

New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on the State of New Mexico \$78,750,000 Severance Tax Bonds, Series 2016A (the "2016A Bonds"), the \$181,395,000 State of New Mexico Severance Tax Bonds, Refunding Series 2016B (the "2016B Bonds") and the \$41,925,000 State of New Mexico Taxable Severance Tax Bonds (the "2016C Bonds" and, collectively with the 2016A Bonds and 2016B Bonds, the "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.



\$302,070,000
THE STATE OF NEW MEXICO
\$78,750,000 SEVERANCE TAX BONDS, SERIES 2016A
\$181,395,000 SEVERANCE TAX BONDS, REFUNDING SERIES 2016B
\$41,925,000 TAXABLE SEVERANCE TAX BONDS, SERIES 2016C

Dated: Delivery Date

Due: July 1, as shown on the inside front cover

Ratings on 2016A Bonds "Aa2" Moody's Investors Service, Inc.

"AA-" S&P Global Ratings.

Ratings on 2016B Bonds "Aa2" Moody's Investors Service, Inc.

"AA-" S&P Global Ratings

Ratings on 2016C Bonds "Aa2" Moody's Investors Service, Inc.

"AA-" S&P Global Ratings.

Tax Exemption

In the opinions of Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-Bond Counsel, assuming continuous compliance with certain covenants described herein, interest on the 2016A Bonds and 2016B Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the "Tax Code"), and interest on the 2016A Bonds and 2016B Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations. In the opinions of Co-Bond Counsel, interest on the 2016C Bonds is included in gross income under federal income tax laws pursuant to the Tax Code. Co-Bond Counsel is also of the opinion that interest on the 2016A Bonds and 2016B Bonds is exempt from income taxes imposed directly thereon by the State of New Mexico (the "State") under State income tax laws in effect on the date of delivery of the Bonds as described herein, and interest on the 2016C Bond is exempt from taxation by the State and any political subdivision thereof. See "TAX MATTERS."

Redemption of Bonds

The Bonds will not be subject to optional or mandatory redemption prior to maturity.

Sources of Payment

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.

Priority

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.

Purposes

Net proceeds of the 2016A Bonds and the 2016C Bonds are being used to provide funds to finance capital improvements approved by the State Legislature. Net proceeds of the 2016B Bonds are being used for the advance refunding of the July 1, 2018 through July 1, 2021 maturities of the State's Severance Tax Bonds, Series 2011A-1; the July 1, 2019 through July 1, 2023 maturities of the State's Severance Tax Bonds, Series 2013A; and the July 1, 2020 through July 1, 2024 maturities of the State's Severance Tax Bonds, Series 2014A.

Interest Payment Dates

January 1 and July 1, commencing January 1, 2017.

Closing/Settlement

On or about June 23, 2016.

Denominations

\$5,000

Book-Entry System

The Depository Trust Company

Registrar/Paying Agent

State Treasurer of New Mexico

Co-Bond Counsel

Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C.

Co-Disclosure Counsel

Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C.

Issuer Contact

State Board of Finance: Leila Burrows Kleats, Director, 505-827-4377; LeilaK.Burrows@state.nm.us

Dated: May 17, 2016

2016A 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>
647310 W31	2021	\$ 10,115,000	5.000%	1.140%	118.788
647310 W49	2022	12,390,000	5.000	1.250	121.688
647310 W56	2023	13,025,000	5.000	1.390	124.072
647310 W64	2024	13,690,000	5.000	1.510	126.274
647310 W72	2025	14,395,000	5.000	1.650	127.975
647310 W80	2026	15,135,000	5.000	1.800	129.224

2016B 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>
647310 W98	2019	\$ 12,225,000	4.000%	0.890%	109.253
647310 X22	2020	36,040,000	4.000	1.030	111.672
647310 X30	2021	37,550,000	4.000	1.140	113.921
647310 X48	2022	36,790,000	4.000	1.250	115.905
647310 X55	2023	38,240,000	4.000	1.390	117.404
647310 X63	2024	20,550,000	4.000	1.510	118.746

