-	-	-	-	-
381	-	-	-	-	-	-
3,331	-	-	-	-	-	-
\$ (368,766,501)	\$ 494,789,094	\$ 4,276	\$ (104,379,236)	\$ -	\$ -	\$ -

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 5 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - SEVERANCE TAX BOND DEBT SERVICE FUNDS (CONTINUED)
 Year Ended June 30, 2012

	SHARE	Total Other	Net Change	Beginning		Beginning	Fund
	Fund	Financing	in Fund	Fund Balance	Restatement	Fund Balance	Balances
		Sources (Uses)	Balance	as Originally		as Restated	June 30, 2012
				Reported			
2002-A Supp. Series - DS	09500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2009-A Series - Debt Service	10750	36,970,785	788,511	32,736,002	-	32,736,002	33,524,513
2009-A Series - Refunding	10770	-	-	-	-	-	-
2010-A Series - Debt Service	10950	12,762,500	299,167	13,959,015	-	13,959,015	14,258,182
2010-B Series - Debt Service	10960	11,278,419	(115,538)	11,655,873	-	11,655,873	11,540,335
2010-C Series - Debt Service	11190	9,956,360	292,815	8,772,974	-	8,772,974	9,065,789
2010-C Series - Refunding	11220	-	-	-	-	-	-
2010-D Series - Debt Service	11280	19,437,440	12,938,079	3,252,608	-	3,252,608	16,190,687
2011A-1 Series	30830	2,325,808	2,610,671	-	-	-	2,610,671
2011A-2 Series Refunding	30830	2,077,200	2,077,665	-	-	-	2,077,665
2012A - Series	30830	2,968	18,082	-	-	-	18,082
2004-B Series Debt Service	18300	1,236,250	4,073	1,149,536	-	1,149,536	1,153,609
2005-B1 Series Debt Service	38800	8,287,400	184,295	7,916,984	-	7,916,984	8,101,279
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	250,560,854	24,221,400	63,281,503	-	63,281,503	87,502,903
2005-A Series -Debt Service	41200	-	19,633	71,669	-	71,669	91,302
2003-B Series-Debt Service	48400	1,273,042	41,354	1,188,134	-	1,188,134	1,229,488
2004-A Series-Debt Service	49200	-	-	-	-	-	-
2007-A Series-Debt Service	53700	13,723,207	329,028	13,214,268	-	13,214,268	13,543,296
2007-A Refunding	53800	-	-	-	-	-	-
2005-B2 Series Debt Service	57100	-	(7,491,048)	7,492,462	-	7,492,462	1,414
2002-A Series-Debt Service	69900	-	-	-	-	-	-
2008A-1 Debt Service	72010	14,914,403	(1,262,199)	15,898,874	-	15,898,874	14,636,675
2008A-2 Debt Service	72070	5,607,498	131,886	5,394,959	-	5,394,959	5,526,845
2003-A Series-Debt Service	88400	-	-	-	-	-	-
2006-A Series Debt Service	96300	-	(13,443,572)	13,446,018	-	13,446,018	2,446
Total Debt Service		390,414,134	21,644,302	199,430,879	-	199,430,879	221,075,181
2002-B Supp-Rebate	39200	-	-	-	-	-	-
2000-C Series Rebate	40600	-	-	-	-	-	-
2004-B Series-Rebate	41100	-	220	787	-	787	1,007
2003-B Supp-Rebate	42000	-	125	12,513	-	12,513	12,638
2004-A Series-Rebate	42700	-	-	-	-	-	-
1999-B Series-Rebate	46100	-	-	-	-	-	-
2005-A Series-Rebate	48300	-	2,433	244,667	-	244,667	247,100
2005-B1 Series-Rebate	57000	-	108	10,953	-	10,953	11,061
2001-A Series-Rebate	71200	-	-	-	-	-	-
2003-A Series-Rebate	87300	-	-	-	-	-	-
2005-B2 Series-Rebate	96000	-	64	6,427	-	6,427	6,491
2006-A Series-Rebate	96400	-	381	38,282	-	38,282	38,663
Total Rebate Accts.		-	3,331	313,629	-	313,629	316,960
COMBINED TOTAL		\$ 390,414,134	\$ 21,647,633	\$ 199,744,508	\$ -	\$ 199,744,508	\$221,392,141

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS -
 LONG-TERM DEBT ROLLFORWARD
 Year Ended June 30, 2012

Issue	SHARE Fund	Date of Issue	Issue Amount	Interest Rate	Unpaid Balance June 30, 2011
General Obligation and Revenue Bonds:					
Series 2005 Debt Service	3200	03/01/05	111,850,000	5.00%	51,480,000
Series 2007 Debt Service	28800	03/01/07	134,870,000	5.00%	88,655,000
Refunding Series 2008A	73010	06/25/08	71,270,000	5.00%	29,445,000
Series 2009 Debt Service	10630	05/28/09	196,330,000	5.00%	167,275,000
Series 2011 Debt Service	11630	05/26/11	<u>18,645,000</u>	2.00-4.00%	<u>18,645,000</u>
Total General Obligation Bonds			532,965,000		355,500,000
Severance Tax Bonds:					
Series 2003B Supplemental	48400	11/01/03	10,000,000	3.10-3.70%	3,555,000
Series 2004B Supplemental	18300	11/17/04	10,000,000	2.00-5.00%	4,370,000
Series 2005B-1 Refunding	38800	06/28/05	37,040,000	3.25-5.00%	15,455,000
Series 2005B-2 Supplemental	57100	06/29/05	21,095,000	3.50-5.00%	7,310,000
Series 2006A	96300	06/20/06	135,000,000	4.00-5.00%	13,180,000
Series 2007A	53700	06/28/07	162,840,000	4.00-5.00%	25,900,000
Series 2008A-1	72010	06/25/08	149,000,000	4.00-5.00%	124,395,000
Series 2008A-2 Supplemental	72070	06/25/08	20,550,000	3.00%	10,680,000
Series 2009A Refunding	10750	07/30/09	218,450,000	2.00-5.00%	195,785,000
Series 2010A	10950	03/24/10	132,265,000	3.00-5.00%	132,265,000
Series 2010B Supplemental	10960	03/24/10	100,000,000	4.00-5.00%	100,000,000
Series 2010C Refunding	11190	06/30/10	43,780,000	4.00-5.00%	43,780,000
Series 2010D Refunding	11280	12/08/10	140,520,000	3.00-5.00%	140,520,000
Series 2011A-1 Refunding	30830	12/06/11	47,790,000	3.00-5.00%	-
Series 2011A-2 Refunding	30820	12/06/11	75,715,000	4.00-5.00%	-
Series 2012A - Refunding	11480	06/21/12	<u>57,990,000</u>	3.00-5.00%	<u>-</u>
Total Severance Tax Bonds			<u>1,180,540,000</u>		<u>817,195,000</u>
TOTAL GENERAL LONG-TERM DEBT			<u>1,713,505,000</u>		<u>1,172,695,000</u>
<u>Premium/Discount</u>					
Current year bond premiums:					
STB, Series 2012A			12,385,779		
STB, Series 2011A-1			3,277,394		
STB, Series 2011A-2			<u>12,005,014</u>		
TOTAL CURRENT YEAR BOND PREMIUMS			<u>27,668,187</u>		

New Bonds	Refunded Debt	Reductions		Unpaid Balance June 30, 2012	Interest to Maturity	Debt Service Requirements
		Principal Payments	Total Reductions			
\$ -	\$ -	\$ 11,970,000	\$ 11,970,000	\$ 39,510,000	\$ 4,013,500	\$ 43,523,500
-	-	13,035,000	13,035,000	75,620,000	11,711,500	87,331,500
-	-	14,320,000	14,320,000	15,125,000	756,250	15,881,250
-	-	17,515,000	17,515,000	149,760,000	31,410,000	181,170,000
-	-	1,770,000	1,770,000	16,875,000	3,334,850	20,209,850
-	-	58,610,000	58,610,000	296,890,000	51,226,100	348,116,100
-	-	1,125,000	1,125,000	2,430,000	90,131	2,520,131
-	-	1,040,000	1,040,000	3,330,000	253,750	3,583,750
-	-	7,545,000	7,545,000	7,910,000	189,425	8,099,425
-	-	7,310,000	7,310,000	-	-	-
-	-	13,180,000	13,180,000	-	-	-
-	-	12,635,000	12,635,000	13,265,000	265,300	13,530,300
-	82,510,000	13,285,000	95,795,000	28,600,000	1,227,750	29,827,750
-	-	5,235,000	5,235,000	5,445,000	81,675	5,526,675
-	-	28,145,000	28,145,000	167,640,000	29,398,475	197,038,475
-	-	10,935,000	10,935,000	121,330,000	28,609,700	149,939,700
-	-	9,210,000	9,210,000	90,790,000	20,199,925	110,989,925
-	-	7,795,000	7,795,000	35,985,000	3,743,375	39,728,375
-	-	-	-	140,520,000	21,105,725	161,625,725
47,790,000.00	-	-	-	47,790,000	8,968,755	56,758,755
75,715,000.00	-	-	-	75,715,000	17,298,934	93,013,934
57,990,000.00	-	-	-	57,990,000	18,537,972	76,527,972
<u>181,495,000.00</u>	<u>82,510,000</u>	<u>117,440,000</u>	<u>199,950,000</u>	<u>798,740,000</u>	<u>149,970,892</u>	<u>948,710,892</u>
<u>181,495,000.00</u>	<u>82,510,000</u>	<u>176,050,000</u>	<u>258,560,000</u>	<u>1,095,630,000</u>	<u>201,196,992</u>	<u>1,296,826,992</u>

Bond proceeds are accounted for in the Department of Finance and Administrations financial statements for the fiscal year ended June 30, 2012.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS (CONTINUED) -
SCHEDULE OF DEBT SERVICE MATURITIES
Year Ended June 30, 2012

Issue	SHARE Fund	2013	2014
General Obligation Bonds:			
Series 2005	3200	\$ 14,525,500	\$ 14,508,000
Series 2007	28800	17,466,000	17,466,750
Refunding Series 2008-A	73010	15,881,250	-
Series 2009 Debt Service	10630	25,883,000	25,883,250
Series 2011	11630	<u>2,244,450</u>	<u>2,246,350</u>
Total General Obligation Bonds		76,000,200	60,104,350
Severance Tax Bonds:			
Series 2003B Supplemental	48400	1,252,099	1,268,033
Series 2004B Supplemental	18300	1,209,750	1,195,250
Series 2005B-1 Refunding	38800	8,099,425	-
Series 2007A	53700	13,530,300	-
Series 2008A-1	72010	14,884,750	14,943,000
Series 2008A-2 Refunding	72070	5,526,675	-
Series 2009A Refunding	10750	36,904,850	37,039,250
Series 2010A	10950	16,754,600	16,745,000
Series 2010B Supplemental	10960	13,494,550	13,141,675
Series 2010C Refunding	11190	9,760,125	9,854,000
Series 2010D Refunding	11280	19,244,825	31,933,900
Series 2011A-1 Refunding	30830	3,370,898	4,827,738
Series 2011A-2 Refunding	30820	3,900,959	3,647,650
Series 2012A - Refunding	11480	<u>1,500,472</u>	<u>4,320,500</u>
Total Severance Tax Bonds		<u>149,434,278</u>	<u>138,915,996</u>
TOTAL DEBT SERVICE REQUIREMENTS		<u>\$ 225,434,478</u>	<u>\$ 199,020,346</u>