2016C 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>
647310 X71	2017	\$ 4,800,000	2.000%	0.890%	101.126
647310 X89	2018	9,800,000	2.000	1.000	101.996
647310 X97	2019	14,200,000	2.000	1.100	102.667
647310 Y21	2020	11,430,000	2.000	1.250	102.933
647310 Y39	2021	1,695,000	2.000	1.600	101.922

(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

BRAD WINTER
Secretary of State

TIM KELLER
State Auditor

KAREN L. MONTOYA
District I

LYNDA LOVEJOY
District IV

SUSANA MARTINEZ
Governor

JOHN A. SANCHEZ
Lieutenant Governor

HECTOR BALDERAS
Attorney General

Public Regulation Commissioners:

PATRICK H. LYONS
District II

TIM EICHENBERG
State Treasurer

AUBREY DUNN
Commissioner of Public Lands

VALERIE ESPINOZA
District III

SANDY JONES
District V

STATE BOARD OF FINANCE
Ex-Officio Members
GOVERNOR SUSANA MARTINEZ
President

LT. GOVERNOR
JOHN A. SANCHEZ
Member

STATE TREASURER
TIM EICHENBERG
Member

Appointed Members

ROBERT J. ARAGON
Member

ADELMO ARCHULETA
Member

MICHAEL BRASHER
Member

JOHN KORMANIK
Member

THOMAS E. CLIFFORD, PhD*
Executive Officer

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Santa Fe, New Mexico 87501
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Sherman & Howard L.L.C.
Albuquerque, New Mexico

CO-DISCLOSURE COUNSEL
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Albuquerque, New Mexico
Sherman & Howard L.L.C.
Albuquerque, New Mexico

FINANCIAL ADVISORS
Fiscal Strategies Group, Inc.
Berkeley, California
Public Resources Advisory Group
(as subcontractor)
Los Angeles, California

* As of May 27, 2016, Thomas E. Clifford, PhD will step down as Executive Officer of the State Board of Finance. Duffy Rodriguez will serve as acting Executive Officer from that date.

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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APPENDIX D:	FORM OF OPINION OF CO-BOND COUNSEL
APPENDIX E:	FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS

SUMMARY OF INFORMATION

\$78,750,000 SEVERANCE TAX BONDS, SERIES 2016A
\$181,395,000 SEVERANCE TAX BONDS, REFUNDING SERIES 2016B
\$41,925,000 TAXABLE SEVERANCE TAX BONDS, SERIES 2016C

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, 2017.
<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 Bonds</i>	The Bonds will <u>not</u> be subject to optional or mandatory redemption prior to maturity.
<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 Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-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 total aggregate amount of Senior Severance Tax Bonds outstanding, including the bonds to be issued, can be serviced with not more than the following percentages of the annual deposits into the Bonding Fund, as determined by the lesser of the deposits during the preceding fiscal year or the deposits during the current fiscal year as estimated by the Board of Finance Division: for fiscal year 2016, 49.4 percent; for fiscal year 2017, 48.8 percent; for fiscal year 2018, 48.2 percent; and for fiscal year 2019 and subsequent fiscal years, 47.6 percent.

THE STATE OF NEW MEXICO
\$78,750,000 SEVERANCE TAX BONDS, SERIES 2016A
\$181,395,000 SEVERANCE TAX BONDS, REFUNDING SERIES 2016B
\$41,925,000 TAXABLE SEVERANCE TAX BONDS, SERIES 2016C

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 \$78,750,000 State of New Mexico Severance Tax Bonds, Series 2016A (the “2016A Bonds”), the \$181,395,000 State of New Mexico Severance Tax Bonds, Refunding Series 2016B (the “2016B Bonds”) and the \$41,925,000 State of New Mexico Taxable Severance Tax Bonds, Series 2016C (the “2016C Bonds,” and collectively with the 2016A Bonds and 2016B Bonds, 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, NMSA 1978, Sections 7-27-1 to 27 (1961, as amended through 2015) (the “Severance Tax Bonding Act”), and pursuant to resolutions of the Board adopted on April 19, 2016 (one resolution pertaining to the 2016A Bonds and 2016B Bonds and a separate resolution pertaining to the 2016C Bonds); and additional resolutions of the Board adopted on May 17, 2016 (one resolution pertaining to the 2016A Bonds and 2016B Bonds and another resolution pertaining to the 2016C Bonds, and each, along with the resolutions adopted April 19, 2016, a “Bond Resolution” and sometimes referred to separately as the 2016A Bond Resolution; 2016B Bond Resolution; or 2016C Bond Resolution, as applicable).