	2015	2016	2017	2018-2021	Total
\$	14,490,000	\$ -	\$ -	\$ -	\$ 43,523,500
	17,468,250	17,463,750	17,466,750	-	87,331,500
	-	-	-	-	15,881,250
	25,882,500	25,878,500	25,879,000	51,763,750	181,170,000
	<u>2,247,550</u>	<u>2,243,550</u>	<u>2,246,950</u>	<u>8,981,000</u>	<u>20,209,850</u>
	60,088,300	45,585,800	45,592,700	60,744,750	348,116,100
	-	-	-	-	2,520,132
	1,178,750	-	-	-	3,583,750
	-	-	-	-	8,099,425
	-	-	-	-	13,530,300
	-	-	-	-	29,827,750
	-	-	-	-	5,526,675
	27,762,500	19,067,500	19,066,500	57,197,875	197,038,475
	16,732,100	16,661,750	16,642,500	66,403,750	149,939,700
	12,807,425	12,495,425	12,223,675	46,827,175	110,989,925
	9,951,375	10,162,875	-	-	39,728,375
	31,811,125	31,784,875	31,757,875	15,093,125	161,625,725
	6,222,637	6,187,913	6,183,412	29,966,156	56,758,754
	17,181,450	17,101,125	17,080,000	34,102,750	93,013,934
	<u>5,395,000</u>	<u>8,166,625</u>	<u>8,163,750</u>	<u>48,981,625</u>	<u>76,527,972</u>
	<u>129,042,362</u>	<u>121,628,088</u>	<u>111,117,712</u>	<u>298,572,456</u>	<u>948,710,892</u>
\$	<u>189,130,662</u>	<u>\$ 167,213,888</u>	<u>\$ 156,710,412</u>	<u>\$ 359,317,206</u>	<u>\$ 1,296,826,992</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS (CONTINUED) -
AMORTIZATION OF BOND ISSUANCE COSTS
Year Ended June 30, 2012

Issue	SHARE Fund	Date	Original Cost
GENERAL OBLIGATION:			
Series 2005	3200	01/11/05	\$ 801,503
Series 2007	28800	03/01/07	463,806
Refunding Series 2008-A	73010	06/25/08	345,413
Series 2009	10630	05/28/09	984,010
Series 2011	11630	05/26/11	<u>67,679</u>
			2,662,411
SEVERANCE:			
Series 2003-B Supplemental	48400	11/01/03	33,445
Series 2004-B	18300	11/17/04	127,805
Series 2005-A	41200	05/12/05	565,863
Series 2005-B1 Refunding	38800	06/28/05	399,646
Series 2005-B2 Supplemental	57100	06/28/05	110,254
Series 2006A	96300	06/20/06	346,002
Series 2007A	53700	06/28/07	325,710
Series 2008A-1	72010	06/25/08	530,440
Series 2008-A2 Refunding	72070	06/25/08	57,301
Series 2009A Refunding	10750	07/30/09	411,478
Series 2010A	10950	03/24/10	167,977
Series 2010B Supplemental	10960	03/24/10	369,000
Series 2010C Refunding	11190	06/30/10	98,545
Series 2010D Refunding	11280	12/08/10	688,548
Series 2011A-1	30830	12/06/11	124,051
Series 2011A-2 Refunding	30820	12/06/11	196,537
Series 2012A	11480	06/21/12	<u>79,850</u>
			<u>4,632,452</u>
			<u>\$ 7,294,863</u>

		Amortization			
Accumulated Amortization 6/30/2011	Current Amortization Expense	Accumulated Amortization 6/30/2012	Net Book Value 6/30/2012		
\$ 520,977	\$ 80,151	\$ 601,128	\$ 200,375		
197,118	46,381	243,499	220,307		
207,248	69,082	276,330	69,083		
205,002	98,401	303,403	680,607		
1,154	6,941	8,095	59,584		
<hr/>	<hr/>	<hr/>	<hr/>		
1,131,499	300,956	1,432,455	1,229,956		
25,362	3,344	28,706	4,739		
83,073	12,780	95,853	31,952		
311,225	56,586	367,811	198,052		
379,663	19,983	399,646	-		
110,254	-	110,254	-		
155,701	34,600	190,301	155,701		
113,998	32,571	146,569	179,141		
159,132	53,044	212,176	318,264		
42,976	14,325	57,301	-		
78,867	41,148	120,015	291,463		
20,997	16,798	37,795	130,182		
46,125	36,900	83,025	285,975		
19,709	19,709	39,418	59,127		
61,011	104,590	165,601	522,947		
-	6,529	6,529	117,522		
-	15,118	15,118	181,419		
-	-	-	79,850		
<hr/>	<hr/>	<hr/>	<hr/>		
1,608,093	468,025	2,076,118	2,556,334		
<hr/>	<hr/>	<hr/>	<hr/>		
\$ 2,739,592	\$ 768,981	\$ 3,508,573	\$ 3,786,290		

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS (CONTINUED) –
 ADDITIONAL INFORMATION
 June 30, 2012**

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 annual requirements to amortize the combined General Obligation Bond issues outstanding as of June 30, 2012, including interest payments, are as follows (see details on Schedule 6):

Years ending June 30:

2013	\$ 76,000,200
2014	60,104,350
2015	60,088,300
2016	45,485,800
2017	45,592,700
2018 - 2021	<u>60,744,750</u>
Total	<u>\$ 348,116,100</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, 2012:

On December 6, 2011, the State Board of Finance issued bond series 2011A-1 and 2011A-2 refunding with principal amounts of \$47,790,000 for projects and \$75,715,000 to refund existing debt. The interest rate for both varies between three and five percent (3% and 5%), with principal due through 2021 and 2018.

On June 21, 2012, the State Board of Finance issued bonds with a principal amount of \$57,990,000 for projects. The interest rate varies between three and five percent (3% and 5%), with principal due through 2022.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS (CONTINUED) –
 ADDITIONAL INFORMATION
 June 30, 2012**

**ADDITIONAL INFORMATION RELATED TO LONG-TERM DEBT OBLIGATIONS
 (CONTINUED):**

The annual requirements to amortize the combined Severance Tax Bond issues outstanding as of June 30, 2012, including interest payments, are as follows (see details on Schedule 6, page 3):

Years ending June 30:

2013	\$ 149,434,278
2014	138,915,996
2015	129,042,362
2016	121,628,088
2017	111,117,712
2018 - 2021	<u>298,572,456</u>
Total	<u>\$ 948,710,892</u>

ADVANCE AND CURRENT REFUNDINGS:

The State Board of Finance refunded certain 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.

Severance Tax Bonds, Series 2008A	\$ 82,510,000
Total	<u>\$ 82,510,000</u>

The following refunding activity occurred during the year ended June 30, 2012:

On December 6, 2011, the State Board of Finance issued Severance Tax Bonds, Refunding Series 2011A-2, with a principal amount of \$75,715,000 to provide refunding of Severance Tax Bond Series 2008A. The difference in cash flow required between the prior debt service requirements and new funding debt service requirements resulted in cash flow savings of \$4,881,299. The economic gain, or present value savings, was \$4,256,241.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
 Year Ended June 30, 2012

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
GENERAL FUND INVESTMENT POOL:						
Repurchase Agreements	Various	Various	Various	\$ 873,001,968	\$ 873,001,968	\$ -
Certificates of Deposit	Various	Various	Various	32,750,000	32,750,000	-
Mutual Funds (Investment in LGIP)	Various	Various	Various	40,027,793	40,027,793	-
Municipal Bonds:						
ALAMOGORDO N MEX MUN SCH DI S1' NO 001	1.500%	06/19/12	08/01/13	354,158	354,088	(70)
ALAMOGORDO N MEX MUN SCH DI S1' NO 001	1.500%	06/19/12	08/01/14	357,243	356,983	(260)
BERNALILLO CNTY N MEX 01 / FEB/2013	4.000%	10/05/11	02/01/13	561,222	561,561	339
BERNALILLO CNTY N MEX 01 / FEB/2013	3.000%	10/05/11	02/01/14	590,618	592,988	2,370
CATRON & CIBOLA CN'Y'S N HEX INDPT SCH 01	2.000%	03/27/12	08/01/14	144,342	143,795	(547)
CONNECTICUT ST FOR ISSUES DATED PRIOR T	1.720%	05/19/11	05/15/13	5,031,600	5,051,050	19,450
ESPANOLA N MEX PUB SCH DIST NO 55 RIO AR	2.000%	09/30/11	09/01/12	571,554	571,436	(118)
ESPANOLA N MEX PUB SCH DIST NO 55 RIO AR	2.000%	09/30/11	09/01/13	1,116,611	1,117,886	1,275
ESPANOLA N MEX PUB SCH DIST NO 55 RIO AR	2.000%	09/30/11	09/01/14	1,145,182	1,150,789	5,607
FARMINGTON N MEX MUN SCH DIST NO 005 SC	2.000%	04/13/12	09/01/12	2,507,306	2,506,300	(1,006)
FARMINGTON N MEX MUN SCH DIST NO 005 SC	3.000%	04/13/12	09/01/13	1,030,225	1,029,520	(705)
FARMINGTON N MEX MUN SCH DIST NO 005 SC	3.000%	04/13/12	09/01/14	1,052,692	1,052,150	(542)
GADSDEN N MEX INDPT SCH DIST NO 016 RFD	2.000%	10/26/11	08/15/12	2,389,994	2,389,293	(701)
GADSDEN N MEX INDPT SCH DIST NO 016 RFD	2.000%	10/26/11	08/15/13	2,280,106	2,283,996	3,890
GADSDEN N MEX INDPT SCH DIST NO 016 RFD	2.000%	10/26/11	08/15/14	2,053,376	2,059,255	5,879
LOS ALAMOS CNTY N HEX I NC UTIL SYS REV F	5.000%	06/01/12	07/01/13	2,090,924	2,090,300	(624)
LOS ALAMOS N MEX PUB seH DI ST RFDG-SCH	2.000%	08/17/11	08/01/12	1,101,495	1,101,287	(208)
LOS ALAMOS N MEX PUB seH DI ST RFDG-SCH	2.000%	08/17/11	08/01/13	482,437	483,085	648
LOS ALAMOS N MEX PUB seH DI ST RFDG-SCH	2.000%	08/17/11	08/01/14	333,044	334,831	1,787
LOS ALAMOS N MEX PUB seH DI ST RFDG-SCH	2.000%	05/16/12	08/01/13	798,546	798,361	(185)
LOVINGTON N MEX MUN SCH DIST NO 001 RFD	2.000%	11/15/11	10/01/12	526,976	527,021	45
LOVINGTON N MEX MUN SCH DIST NO 001 RFD	2.000%	11/15/11	10/01/13	914,552	917,496	2,944
LOVINGTON N MEX MUN SCH DIST NO 001 RFD	2.000%	11/15/11	10/01/14	955,763	965,032	9,269
NEW MEX I CO FIN AUTH REV AMT-SR LIEN-PUI	2.000%	04/28/11	06/01/13	2,018,203	2,019,860	1,657
NEW MEX I CO FIN AUTH REV AMT-SR LIEN-PUI	3.000%	04/28/11	06/01/14	3,148,142	3,174,260	26,118
NEW MEXICO FIN AUTH REV SR LIEN OUB PRO	2.000%	03/09/12	06/01/13	507,773	507,910	137
NEW MEXICO FIN AUTH REV SR LIEN PUB PRO.	2.000%	09/01/11	06/01/13	3,659,492	3,660,481	989
NEW MEXICO FIN AUTH REV SR LIEN PUB PRO.	2.000%	09/01/11	06/01/14	3,721,930	3,723,558	1,628
NEW MEXICO FIN AUTH REV TAXABLE-SR LIEN	2.000%	09/01/11	06/01/13	769,378	769,036	(342)
NEW MEXICO FIN AUTH REV TAXABLE-SR LIEN	2.000%	09/01/11	06/01/14	784,595	787,441	2,846
NEW MEXICO ST SEVERANCE TAX RFDG-SER /	4.000%	12/06/11	07/01/14	10,451,475	10,494,738	43,263
NEW MEXICO ST SEVERANCE TAX SER A-I 01/J	2.000%	12/06/11	07/01/12	1,570,000	1,570,000	-
NEW MEXICO ST SEVERANCE TAX SER A-I 01/J	4.000%	12/06/11	07/01/13	3,339,653	3,342,745	3,092
NEW MEXICO ST SEVERANCE TAX SER A-I 01/J	4.000%	12/06/11	07/01/14	5,092,564	5,108,768	16,204
RIO RANCHO N MEX PUB SCH DIST NO 94 SCH	2.000%	08/23/11	08/01/12	2,678,749	2,678,130	(619)
RIO RANCHO N MEX PUB SCH DIST NO 94 SCH	2.000%	08/23/11	08/01/13	507,826	508,400	574
SANTA FE N MEX PUB SCH DIST FORMERLY SA	3.000%	02/02/11	08/01/12	5,812,177	5,811,890	(287)
SANTA ROSA N HEX CONS SCH DIST NO 0 08 1	1.000%	05/21/12	05/15/13	201,129	200,772	(357)
SANTA ROSA N MEX CONS SCH DIST NO 008 1	1.000%	05/21/12	05/15/14	201,860	201,238	(622)
SANTA ROSA N MEX CONS SCH DIST NO 008 1	1.000%	05/21/12	05/15/15	227,236	226,530	(706)
UNIVERSITY N MEX UNIV REVS RFDG-SUB LIEN	2.000%	03/06/12	06/01/13	1,304,977	1,301,846	(3,131)
UNIVERSITY N MEX UNIV REVS RFDG-SUB LIEN	2.000%	03/06/12	06/01/14	339,557	338,319	(1,238)
UNIVERSITY N MEX UNIV REVS RFDG-SUB LIEN	3.000%	03/06/12	06/01/14	172,922	172,278	(644)
Total Municipal Bonds				<u>74,899,604</u>	<u>75,036,703</u>	<u>137,099</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2012

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
GENERAL FUND INVESTMENT POOL - continued:						
US Government Securities:						
US Treasury Notes:						
US Treasury Notes	1.375%	03/19/10	09/15/12	25,008,710	25,063,500	54,790
US Treasury Notes	1.750%	07/08/11	01/31/14	20,340,611	20,452,400	111,789
US Treasury Notes	1.875%	02/14/11	04/30/14	20,143,430	20,562,600	419,170
US Treasury Notes	1.125%	03/09/10	12/15/12	24,973,538	25,106,500	132,962
US Treasury Notes	0.250%	04/25/12	03/31/14	19,995,756	19,976,600	(19,156)
US Treasury Notes	0.625%	05/16/11	01/31/13	10,010,154	10,025,400	15,246
US Treasury Notes	0.750%	06/14/11	06/15/14	19,991,816	20,165,600	173,784
US Treasury Notes	0.375%	04/25/12	04/15/15	19,993,399	19,986,000	(7,399)
US Treasury Notes	2.250%	02/14/11	05/31/14	20,278,587	20,728,200	449,613
US Treasury Notes	1.875%	07/08/11	02/28/14	40,622,152	41,026,400	404,248
US Treasury Notes	2.625%	02/17/11	07/31/14	15,340,491	15,706,650	366,159
US Treasury Notes	0.625%	05/16/11	02/28/13	10,009,771	10,028,900	19,129
US Treasury Notes	1.250%	02/14/11	02/15/14	19,947,917	20,299,200	351,283
US Treasury Notes	0.750%	07/08/11	09/15/13	10,025,059	10,056,600	31,541
US Treasury Notes	0.875%	02/29/12	02/28/17	20,002,941	20,173,400	170,459
US Treasury Notes	0.875%	03/06/12	02/28/17	20,002,941	20,173,400	170,459
US Treasury Notes	0.875%	02/01/12	12/31/16	20,086,897	20,179,600	92,703
US Treasury Notes	0.875%	03/19/12	12/31/16	5,021,724	5,044,900	23,176
US Treasury Notes	0.875%	03/06/12	01/31/17	20,026,317	20,173,400	147,083
US Treasury Notes	1.000%	08/31/11	08/31/16	20,057,500	20,314,000	256,500
US Treasury Notes	1.750%	07/08/11	03/31/14	15,265,584	15,370,350	104,766
Total US Treasury Notes				<u>397,145,295</u>	<u>400,613,600</u>	<u>3,468,305</u>
Federal Farm Credit Banks Cons Long:						
Federal Farm Credit	1.120%	12/07/11	11/16/15	19,965,643	20,049,400	83,757
Federal Farm Credit	1.330%	12/07/11	12/07/15	20,000,000	20,064,800	64,800
Federal Agric MTG Corp MTNS	0.900%	02/09/12	06/09/16	25,000,000	25,226,000	226,000
Federal Farm Credit	4.500%	01/17/08	10/17/12	5,029,486	5,063,100	33,614
Total Federal Farm Credit Banks				<u>69,995,129</u>	<u>70,403,300</u>	<u>408,171</u>
Federal Home Loan Banks:						
Federal Home Loan	1.125%	12/05/11	09/17/14	20,083,996	20,033,000	(50,996)
Federal Home Loan	0.300%	06/05/13	07/05/13	10,000,000	9,995,600	(4,400)
Federal Home Loan	4.875%	01/17/08	12/14/12	15,163,360	15,311,700	148,340
Federal Home Loan	0.375%	06/15/12	01/29/14	20,017,649	20,007,800	(9,849)
Federal Home Loan	1.000%	02/14/12	02/13/17	19,972,593	20,095,400	122,807
Federal Home Loan	0.875%	04/18/11	12/27/13	9,967,622	10,079,300	111,678
Federal Home Loan	1.875%	04/18/11	06/21/13	10,100,093	10,156,500	56,407
Federal Home Loan	5.000%	01/17/08	09/14/12	13,457,463	13,506,976	49,513
Federal Home Loan	5.000%	04/25/08	09/14/12	7,040,527	7,066,430	25,903
Total Federal Home Loan Banks				<u>125,803,303</u>	<u>126,252,706</u>	<u>449,403</u>
Federal Home Loan Mortgage Corporation						
Freddie Mac	4.375%	10/12/11	07/17/15	22,049,857	22,305,200	255,343
Freddie Mac	2.000%	09/06/11	08/25/16	20,686,078	21,015,200	329,122
Freddie Mac	1.100%	12/30/11	12/30/15	10,000,000	10,058,400	58,400
Freddie Mac	1.150%	12/30/11	12/30/15	11,660,000	11,749,665	89,665
Freddie Mac	0.750%	10/06/11	11/25/14	9,997,391	10,075,000	77,609
Freddie Mac	1.625%	01/09/12	12/05/16	20,072,506	20,086,600	14,094
Freddie Mac	1.750%	10/12/11	09/10/15	20,469,486	20,747,400	277,914

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2012

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
GENERAL FUND INVESTMENT POOL - continued:						
Freddie Mac	1.000%	03/08/12	03/08/17	19,903,272	20,108,200	204,928
Freddie Mac	1.000%	12/05/11	12/05/14	20,000,000	20,034,200	34,200
Freddie Mac	2.500%	09/06/11	05/27/16	21,083,515	21,337,000	253,485
Freddie Mac	3.500%	04/24/08	03/08/13	4,980,822	5,110,500	129,678
Total Federal Home Loan Mortgage Corporation				<u>180,902,927</u>	<u>182,627,365</u>	<u>1,724,438</u>
Federal National Mortgage Association						
Fannie Mae	5.250%	02/15/12	08/01/12	23,598,795	23,594,282	(4,513)
Fannie Mae	Floating	12/09/11	12/20/12	20,024,207	20,018,200	(6,007)
Fannie Mae	0.375%	05/23/12	03/16/15	19,914,711	19,941,600	26,889
Fannie Mae	0.500%	09/06/11	08/09/13	19,987,586	20,047,600	60,014
Fannie Mae	0.500%	06/13/12	07/02/15	19,974,516	19,975,200	684
Fannie Mae	0.875%	05/23/12	08/28/14	20,181,634	20,201,000	19,366
Fannie Mae	5.125%	08/18/11	01/02/14	13,834,843	13,876,460	41,617
Fannie Mae	1.125%	05/23/12	04/27/17	10,035,574	10,093,900	58,326
Fannie Mae	1.250%	11/07/11	09/28/16	20,040,613	20,349,200	308,587
Fannie Mae	1.250%	01/30/12	01/30/17	20,174,563	20,315,200	140,637
Fannie Mae	1.250%	03/06/12	01/30/17	40,349,127	40,630,400	281,273
Fannie Mae	2.375%	09/06/11	04/11/16	20,984,726	21,244,000	259,274
Fannie Mae	5.375%	09/08/11	07/15/16	23,347,999	23,636,600	288,601
Fannie Mae	5.000%	09/08/11	03/15/16	22,894,793	23,125,000	230,207
Fannie Mae	Floating	01/30/12	01/30/17	14,991,739	15,058,950	67,211
Fannie Mae	0.950%	09/15/11	09/08/15	20,000,000	20,042,600	42,600
Fannie Mae	1.625%	11/21/11	11/21/16	19,998,236	20,078,200	79,964
Fannie Mae	5.000%	01/17/08	08/02/12	1,002,601	1,003,970	1,369
Total Federal National Mortgage Corporation				<u>351,336,263</u>	<u>353,232,362</u>	<u>1,896,099</u>
Total US Government Securities				<u>1,125,182,917</u>	<u>1,133,129,333</u>	<u>7,946,416</u>
Corporate Bonds:						
Corporate Bonds:						
Abbot Laboratories	5.150%	11/09/07	11/30/12	9,999,300	10,186,200	186,900
Private Placement Purchase Series 02/Jul	0.290%	06/29/12	7/2/2012	4,000,000	4,000,000	-
Private Placement Purchase Series 2012 C	0.290%	05/29/12	07/01/13	7,525,000	7,525,000	-
Total Corporate Bonds:				<u>21,524,300</u>	<u>21,711,200</u>	<u>186,900</u>
TLGP Securities:						
Citigroup Funding, Inc.	1.875%	08/17/10	10/22/12	25,084,639	25,122,750	38,111
Total TLGP Securities:				<u>25,084,639</u>	<u>25,122,750</u>	<u>38,111</u>
Total Corporate Bonds				<u>46,608,939</u>	<u>46,833,950</u>	<u>225,011</u>
Total General Fund Investment Pool (State Funds Investment Pool)				<u>\$ 2,192,471,221</u>	<u>\$ 2,200,779,747</u>	<u>\$ 8,308,526</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2012

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
LOCAL GOVERNMENT INVESTMENT POOL:						
Bank Accounts	Various	Various	Various	\$ 144,628,321	\$ 144,628,321	\$ -
Repurchase Agreements	Various	Various	Various	300,000,000	300,000,000	-
US Government Securities:						
US Treasury Notes						
U.S. TREASURY NOTES	0.500%	02/15/12	11/30/12	10,012,948	10,013,300	352
U.S. TREASURY NOTES	0.625%	07/01/11	07/31/12	10,003,185	10,003,900	715
Total US Treasury Notes				<u>20,016,133</u>	<u>20,017,200</u>	<u>1,067</u>
Federal National Mortgage Association:						
Fannie Mae	5.250%	09/27/11	8/1/2012	20,083,597	20,080,240	(3,357)
Fannie Mae	5.250%	02/15/12	8/1/2012	20,083,596	20,080,240	(3,356)
Fannie Mae	Floating	12/09/11	12/20/12	21,025,417	21,019,110	(6,307)
Total Federal National Mortgage Association				<u>61,192,610</u>	<u>61,179,590</u>	<u>(13,020)</u>
Federal Farm Credit Bank						
Federal Farm Credit Bank	Floating	11/02/11	06/12/13	25,006,645	24,986,250	(20,395)
Federal Farm Credit Bank	Floating	11/22/11	06/12/13	25,006,645	24,986,250	(20,395)
Total Federal Farm Credit Bank				<u>50,013,290</u>	<u>49,972,500</u>	<u>(40,790)</u>
Federal Home Loan Bank						
FHLB	0.160%	06/04/12	02/01/13	9,197,060	9,194,664	(2,396)
FHLB	0.300%	06/18/12	07/05/13	10,000,000	9,995,600	(4,400)
FHLB	0.300%	05/23/12	06/14/13	15,000,000	14,997,450	(2,550)
FHLB	0.875%	08/26/11	08/22/12	25,023,959	25,025,250	1,291
Total Federal Home Loan Bank				<u>59,221,019</u>	<u>59,212,964</u>	<u>(8,055)</u>
Total Governmental Bonds				<u>190,443,052</u>	<u>190,382,254</u>	<u>(60,798)</u>
Corporate Bonds						
Intl Finance Corp	1.500%	05/02/12	05/20/13	20,000,000	19,999,020	(980)
Ally Financial Inc GTD	Floating	11/16/11	12/19/12	2,702,144	2,703,996	1,852
Ally Financial Inc	2.200%	02/17/12	12/19/12	17,461,915	17,458,814	(3,101)
Ally Financial Inc	2.200%	05/16/12	12/19/12	15,140,388	15,137,700	(2,688)
Citigroup Funding Inc	1.875%	03/28/12	11/15/12	11,068,059	11,069,740	1,681
Citigroup Funding Inc	1.875%	03/30/12	11/15/12	4,779,389	4,780,115	726
Citigroup Funding Inc	1.875%	04/19/12	11/15/12	5,191,926	5,192,714	788

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
 Year Ended June 30, 2012

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
LOCAL GOVERNMENT INVESTMENT POOL:						
General Electric Capital Corp	Floating	08/29/11	12/21/12	14,956,354	14,961,811	5,457
General Electric Capital Corp	Floating	09/14/11	12/21/12	7,002,975	7,005,530	2,555
General Electric Capital Corp	Floating	11/16/11	12/21/12	2,300,977	2,301,817	840
JP Morgan Chase & Co	Floating	09/28/11	12/26/12	29,802,083	29,832,705	30,622
Multibank CRE Vent	0.000%	04/11/12	01/07/13	9,982,675	9,983,000	325
US Central Federal Cred	1.900%	04/19/12	10/19/12	4,370,272	4,369,914	(358)
Western Corp Federal Credit	1.750%	02/17/12	11/02/12	8,695,130	8,694,461	(669)
Western Corp Federal Credit	1.750%	03/30/12	11/02/12	10,755,826	10,754,998	(828)
Western Corp Federal Credit	1.750%	04/19/12	11/02/12	5,138,671	5,138,276	(395)
Western Corp Federal Credit	1.750%	05/31/12	11/02/12	<u>14,200,705</u>	<u>14,199,612</u>	<u>(1,093)</u>
<u>Total Corporate bonds</u>				<u>183,549,489</u>	<u>183,584,223</u>	<u>34,734</u>
CMO/REMIC						
Corus Construction Venture LLC	0.000%	04/09/12	10/25/12	4,296,029	4,297,033	1,004
Corus Construction Venture LLC	0.000%	05/04/12	10/25/12	999,077	999,310	233
Corus Construction Venture LLC	0.000%	05/25/12	10/25/12	<u>11,139,704</u>	<u>11,142,307</u>	<u>2,603</u>
<u>Total CMO/REMIC</u>				<u>16,434,810</u>	<u>16,438,650</u>	<u>3,840</u>
Commercial Paper						
Straight A FDG SLSTN Corp Commercial	0.000%	06/11/12	09/07/12	14,494,998	14,494,652	(346)
Straight A FDG SLSTN Corp Commercial	0.000%	06/27/12	09/25/12	<u>24,989,125</u>	<u>24,988,410</u>	<u>(715)</u>
<u>Total Commercial Paper</u>				<u>39,484,123</u>	<u>39,483,062</u>	<u>(1,061)</u>
Total Local Government Investment Pool						
(Short-term Investment Pool)				<u>\$ 874,539,795</u>	<u>\$ 874,516,510</u>	<u>\$ (23,285)</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2012

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
Bond Proceeds Investment Pool #2 (Taxable):						
Repurchase Agreements	Various	Various	Various	\$ 1,989,027	\$ 1,989,027	\$ -
Certificates of Deposit	Various	Various	Various	9,700,000	9,700,000	-
Mutual Funds	Various	Various	Various	109,292,564	109,292,564	-
US Government Securities:						
US Treasury Notes:						
US Treasury Notes	1.875%	1/19/11	2/28/14	20,283,598	20,513,200	229,602
US Treasury Notes	1.875%	2/14/11	2/28/14	20,283,597	20,513,200	229,603
US Treasury Notes	0.625%	2/24/11	2/28/13	4,996,734	5,014,450	17,716
US Treasury Notes	0.750%	9/3/10	8/15/13	29,969,547	30,160,500	190,953
US Treasury Notes	2.250%	3/28/11	5/31/14	10,170,245	10,364,100	193,855
US Treasury Notes	1.000%	3/28/11	7/15/13	10,008,876	10,076,200	67,324
US Treasury Notes	1.875%	3/28/11	4/30/14	10,104,156	10,281,300	177,144
US Treasury Notes	1.750%	1/17/12	7/31/15	10,396,541	10,396,100	(441)
US Treasury Notes	1.500%	1/17/12	6/30/16	10,332,536	10,359,400	26,864
US Treasury Notes	0.500%	7/8/11	10/15/13	4,995,216	5,013,650	18,434
US Treasury Notes	0.500%	7/8/11	5/31/13	20,008,315	20,046,000	37,685
US Treasury Notes	0.375%	7/8/11	6/30/13	19,980,262	20,024,200	43,938
US Treasury Notes	0.250%	1/17/12	12/15/14	9,980,531	9,974,200	(6,331)
Total US Treasury Notes				<u>181,510,154</u>	<u>182,736,500</u>	<u>1,226,346</u>
Federal Farm Credit Banks Cons Long:						
Federal Farm Credit	1.170%	12/16/11	12/14/15	4,364,054	4,374,341	10,287
Total Federal Farm Credit Banks				<u>4,364,054</u>	<u>4,374,341</u>	<u>10,287</u>
Federal Home Loan Mortgage Co.:						
Freddie Mac	2.000%	8/30/11	8/26/16	25,728,439	26,269,000	540,561
Freddie Mac	1.100%	12/30/11	12/30/15	7,300,000	7,342,632	42,632
Freddie Mac	1.625%	11/23/11	11/23/16	19,991,169	20,075,400	84,231
Freddie Mac	1.625%	1/9/12	12/5/16	20,072,506	20,086,600	14,094
Total Federal Home Loan Mortgage Co.				<u>73,092,114</u>	<u>73,773,632</u>	<u>681,518</u>
Federal National Mortgage Association:						
Fannie Mae	4.000%	8/22/08	4/15/13	2,397,603	2,470,440	72,837
Fannie Mae	1.625%	1/9/12	10/26/15	20,501,009	20,716,200	215,191
Fannie Mae	5.125%	8/18/11	1/2/14	24,165,134	24,241,108	75,974
Fannie Mae	1.250%	7/12/11	2/27/14	20,175,606	20,334,200	158,594
Fannie Mae	1.350%	9/20/11	9/20/16	25,000,000	25,051,250	51,250
Fannie Mae	1.000%	7/12/11	9/23/13	20,106,558	20,166,600	60,042
Fannie Mae	Floating	1/30/12	1/30/17	19,988,986	20,078,600	89,614
Fannie Mae	1.400%	12/30/11	12/30/16	15,000,000	15,149,400	149,400
Fannie Mae	5.250%	9/27/11	8/1/12	5,020,778	5,020,060	(718)

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2012

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
Bond Proceeds Investment Pool #2 (Taxable):						
Total Federal National Mortgage Association				<u>152,355,674</u>	<u>153,227,858</u>	<u>872,184</u>
Total US Government Securities				<u>411,321,996</u>	<u>414,112,331</u>	<u>2,790,335</u>
Corporate Bonds:						
Corporate Bonds:						
Goldman Sachs Group Inc	5.700%	10/9/07	9/1/12	10,014,354	10,062,700	48,346
Morgan Stanley-2nd	5.750%	10/9/07	8/31/12	<u>5,008,313</u>	<u>5,032,150</u>	<u>23,837</u>
Total Corporate Bonds:				<u>15,022,667</u>	<u>15,094,850</u>	<u>72,183</u>
Temporary Corporate Credit Union Stabilization Bonds:						
US Central FCU	1.900%	10/19/09	10/19/12	19,998,181	20,100,800	102,619
Western Corp FCU	1.750%	11/2/09	11/2/12	<u>9,998,034</u>	<u>10,051,400</u>	<u>53,366</u>
Total Temporary Corporate Credit Union Stabilization Bonds				<u>29,996,215</u>	<u>30,152,200</u>	<u>155,985</u>
TLGP Securities:						
Citigroup Funding	2.250%	8/23/10	12/10/12	20,133,217	20,179,400	46,183
Citibank NA	1.750%	8/23/10	12/28/12	20,098,519	20,148,800	50,281
General Electric Capital Corp	2.125%	8/23/10	12/21/12	<u>25,318,878</u>	<u>25,371,836</u>	<u>52,958</u>
Total TLGP Securities				<u>65,550,614</u>	<u>65,700,036</u>	<u>149,422</u>
Total Corporate Bonds:				<u>110,569,496</u>	<u>110,947,086</u>	<u>377,590</u>
Total Bond Proceeds Investment Pool #2 (Taxable)				<u>\$ 642,873,083</u>	<u>\$ 646,041,008</u>	<u>\$ 3,167,925</u>
(Part 1 of the Consolidated Investment Pool)						

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2012

Security Description	Interest Rate	Purchase Date	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
Bond Proceeds Investment Pool #1 (Tax Exempt):						
Cash	Various	Various	Various	\$ 50,335,000	\$ 50,335,000	\$ -
Repurchase Agreements	Various	Various	Various	117,674,005	117,674,005	-
Mutual Funds	Various	Various	Various	100,637,750	100,637,750	-
US Government Securities:						
US Treasury Notes:						
US T Notes	1.875%	09/03/10	02/28/14	15,217,959	15,384,900	166,941
US T Notes	1.750%	09/03/10	04/15/13	15,121,437	15,179,850	58,413
US T Notes	0.625%	07/08/11	01/31/13	10,014,432	10,025,400	10,968
Total US Treasury Notes				40,353,828	40,590,150	236,322
Federal Farm Credit Banks Consolidated Long:						
Federal Farm Credit Bank	1.170%	12/14/11	12/14/15	10,000,000	10,021,400	21,400
Total Federal Farm Credit Banks				10,000,000	10,021,400	21,400
Federal Home Loan Mortgage Co.:						
Freddie Mac	2.000%	09/06/11	08/25/16	20,692,378	21,015,200	322,822
Freddie Mac	1.100%	12/30/11	12/30/15	10,000,000	10,058,400	58,400
Total Federal Home Loan Mortgage Co.				30,692,378	31,073,600	381,222
Federal National Mortgage Association						
Fannie Mae	4.625%	08/17/11	05/01/13	25,849,411	25,889,000	39,589
Fannie Mae	1.375%	12/14/11	11/15/16	10,070,128	10,235,000	164,872
Fannie Mae	1.400%	12/30/11	12/30/16	13,495,000	13,629,410	134,410
Fannie Mae	1.125%	12/16/11	10/26/15	6,114,216	6,124,175	9,959
Total Federal National Mortgage Association				55,528,755	55,877,585	348,830
Total US Government Securities				136,574,961	137,562,735	987,774
Bond Proceeds Investment Pool #1 (Tax Exempt):						
Corporate Bonds:						
TLGP:						
Citigroup Funding	2.250%	08/23/10	12/10/12	50,331,064	50,448,500	117,436
General Electric Corp	2.625%	08/23/10	12/28/12	50,459,486	50,569,000	109,514
Total TLGP:				100,790,550	101,017,500	226,950
Total Corporate Bonds:				100,790,550	101,017,500	226,950
Total Bond Proceeds Investment Pool #1 (Tax Exempt) (Part 2 of the Consolidated Investment Pool)				\$ 506,012,266	\$ 507,226,990	\$ 1,214,724

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2012

Security Description	Book Value	Market Value	Unrealized Gain (loss)
Local Government Investment Pool (Short-term Investment Pool)	\$ 874,539,795	\$ 874,516,510	\$ (23,285)
General Fund Investment Pool (State Funds Investment Pool)	2,192,471,221	2,200,779,747	8,308,526
Bond Proceeds Taxable (Consolidated Investment Pool)	642,873,083	646,041,008	3,167,925
Bond Proceeds Tax Exempt (Consolidated Investment Pool)	<u>506,012,266</u>	<u>507,226,990</u>	<u>1,214,724</u>
Grand total of all funds	<u>\$ 4,215,896,365</u>	<u>\$ 4,228,564,255</u>	<u>\$ 12,667,890</u>

Reconciliation to financial statements:

Per Schedule of Investments	\$ 4,228,564,255
Less: Investment in Local Government Investment Pool, General Fund Investment Pool*	<u>(249,958,107)</u>
Total Cash and Investments, Statement of Fiduciary Net Assets	<u>\$ 3,978,606,148</u>

* Amounts are deducted from the State Funds Investment Pool

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 8 - COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2012

	Investment Trust Funds				Total (Memorandum Only)
	Short-term Investment Pool	Consolidated Investment Pool	State Funds Investment Pool	Reserve Contingency Fund	
ASSETS					
Cash and investments:					
Cash in banks	\$ 144,628,321	\$ 50,335,000	\$ -	\$ -	\$ 194,963,321
Certificates of Deposit	-	9,700,000	32,750,000	-	42,450,000
U.S. Government securities	190,382,254	551,675,066	1,133,129,333	-	1,875,186,653
Corporate Bonds	183,584,223	211,964,586	46,833,950	-	442,382,759
Municipal Bonds	-	-	75,036,703	-	75,036,703
Mutual Funds					
(Investment in LGIP)	-	209,930,314	40,027,793	-	249,958,107
Repurchase agreements	300,000,000	119,663,032	873,001,968	-	1,292,665,000
Commercial Paper	39,483,062	-	-	-	39,483,062
CMO/REMIC	16,438,650	-	-	-	16,438,650
	<u>874,516,510</u>	<u>1,153,267,998</u>	<u>2,200,779,747</u>	<u>-</u>	<u>4,228,564,255</u>
Less interfund investments	<u>-</u>	<u>(209,930,314)</u>	<u>(40,027,793)</u>	<u>-</u>	<u>(249,958,107)</u>
Total cash and investments	874,516,510	943,337,684	2,160,751,954	-	3,978,606,148
Accrued Interest Receivable	<u>1,262,745</u>	<u>2,971,490</u>	<u>6,199,647</u>	<u>-</u>	<u>10,433,882</u>
TOTAL ASSETS	<u>\$ 875,779,255</u>	<u>\$ 946,309,174</u>	<u>\$ 2,166,951,601</u>	<u>\$ -</u>	<u>\$ 3,989,040,030</u>
NET ASSETS HELD IN TRUST	<u>\$ 875,779,255</u>	<u>\$ 946,309,174</u>	<u>\$ 2,166,951,601</u>	<u>\$ -</u>	<u>\$ 3,989,040,030</u>
TOTAL LIABILITIES AND NET ASSETS HELD IN TRUST	<u>\$ 875,779,255</u>	<u>\$ 946,309,174</u>	<u>\$ 2,166,951,601</u>	<u>\$ -</u>	<u>\$ 3,989,040,030</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 9 - COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
June 30, 2012

	<u>Investment Trust Fund</u>			<u>Total (Memorandum Only)</u>
	<u>Short-term Investment Pool</u>	<u>Consolidated Investment Pool</u>	<u>State Funds Investment Pool</u>	
Investment income	\$ 2,121,836	\$ 8,979,643	\$ 15,085,927	\$ 26,187,406
Expenses - management fees	<u>(422,674)</u>	<u>-</u>	<u>-</u>	<u>(422,674)</u>
Net investment income	1,699,162	8,979,643	15,085,927	25,764,732
Net proceeds of desposits (withdrawals)	181,742,775	(447,896,844)	683,546,272	417,392,203
Net assets, held in trust for pool participants, June 30, 2011	<u>692,337,318</u>	<u>1,385,226,375</u>	<u>1,468,319,402</u>	<u>3,545,883,095</u>
Net assets, held in trust for pool participants, June 30, 2012	<u>\$ 875,779,255</u>	<u>\$ 946,309,174</u>	<u>\$2,166,951,601</u>	<u>\$3,989,040,030</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
June 30, 2012

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	\$ 576,413	\$ 250,000	\$ 163,207	\$ -	\$ 479,441	\$ 316,235
(FHLB)	Western Bank	3,108,304	250,000	2,143,728	-	3,421,708	1,277,980
Albuquerque							
(WFB)	Bank of America	2,935,982	1,282,068	826,957	-	6,898,339	6,071,382
(WFB)	Bank of the West	95,605,768	250,387	47,677,691	-	54,397,275	6,719,585
(WFB)	Compass Bank	2,323,604	2,110,041	217,834	-	5,896,521	5,678,686
(FHLB)	U.S. Bank N.A.	6,581,725	318,366	3,131,680	5,000,000	-	1,868,321
(WFB)	New Mexico Bank & Trust	251,598	250,000	799	-	288,575	287,776
(USB)	Wells Fargo Bank NM, N.A.	80,047,641	7,615,400	36,216,121	-	219,461,753	183,245,633
Artesia							
(FHLB)	First American Bank	46,415	46,415	-	-	-	-
(FHLB)	Western Bank	-	-	-	-	-	-
Belen							
(USB)	My Bank	2,441,795	255,895	2,229,618	-	2,166,147	(63,471)
Carlsbad							
(FHLB)	Carlsbad National Bank	1,757	1,757	-	-	-	-
(FHLB)	Western Commerce Bank	4,084,221	286,046	1,899,088	-	3,197,763	1,298,676
Clayton							
(FHLB)	Farmers & Stockmens Bank	1,229,744	472,577	567,875	-	2,022,653	1,454,778
(FHLB)	First National Bank of NM	1,345,856	250,000	547,928	-	2,394,459	1,846,531
Clovis							
(TIB)	Bank of Clovis	415,005	250,000	82,503	-	1,147,020	1,064,518
	Citizens Bank	31,352	31,352	-	-	-	-
(FHLB)	Western Bank	2,600,000	250,000	1,175,000	-	1,669,128	494,128
Espanola							
(USB)	Valley National Bank	500	500	-	-	-	-
Gallup							
(FHLB)	Pinnacle Bank	1,640	1,640	-	-	-	-
Grants							
(TIB)	Grants State Bank	89,500	89,500	-	-	-	-
Hobbs							
(TIB)	Lea County State Bank	119,808	119,808	-	100,000	-	100,000
Las Cruces							
(WFB)	Bank of the Rio Grande	-	-	-	-	-	-
(TIB)	Citizens Bank	3,588	3,588	-	-	-	-
Las Vegas							
(FHLB)	Bank of Las Vegas	5,721,889	299,236	2,711,327	-	3,271,500	560,174
(FHLB)	Community First Bank LV	743,779	743,779	-	1,000,000	-	1,000,000
SUBTOTAL		210,307,884	15,428,355	99,591,353	6,100,000	306,712,282	213,220,929

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 10 -SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)
 June 30, 2012

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	103,403	103,403	-	-	-	-
Los Alamos							
(FHLB)	Los Alamos National Bank	18,570	18,570	-	-	-	-
Portales							
(TIB)	James Polk Stone Community	448,164	448,164	-	-	-	-
Raton							
(TIB)	International State Bank	118,169	118,169	-	-	459,980	459,980
Roswell							
(FHLB)	Bank of the Southwest	401,656	273,961	63,848	-	279,230	215,383
(TIB)	Valley Bank of Commerce	82,504	82,504	-	-	-	-
Ruidoso							
(FHLB)	First National Bank	-	-	-	-	-	-
Santa Fe							
(FHLB)	Century Bank	24,000,000	250,000	17,812,500	-	22,495,982	4,683,482
(FHLB)	Community Bank	147,603	147,603	-	-	-	-
(WFB)	First National Bank	-	-	-	-	-	-
Silver City							
(FHLB)	AM Bank	29,084	29,084	-	-	-	-
Socorro							
(BA)	First State Bank	56,803	56,803	-	-	-	-
Taos							
(TIB)	Centinel Bank	88,988	88,988	-	-	-	-
(FHLB)	Peoples Bank	21,838	21,838	-	-	-	-
SAVINGS AND LOANS:							
Alamogordo							
(FHLB)	Alamogordo Federal S&L	158,030	158,030	-	-	-	-
Albuquerque							
(FHLB)	Union Savings Bank	-	-	-	-	-	-
Roswell							
(FHLB)	First Federal Bank	-	-	-	-	-	-
Santa Fe							
(FHLB)	Charter Bank for Savings	-	-	-	-	-	-
CREDIT UNION:							
Santa Fe	Guadalupe Credit Union	<u>250,000</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
SUBTOTAL		25,924,812	2,047,117	17,876,348	-	23,235,192	5,358,844

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 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)
 June 30, 2012

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.	-	-	-	-	-	-
(FHLB)	First Community Bank	-	-	-	-	-	-
(WFB)	Wells Fargo Bank, N.A.	-	-	-	-	-	-
Espanola							
(TIB)	Valley National Bank	22,352	22,352	-	-	-	-
Los Alamos							
(FHLB)	Los Alamos National Bank	-	-	-	-	-	-
Santa Fe							
(WFB)	Century Bank	638,272	250,000	291,204	-	547,325	256,121
(WFB)	First National Bank	-	-	-	-	-	-
FISCAL AGENT BANK:							
(USB)	Wells Fargo Bank N.A.	127,355,555	127,355,555	-	-	15,913,386	15,913,386
(BA)	Bank of America	-	-	-	-	-	-
SUBTOTAL		<u>128,016,179</u>	<u>127,627,907</u>	<u>291,204</u>	<u>-</u>	<u>16,460,711</u>	<u>16,169,507</u>
TOTAL		<u>\$364,248,875</u>	<u>\$ 145,103,379</u>	<u>\$ 117,758,905</u>	<u>\$ 6,100,000</u>	<u>\$ 346,408,185</u>	<u>\$ 234,749,281</u>

Reconciliation to Note 3:

Fiscal Agent Account	\$ 127,355,555	\$ 127,355,555	\$ -	\$ -	\$ 15,913,386	\$ 15,913,386
Certificates of Deposit	<u>42,450,000</u>	<u>1,426,731</u>	<u>28,590,000</u>	<u>1,000,000</u>	<u>35,425,335</u>	<u>7,835,335</u>
	169,805,555	128,782,286	28,590,000	1,000,000	51,338,721	23,748,721
Add:						
Agency Deposits	193,782,696	16,048,741	88,877,701	5,100,000	294,522,139	210,744,438
Ancillary Receivership Accounts	<u>660,624</u>	<u>272,352</u>	<u>291,204</u>	<u>-</u>	<u>547,325</u>	<u>256,121</u>
	<u>194,443,320</u>	<u>16,321,093</u>	<u>89,168,905</u>	<u>5,100,000</u>	<u>295,069,464</u>	<u>211,000,559</u>
	<u>\$364,248,875</u>	<u>\$ 145,103,379</u>	<u>\$ 117,758,905</u>	<u>\$ 6,100,000</u>	<u>\$ 346,408,185</u>	<u>\$ 234,749,281</u>

Custodial Banks:

(USB) US Bank
 (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 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)
 June 30, 2012

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
JP Morgan Chase	New York, NY	\$ 29,596,787	\$ 30,188,723	\$ 30,188,723	FFCB	31331GEA3	\$ -
JP Morgan Chase	New York, NY	51,032,957	52,053,616	52,053,616	FGTW	3128P7RY1	-
JP Morgan Chase	New York, NY	93,363,421	95,230,689	95,230,689	FHLB	3133XGAY0	-
JP Morgan Chase	New York, NY	19,733,009	20,127,669	20,127,669	FHLB	3133786W6	-
JP Morgan Chase	New York, NY	89,779,535	91,575,126	91,575,126	FNMA	3138ECGC1	-
JP Morgan Chase	New York, NY	41,038,696	41,859,470	41,859,470	FNMA	3138E1KY2	-
JP Morgan Chase	New York, NY	26,175,434	26,698,943	26,698,943	FNMA	3136FTAV1	-
JP Morgan Chase	New York, NY	3,078,338	3,139,905	3,139,905	FNMA	3138A6KP4	-
JP Morgan Chase	New York, NY	50,669,803	51,683,199	51,683,199	FNMA	31417BCX3	-
JP Morgan Chase	New York, NY	50,532,020	51,542,660	51,542,660	FNMA	31417A6K0	-
JP Morgan Chase	New York, NY	352,351,000	359,398,020	359,398,020	FNMA	3138AW4D2	-
JP Morgan Chase	New York, NY	49,896,000	50,893,920	50,893,920	FNMA	31419AYU5	-
JP Morgan Chase	New York, NY	47,129,000	48,071,580	48,071,580	FNMA	3138EGKY9	-
JP Morgan Chase	New York, NY	78,290,000	79,855,800	79,855,800	GNMA	36179MAX8	-
JP Morgan Chase	New York, NY	60,334,000	61,540,680	61,540,680	FNMA	3138EGR22	-
JP Morgan Chase	New York, NY	100,000,000	102,000,000	102,000,000	USTN	912828NQ9	-
JP Morgan Chase	New York, NY	75,551,470	77,062,499	77,062,499	USTN	912828HQ6	-
JP Morgan Chase	New York, NY	48,219,362	49,183,749	49,183,749	USTN	912828QE3	-
JP Morgan Chase	New York, NY	50,612,745	51,625,000	51,625,000	USTN	912828JB7	-
JP Morgan Chase	New York, NY	24,785,539	25,281,250	25,281,250	USTN	912828NC0	-
JP Morgan Chase	New York, NY	830,884	847,502	847,502	USTN	912828PR5	-
Total		\$ 1,343,000,000	\$ 1,369,860,000	\$ 1,369,860,000			\$ -

Reconciliation to Financial Statements:

Repurchase agreements reported in Statement of Fiduciary Net Assets, Page 24	1,292,665,000
Amount actually held as cash at JP Morgan not required to be collateralized	<u>50,335,000</u>
	1,343,000,000

* Mortgaged 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 on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

Honorable Susanna Martinez, 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 budgetary comparison of the general fund, fiduciary fund and the combining and individual funds presented as supplemental information of the State of New Mexico, Office of the State Treasurer (State Treasurer), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012. 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

Management of the State Treasurer is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered State Treasurer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the agency'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. 2007-04.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency. 2012-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Treasurer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 2007-08, 2009-06, and 2011-01.

We also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 2012-02 and 2012-03.

The State Treasurer's responses to the findings identified in our audit are described in the accompanying schedule of audit 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, others within the entity, the State of New Mexico Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance & Administration, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 17, 2012

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2012

Section I – Financial Statement Findings

Finding 2012-01 - Capital Expenditure Reimbursement from SGFIP to BPIP (Significant Deficiency)

Condition: There is a variance between DFA's recording of capital project expenditures funded through bond proceeds within SHARE and the recording of those expenditures by STO within QED (the State Treasurer's investment accounting sub ledger system). When DFA approves an agency's capital expenditures of bond proceeds, it records them in the SHARE system. Those expenditures are taken out of the State General Fund Investment Pool (SGFIP). DFA then sends to The State Treasurer a detail of capital expenditures of bond proceeds made out of the (SGFIP), and then The State Treasurer uses this information to reimburse the SGFIP from the Bond Proceeds Investment Pools (BPIP) through an inter-fund transfer.

Criteria: For purposes of the potential arbitrage rebate liability calculation, the expenditures of bond proceeds are deemed to have occurred at the time those expenditures are made, not when the funds are transferred from the BPIP back to the SGFIP.

Cause: All capital project bonds prior to 2007 were originally tracked in State Treasurer's TRACs sub ledger system and all reconciliations were done in Excel spreadsheets. With the implementation of the SHARE system and then later, the integration of these accounts into the QED sub ledger system, we are unsure of the integrity of the cutover information into the QED system and the integrity of the information in QED as a whole; so reconciliation is virtually impossible. The standard practice to extract the data from QED for arbitrage calculations has been reviewed by DFA and bond counsel; despite the State Treasurer's recommendation that the data be extracted from SHARE as the state's general ledger system, the directive remains status quo. The State Treasurer received access to SHARE business unit 34103 and could run these reports out of SHARE as of January 2012.

Effect: When financial information is submitted for calculation of potential arbitrage rebate liability, they are being sent QED balances, which are overstated or understated because of the timing of reimbursement to the SGFIP from the BPIP for capital expenditures of bond proceeds made out of SGFIP. The cumulative amount that the BPIP balances exceeded the SGFIP balances in QED as of June 30, 2012 was approximately \$27 million; but the tax exempt amount that could be impacted is roughly \$6.1 million. As a result, the bond arbitrage calculation could potentially be overstated. This violation could jeopardize the tax-exempt status of the tax-exempt bond issues. Also, the SGFIP is being underreported because it isn't timely reimbursing the BPIP. Since the allocation of interest income is performed using QED balances, the BPIP is receiving a disproportionate amount of interest and the SGFIP is being shorted by the same amount.

Recommendation: We recommend that the State Treasurer and DFA collaborate to adjust QED balances to reconcile with SHARE as soon as possible. We further recommend that expenditures as recorded in SHARE be used for purposes of the arbitrage rebate liability calculation rather than QED figures.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2012**

Section I – Financial Statement Findings (continued)

Finding 2012-01 - Capital Expenditure Reimbursement from SGFIP to BPIP (Significant Deficiency) (continued)

State Treasurer's Office Response: The State Treasurer's Office is currently reviewing the process of adjusting QED to the balances in SHARE. Collaboration and communication between the Board of Finance, the State Treasurer's Office and the arbitrage vendor is being conducted and a solution should be reached within the fiscal year 2013. It has been documented through the Post-Issuance Compliance Procedures for Tax-Exempt Bond that has been submitted to the Board of Finance that there is agreement that the arbitrage calculations should come from SHARE. This will eliminate the arbitrage rebate liability and correct the recording of the expenditures of bond proceeds by posting the expenditure when it is made, not when the funds are transferred from the BPIP to SCFIP.

Finding 2007-08 – Cash Overdraft (Repeated and Modified) (Control Deficiency)

Condition: The State's bank account was overdrawn on one occasion in 2012 with the State's fiscal agent Wells Fargo on the following date:

September 8, 2011	\$ 22,518,888
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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.

Effect: The State's fiscal agent does not cover overdrafts.

Recommendation: Although these overdrafts are becoming less frequent, we recommend that the State Treasurer work with the DFA and other state agencies to develop and implement a business process to inform the State Treasurer's Office when the settlements 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 cash flow team has implemented a system that calendars major disbursements throughout the month and requires agencies to communicate the amounts of these disbursements to the State Treasurer's Office. This data is used to project future cash needs. Agencies, however, occasionally still deviate from the reported date and cause cash flow difficulties. This situation caused the overdrafts noted in this finding. The State Treasurer's office will monitor consistent problems and will require the CFO of repeat offender agencies to meet with State Treasurer's Office and explain what actions have been take to avoid future occurrences.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2012

Section I – Financial Statement Findings (continued)

**Finding 2011-01 – Reconciliation of Investment Income from QED to JP MORGAN
(Repeated and Modified) (Control Deficiency)**

Condition: Investment income earned on investments held in fiduciary funds as calculated by the State Treasurer's Office investment accounting sub ledger system, QED, is not being reconciled to investment income as calculated by the custody bank, JP Morgan.

Criteria: Earnings as calculated by QED and recorded by the State Treasurer's Office should be verified by an independent source, in this case monthly statements from the custody bank (JP Morgan), which show an independent calculation of the same investment earnings figures.

Cause: Although a reconciliation of cash receipts and cash basis income in connection with portfolio sales, calls and maturities is being performed, the State Treasurer's Office does not have controls in place to reconcile earnings on the accrual basis.

Effect: Accrual based investment earnings on Investment Trust Fund investments could be potentially misstated.

Recommendation: We recommend the State Treasurer's Office begin to perform a monthly reconciliation of investment earnings between QED and JP Morgan.

State Treasurer's Office Response: The State Treasurer's Office will begin the process of reviewing the recommendation since it will involve an additional procedure for the investment accounting bureau to assume. The solution is to obtain a detail of earned income on an accrual basis from JP Morgan for each portfolio on a monthly basis and reconcile it to investment earnings as recorded in QED. By doing this consistently on a monthly basis, there would be no disparity between JP Morgan and QED. It is anticipated that the State Treasurer's investment activity will be integrated into the state's general ledger, SHARE, with installation of the deal management module. When this occurs, it is understood that at that time arbitrage calculations will begin to be based on the recording of expenditures in the state's general ledger.

Finding 2012-02 – Cash Balances at Custody Bank (Control Deficiency)

Condition: In accordance with Section 2.60.4.8 NMAC, cash balances should not remain at JPMorgan as Custody Bank. There are various reasons that this happens. For example if a REPO trade fails, cash balances could remain, or a rounding variance could remain. Another example could be due to human error where cash is delivered to an incorrect custody account versus the account the REPO collateral is delivered. If too much money is sent to the Custody Bank, the excess amount is recorded at JP Morgan as a cash balance. When too little money is transferred from the Fiscal Agent Bank to the Custody Bank to cover securities transactions, the Custody Bank will lend STO the money to cover the securities trades, which STO typically repays within the contractual cure period in the Custody Agreement.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2012

Section I – Financial Statement Findings (continued)

Finding 2012-02 – Cash Balances at Custody Bank (Control Deficiency) (continued)

Criteria: In order for a financial institution to hold cash balances of the State, they must first be designated a depository in accordance with Section 2.60.4.8 NMAC, which JP Morgan is not. Cash balances are also required to be collateralized based on the depository bank's risk assessment ratios pursuant to Section 2.60.4.9 NMAC. The minimum requirement is for cash balances to be 50% collateralized. Cash balances held at JP Morgan due to excess cash transfers are not collateralized.

Cause: Due to the fluctuation of daily activity there could be cash items pending in the custody accounts on a daily basis.

Effect: REPO Cash balances are being held in an unapproved depository institution and those balances are collateralized with the assets from the custody trust accounts. Furthermore, those balances are not earning interest, however since they are recorded as repos in QED, STO is recording interest earned on those balances.

Recommendation: We recommend STO work with DFA and DOIT to enable and utilize the Cash Management and Deal Management modules in the SHARE system, so they are able to more effectively gauge cash needs and don't end up with balances at the custody bank. The State Treasurer's Office should also review the procedures regarding cash estimates by pooling its internal resources from within the agency. The Cash Management Division, Budget & Finance Division, the Investment Accounting Bureau, and the Compliance Officer should be involved in a joint effort to review and recommend changes to the procedures to more accurately project cash estimates.

State Treasurer's Office Response: STO's recommendation is to work with the Board of Finance as administrators of the Custodial Agreement to establish a Treasury over-night sweep account that will sweep any overnight balances, which will be available the next day for investment. STO is also working with JPMorgan to provide the legal language that these REPO balances are indeed collateralized within the STO custody accounts. STO will also work with DFA and DOIT to enable and utilize the Cash Management and Deal Management modules in the SHARE system, so they are able to more effectively gauge cash needs. An internal multi-division work group will be established to review and recommend procedures to more accurately project cash estimates.

Additionally, once the new modules are added to the SHARE system, this issue should be resolved.

2012-03 – Incorrectly Recorded Reversion (Control Deficiency)

Condition: The fiscal year 2012 reversion from the State Treasurer's general fund was not recorded properly. The reversion entry was recorded as a credit to cash and a debit to due to other state agencies; however, the due to was never set up in the first place and the reversion account was never affected.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2012

Section I – Financial Statement Findings (continued)

2012-03 – Incorrectly Recorded Reversion (Control Deficiency) (continued)

Criteria: When the State Treasurer recorded this reversion, they should have debited the reversion account, 566100.

Cause: This misstatement was caused by a lack of an effective review process for the submission of journal entries.

Effect: The effect was an understatement of reversions of \$97,246.

Recommendation: We recommend that the State Treasurer implement effective review procedures for all journal entries submitted.

State Treasurer's Office Response: The State Treasurer agrees with this finding. The accrual of the amount due to the state general fund from the reversion was an oversight. The Finance & Budget Division is currently addressing this problem by instituting a procedure where all journal entries and operating transfers are listed with the due dates.

Finding 2009-06 – Reporting of Additions and Deductions to Fiduciary Funds (Repeated) (Control Deficiency)

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

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

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

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

Recommendation: We recommend that the State Treasurer's Office perform a reconciliation of the gross total additions to and deductions from fiduciary funds in preparation for presenting their June 30, 2009 financial statements. In addition, we recommend that the Office uses two separate general ledger account numbers for additions to and deletions from fiduciary accounts, so the information is readily available for future financial statement presentations.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2012

Section I – Financial Statement Findings (continued)

**Finding 2009-06 – Reporting of Additions and Deductions to Fiduciary Funds (Repeated)
(Control Deficiency) (continued)**

State Treasurer’s Office Response: Although the State Treasurer’s Office concurs with the significance of this condition, the State Treasurer’s Office does not accept sole responsibility for the occurrence of this condition. The accounting information presented in the Statement of Fiduciary Net Assets should be reported as gross total additions and deductions and not as net information. The Treasurer’s Investment Accounting system, QED, is able to provide the gross information for the Short-Term Investment Pool (LGIP) and the State Funds Investment Pool (BPIPs).

Unfortunately, due to limitations of the SHARE system as well as consolidation of funds deposited into the master depository account, the State Treasurer’s Office is unable to give gross numbers for the Consolidated Investment Pool or State General Fund Investment Pool. While unable to provide the gross detail, the State Treasurer is able to provide the net proceeds as shown in Schedule 9 to the Financial Statements. The State Treasurer will continue to work with the DFA to develop a method of separating agency deposits and payments to facilitate reporting of the desired data elements. The ongoing Cash Remediation project to assist DFA with the reconciliation of the SHARE general ledger to the funds held by the State Treasurer’s office will also help address this finding.

Finding 2007-04 – Reporting of Agency Interest in the State General Fund Investment Pool (Repeated and Modified) (Material Weakness)

Condition: On July 1, 2006, the State of New Mexico implemented the SHARE accounting system requiring changes to business processes at the State Treasurer’s Office, DFA and other State Agencies. The State Treasurer’s Office was not allowed to maintain the TRACS subsidiary system that provided for reporting of each State Agency’s interest in the State General Fund Investment Pool (SGFIP) when the transition to the SHARE system occurred due to lack of funding for redundant systems.

In June 2012, the State Controller of the Financial Control Division at the DFA commissioned a diagnostic report with the purpose of assessing the current state of cash reconciliation and determining recommendations for remediating the system configuration and business process issues pertaining to the book to bank processes. Some key observations revealed by the diagnostic report relating to the Treasury application are summarized below:

1. Complete functionality available in the SHARE Treasury application was not implemented. The premise of the reconciliation functionality in PeopleSoft is that all system transactions have an accounting entry on the general ledger and that each bank transaction reconciles to a corresponding system transaction. This is not the case for the current implementation of SHARE, as it requires significant manual intervention by the Treasurer’s staff to facilitate the reconciliation of bank activity.
2. The current system configuration does not lend itself to providing reporting of each agency’s interest in the SGFIP.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2012

Section I – Financial Statement Findings (continued)

Finding 2007-04 – Reporting of Agency Interest in the State General Fund Investment Pool (Repeated and Modified) (Material Weakness) (continued)

Criteria: As outlined in the report, Current State Diagnostic of Cash Control, the main premise of the reconciliation functionality in PeopleSoft is that all system transactions have an accounting entry on the general ledger and that each bank transaction reconcile to a system transaction. This is not the current operation. Additionally, based upon sound internal controls as outlined in the COSO report (small public company guidance beginning with paragraph 201.72), information systems should ensure quality in that information is timely, current, accurate and accessible.

Cause: When SHARE was first implemented in fiscal year 2007, the implementation was not thoroughly properly planned and implemented to incorporate the full functionality of the system.

Effect: Due to the change in business processes and system configuration, the State Treasurer's Office was unable to continue to provide reporting of each State Agency's interest in the SGFIP.

Recommendation: The State Treasurer has already begun to address this issue as further described below:

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled, "Cash Management Plan and Business Processes". This document is available on the Cash Control page of the DFA/FCD's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

We recommend that the Treasurer's Office continue to work collaboratively with DFA and DoIT on this Remediation Project.

State Treasurer's Office Response: The State Treasurer's Office disagrees with this finding. According to Audit Rule page 37, subparagraph (4)(f), State Treasurer's Office no longer has an obligation to provide agency fund balances. This practice became obsolete for the State Treasurer's Office at the implementation of the unified SHARE accounting system in 2006.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2012

Section I – Financial Statement Findings (continued)

Finding 2007-04 – Reporting of Agency Interest in the State General Fund Investment Pool (Repeated and Modified) (Material Weakness) (continued)

The Audit Rule states:

(f) With the implementation of the SHARE system, both the “book” and “bank” information reside on this unified system. There are no longer stand-alone systems providing single-source information. Bank balance information is now available and retrievable at each state agency being audited. This information is identical to what DFA or the State Treasurer can obtain from the system. The Office of the State Treasurer no longer can act in the capacity of an independent third-party to provide account balance confirmations to other agencies or auditors, IPAs can now access account balance information by having the agency run a query or a trial balance report from SHARE. Therefore, IPAs and state agencies should not request bank confirmations from the Office of the State Treasurer (state agencies only).

Regardless, State Treasurer’s Office is committed to continued communication, collaboration and cooperation with DFA, DoIT and other State Agencies to facilitate cash remediation. At the conclusion of this Remediation Project, The State Treasurer’s Office anticipates that it will be able to provide reporting of the SGFIP at the agency level; however, we do not have control of the system. This reporting would be extracted from the SHARE system and therefore we are reliant upon the accuracy of the general ledger accounting that is performed on each transaction. Ultimately, our success or failure in this endeavor is inextricably linked to the success or failure of the joint remediation project and completion of an accurate and timely book to bank reconciliation.

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

Auditor Response: We appreciate Management’s perspective on the condition noted. However, we consider the Office’s role in resolving this issue, critical to the State of New Mexico.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Section I – Financial Statement Findings

- Finding 2007-04 Verification and Reconciliation of Bank Balances (Control Deficiency) – Repeated and Modified
- Finding 2007-08 Cash Overdrafts, Repeated and Modified (Control Deficiency) – Repeated and Modified
- Finding 2009-06 Reporting of Additions and Deductions to Fiduciary Funds (Control Deficiency) – Repeated
- Finding 2011-01 Reconciliation of Investment Income from QED to JP Morgan (Control Deficiency) – Repeated and Modified
- Finding 2011-02 Reporting of Impairment of Investments Held by Fiduciary Funds (Control Deficiency) – Resolved
- Finding 2011-03 Inadequate Collateralization of Repurchase Agreement Accounts (Control Deficiency) – Resolved

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
EXIT CONFERENCE
June 30, 2012**

An exit conference was held with the State Treasurer's Office on December 12, 2012. 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
Linda T. Roseborough, Chief Investment Officer, Investment Division Director
Clarence L. Smith, Chief Operations Officer, Operations Division
Ronald Crespín, Chief Financial Officer & Budget and Finance Division Director
Samuel K. Collins, Jr., State Cash Manager
Alfredo Santistevan, Special Assistant to the Treasurer
Kathy Abeyta, Investment Accounting Bureau Chief
Patricia J. Ortiz, Finance & Budget Financial Analyst
Victor Vigil, Cash Management Division Bureau Chief
Cindy Cordova, Legal Counsel & Public Information Officer

CLIFTONLARSONALLEN LLP

Janet Pacheco-Morton, CPA, CGFM, Partner
Joel Blackman, CPA, Manager

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the independent auditor and were reviewed and approved by the State Treasurer's Office. However, the financial statements remain the responsibility of management, as addressed in the Independent Auditors' Report. Management reviewed and approved the financial statements.

APPENDIX C

FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER

[date]

State Board of Finance
State of New Mexico
Bataan Memorial Bldg., Ste. 181
Santa Fe, New Mexico 87501

Brownstein Hyatt Farber Schreck, LLP
201 3rd St. NW, Ste. 1700
Albuquerque, NM 87102

Re: \$157,560,000 State of New Mexico Severance Tax Bonds, Series 2013A

Ladies and Gentlemen:

This letter will serve as our certificate of litigation affecting New Mexico Severance Taxes.

In 2001, the New Mexico Taxation and Revenue Department (“TRD”) began assessing a number of taxpayers for additional taxes based upon the taxpayers’ under-valuation of carbon dioxide and natural gas. A number of taxpayers have paid assessments under these programs, filed for refunds, and initiated litigation against TRD. In a carbon dioxide case, in which the district partially granted the taxpayer’s refund claim, the taxpayer appealed to the New Mexico Court of Appeals; that appeal is still pending. The taxpayer’s payment of an assessment is not in suspense, as described below. On October 2, 2009, the federal district court ruled against TRD in a declaratory action (which sought prospective relief only) challenging the collection of severance taxes on oil and natural gas production by non-tribal members under a unique set of facts involving an unpopulated area of the Ute Mountain Ute reservation in northwestern New Mexico. The United States Court of Appeals for the Tenth Circuit overturned the district court opinion and held that state severance taxes are not preempted by federal law. The Ute Mountain Ute tribe petitioned for an en banc review, which the court denied on September 12, 2011. The United States Supreme Court denied the Ute Mountain Ute tribe’s petition for a writ of certiorari on February 21, 2012.

Finally, at any given time, a number of protests/refund claims are pending at the administrative level.

As of June 15, 2001, payments on severance tax assessments issued by TRD, including any on undervaluation assessments made after that date, typically are held in a suspense fund until the TRD Secretary determines that there is no substantial risk of protest or other litigation. See NMSA 1978, § 7-1-6.20(B) (2001).

While we are unable to predict with reasonable certainty the outcome of pending litigation and administrative proceedings, they would not, in our opinion, reasonably be expected to have a material effect on the bondholders.

This office is not aware of any other pending or threatened litigation that would affect the severance tax of the state or the authority of the state to issue these severance tax and supplemental severance tax bonds.

Sincerely,

Assistant Attorney General

APPENDIX D

**FORM OF OPINION OF BOND COUNSEL
STATE OF NEW MEXICO SEVERANCE TAX BONDS,
SERIES 2013A**

July 23, 2013

State Board of Finance
State of New Mexico
Santa Fe, New Mexico

RE: \$157,560,000 State of New Mexico Severance Tax Bonds, Series 2013A

Ladies and Gentlemen:

We have examined the transcript of proceedings (the “Transcript”) relating to the issuance of \$157,560,000 State of New Mexico Severance Tax Bonds, Series 2013A (the “Series 2013A Bonds”) dated the date of delivery.

We have also examined the provisions of the Constitution and laws of the State of New Mexico (the “State”) under authority of which the Bonds were issued, the resolutions authorizing and approving the issuance and sale of the Bonds (the “Bond Legislation”) adopted by the State Board of Finance (the “Board”) on April 16, 2013 and June 18, 2013 an executed Bond of the first maturity, and the Tax Certificate of the State (the “Tax Certificate”). We have also made such further inquiries and investigations and have examined such further documents and matters as we have considered necessary in rendering this opinion.

Certain agreements, requirements and procedures contained or referred to in the Bond Legislation, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon with respect to any such change or action taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. Furthermore, we have assumed compliance with the covenants and agreements contained in the Bond Legislation and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and

obligations under the Bonds, the Bond Legislation and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of New Mexico. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express herein no opinion relating thereto.

Based on our examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds constitute valid and binding special obligations of the State in accordance with the terms and provisions thereof.

2. The Bonds are payable solely from, and such payment is secured by a pledge (but not an exclusive pledge) of, the money on deposit in the Severance Tax Bonding Fund (defined in the Bond Legislation), consisting of the net receipts from taxes levied upon certain natural resource products severed and saved from the soil of the State and such other moneys as the State Legislature may, in its sole discretion, from time to time determine to deposit in the Severance Tax Bonding Fund, certain interest earnings on moneys on deposit in the bond accounts and such proceeds of the Bonds as may from time to time be deposited in the Severance Tax Bonding Fund as a result of statutorily required reversions or otherwise. Under the Bond Legislation, the Board may also issue additional obligations on a parity with the Bonds on the terms and conditions of the Bond Legislation. The owners of the Bonds have no right to have ad valorem taxes levied by the State for the payment of principal of or interest on the Bonds and the Bonds do not represent or constitute a debt or pledge of, or a charge against, the general credit of the State.

3. The Bond Legislation is valid and binding on the Board, is enforceable in accordance with its terms and creates the pledge which it purports to create.

4. The interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. We express no opinion regarding other federal income tax consequences caused by the receipt or accrual of interest on or ownership of the Bonds.

5. The interest on the Bonds is exempt from income taxes imposed directly thereon by the State.

Very truly yours,

Brownstein Hyatt Farber Schreck, LLP

APPENDIX E

**FORM OF
CONTINUING DISCLOSURE UNDERTAKING**

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Disclosure Undertaking”) is executed and delivered by the State Board of Finance (“Board”) of the State of New Mexico (the “State”) on behalf of the State in connection with the issuance by the State of \$157,560,000 State of New Mexico Severance Tax Bonds, Series 2013A (the “Series 2013A Bonds” or the “Bonds”). The Bonds are being issued pursuant to Bond Resolutions adopted by the Board on April 16, 2013 and June 18, 2013 collectively, the “Resolution”).

BACKGROUND

1. The Series 2013A Bonds are being issued to finance capital improvements approved by the State Legislature

2. In order to allow the underwriters of the Bonds to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12), to the date hereof, the State is required to make certain continuing disclosure undertakings for the benefit of owners (including beneficial owners) of the Bonds.

3. This Disclosure Undertaking is intended to satisfy the requirements of said Rule 15c2-12, as in effect on the date hereof.

STATE COVENANTS AND AGREEMENTS

Section 1. Definitions.

(a) “Annual Financial Information” means the financial information or operating data with respect to the State, delivered at least annually pursuant to Section 2(a) and 2(b) hereof, of the type set forth in the sections of the final Official Statement identified on Exhibit A hereto. Annual Financial Information includes Audited Financial Statements.

(b) “Audited Financial Statements” means the annual financial statements for the State, prepared in accordance with generally accepted accounting principles, as in effect from time to time, audited by a firm of certified public accountants.

(c) “Event Information” means the information delivered pursuant to Section 2(d) hereof.

(d) “MSRB” means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia, 22314, phone (703) 797-6600, fax (703) 797-6700.

(e) “National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following is the only National Repository:

Electronic Municipal Market Access (“EMMA”)
c/o Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, Virginia 22314
www.emma.msrb.org
(703)797-6600

(f) “Official Statement” means the Official Statement dated June 18, 2013, delivered in connection with the original issue and sale of the Bonds.

(g) “Repository” means “EMMA” and any SID.

(h) “Rule” means Rule 15c2 12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2 12), as the same may be amended.

(i) “SEC” means the Securities and Exchange Commission.

(j) “SID” means any State Information Depository operated or designated by the State that receives information from all issuers within the State. As of the date of this Disclosure Undertaking, no SID exists for the State.

Section 2. Provision of Annual Information and Reporting of Event Information.

(a) Commencing with the fiscal year ending June 30, 2013 and annually while the Bonds remain outstanding, the State agrees to provide or cause to be provided the Annual Financial Information to each Repository annually.

(b) Such Annual Financial Information shall be provided not later than 210 days after the end of each fiscal year for the State (i.e., each June 30). If the Audited Financial Statements are not available by the time the other Annual Financial Information must be provided, unaudited financial statements shall be provided as part of the Annual Financial Information. If not provided as a part of the Annual Financial Information, the Audited Financial Statements will be provided when available.

(c) The State may provide Annual Financial Information by specific reference to other documents, including information reports and official statements relating to other debt issues of the State, which have been submitted to each Repository; provided, however, that if the document so referenced is a final official statement within the meaning of the Rule, such final official statement must also be available from the MSRB.

(d) At any time the Bonds are outstanding, the State shall provide, in a timely manner, not in excess of ten business days, to the MSRB and any SID notice of any of the following events with respect to the Bonds (provided that any event under clauses (ii), (vii), (viii), (x), (xiv) and (xv) will be provided only if material):

- i. Principal and interest payment delinquencies;
- ii. Non-payment related defaults;
- iii. Unscheduled draws on debt service reserves reflecting financial difficulties;

- iv. Unscheduled draws on credit enhancements reflecting financial difficulties;
- v. Substitution of credit or liquidity providers, or their failure to perform;
- vi. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds;
- vii. Modifications to rights of Bond holders;
- viii. Bond calls, other than mandatory sinking fund redemption;
- ix. Defeasances;
- x. Release, substitution or sale of any property securing repayment of the securities;
- xi. Rating changes;
- xii. Tenders offers;
- xiii. Bankruptcy, insolvency, receivership or similar proceedings;
- xiv. Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated person or their termination; and
- xv. Appointment of a successor or additional trustee or the change of name of a trustee.

(e) At any time the Bonds are outstanding, the State shall provide, in a timely manner, to the MSRB and any SID notice of any failure of the State to timely provide the Annual Financial Information as specified in Sections 2(a) and 2(b) hereof.

Section 3. Method of Transmission. Subject to technical and economic feasibility, the State shall employ such methods of electronic or physical information transmission as is requested or recommended by the Repositories or the MSRB unless otherwise required by law.

Section 4. Enforcement. The obligations of the State hereunder shall be for the benefit of the owners (including the beneficial owners) of the Bonds. The owner or beneficial owner of any Bonds is authorized to take action to seek specific performance by court order to compel the State to comply with its obligations under this Disclosure Undertaking, which action shall be the exclusive remedy available to it or any other owners or beneficial owners of the Bonds. Any such action shall be brought only in a State court of competent jurisdiction in Santa Fe County, New Mexico. Breach of the obligations of the State hereunder shall not constitute an event of default under the Resolution and none of the rights and remedies provided by the Resolution shall be available to the owners (including the beneficial owners) of the Bonds.

Section 5. Additional Information. Nothing in the Disclosure Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other annual information or notice of occurrence of an event which is not Event Information, in addition to that

which is required by this Disclosure Undertaking; provided that the State shall not be required to do so. If the State chooses to include any annual information or notice of occurrence of an event in addition to that which is specifically required by this Disclosure Undertaking, the State shall have no obligation under this Disclosure Undertaking to update such information or include it in any future annual filing or Event Information filing.

Section 6. Term. This Disclosure Undertaking shall be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of (i) the date all principal and interest on the Bonds shall have been paid or legally defeased pursuant to the terms of the Resolution; (ii) the date that the State shall no longer constitute an “obligated person” with respect to the Bonds within the meaning of the Rule; or (iii) the date on which those portions of the Rule which require this Disclosure Undertaking are determined to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds.

Section 7. Amendments and Waivers. Notwithstanding any other provision of this Disclosure Undertaking, the State may amend this Disclosure Undertaking from time to time, and any provision of this Disclosure Undertaking may be waived, without the consent of the owners or beneficial owners of the Bonds upon the State’s receipt of an opinion of counsel experienced in federal securities laws to the effect that such amendment or waiver will not adversely affect compliance with the Rule. Any Annual Financial Information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information and Audited Financial Statements for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The State shall provide notice of any such amendment or waiver to each Repository.

Section 8. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the State and the owners (including beneficial owners) from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 9. Governing Law. This Disclosure Undertaking shall be governed by the laws of the State.

Date: July 23, 2013

STATE BOARD OF FINANCE

By _____
President

By _____
Secretary

EXHIBIT A

Portions of the Official Statement
Containing the Type of Information
To Be Included As Annual Financial Information

1. SEVERANCE TAX BONDING FUND AND DEBT SERVICE REQUIREMENTS
 - Investments
 - Issuance of Severance Tax Bonds
 - State Capital Program
 - Outstanding and Additional Senior Severance Tax Bonds
 - Outstanding and Additional Supplemental Severance Tax Bonds
 - Table entitled “Severance Tax Bonding Fund Receipts, Disbursements and Transfers”
 - Table entitled “State of New Mexico Severance Tax Bonds - Projected Cash Receipts, Debt Service Requirements and Coverage”
Fiscal Year and Scheduled Debt Service columns
2. SEVERANCE TAX REVENUE
 - All
3. NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE
 - Natural Gas Production
 - Data for chart entitled: “Natural Gas Subject to Taxation: Production, Revenues and Average Price”
 - Severance Taxes on Natural Gas
 - All
4. OIL PRODUCTION AND SEVERANCE TAX REVENUE
 - Severance Taxes on Oil
 - All
5. COAL PRODUCTION AND SEVERANCE TAX REVENUE
 - Severance Tax Revenue on Coal
 - All
6. OTHER MINERAL PRODUCTION AND SEVERANCE TAXES
 - Any statements therein relating to the severance tax collected and tax rates
7. OTHER TAXES OF NATURAL RESOURCES NOT PLEDGED
 - All
8. APPENDIX A - GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO
 - All
9. STATE OF NEW MEXICO FINANCIAL STATEMENTS (Audited)