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:

Contact:	State Board of Finance Attn: Leila Burrows Kleats
Phone:	(505) 827-4377
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E-mail:	LeilaK.Burrows@state.nm.us
Web Site:	http://www.nmdfa.state.nm.us/Board_of_Finance.aspx

Changes from Preliminary Official Statement

This Official Statement includes certain information which was not available for inclusion in the Preliminary Official Statement dated May 6, 2016, including interest rates, prices, and other final terms relating to the sale of the Bonds. The following information has also been revised:

- (1) Since the posting of the Preliminary Official Statement, the ratings of the State’s Severance Tax Bonds and its Supplemental Severance Tax Bonds have been downgraded. Pursuant to the requirements of the State’s prior continuing disclosure

undertakings and Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, the Board has filed a material events notice on EMMA. A discussion of the downgrades has also been added to “CONTINUING DISCLOSURE UNDERTAKING.”

- (2) On May 23, 2016, Governor Susana Martinez announced that Thomas E. Clifford, PhD., who had been serving as the Executive Officer of the State Board of Finance as well as the Secretary of the Department of Finance and Administration, will retire effective May 27, 2016. Duffy Rodriguez will take over as the acting Executive Officer of the State Board of Finance and acting Cabinet Secretary as of that date.

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TABLE 1

**Summary of Projected and Historical Coverage in Severance Tax Bonding Fund
Fiscal Year Ended June 30⁽¹⁾**

(Dollars in thousands)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Projected Bonding Fund Receipts	\$315,595	\$349,339	\$373,041	\$391,637	\$403,531
Senior Bond Debt Service (2) (3)	\$142,085	\$141,063	\$138,935	\$133,190	\$120,027
Senior Bond Debt Service Coverage Ratio	2.22x	2.48x	2.69x	2.94x	3.36x
Supplemental Bond Debt Service (2)	\$13,842	\$19,026	\$20,474	\$21,142	\$21,413
Supplemental Bond Debt Service Coverage Ratio	2.02x	2.18x	2.34x	2.54x	2.85x
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Bonding Fund Receipts	\$395,652	\$479,903	\$423,923	\$541,218	\$ 499,509
Senior Bond Debt Service	\$103,867	\$121,367	\$127,951	\$126,397	\$137,412
Senior Bond Debt Service Coverage Ratio	3.81x	3.95x	3.31x	4.28x	3.64x
Supplemental Bond Debt Service	\$19,212	\$29,300	\$21,483	\$15,605	\$13,986
Supplemental Bond Debt Service Coverage Ratio	3.26x	3.19x	2.84x	3.81x	3.30x

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- (1) Since these projections were finalized, global oil and natural gas prices have continued to experience market volatility. Accordingly, revenue and debt service coverage projections are subject to continuing review.
- (2) Includes debt service on the Bonds. 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.
- (3) Gives effect to the refunding of the July 1, 2018 through July 1, 2021 maturities of the State's Severance Tax Bonds, Series 2011A-1; the July 1, 2019 through July 1, 2023 maturities of the State's Severance Tax Bonds, Series 2013A; and the July 1, 2020 through July 1, 2024 maturities of the State's Severance Tax Bonds, Series 2014A

Source: Financial Advisors.

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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, 2017. 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.

No Optional or Mandatory Redemption of Bonds

The Bonds are not subject to optional or mandatory redemption prior to maturity.

Security for the Bonds

There are two categories of bonds issued by the Board 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.”

Security for the Bonds

The Board is prohibited by statute from issuing Senior Severance Tax Bonds and short-term Senior Severance Tax Funding Notes unless the aggregate amount of total Senior Severance Tax Bonds and Funding Notes outstanding, after giving effect to the proposed issuance, can be serviced with not more than the following percentages of the annual deposits into the Bonding Fund, as determined by the lesser of the deposits during the preceding fiscal year or the deposits during the current fiscal year as estimated by the Board:

- (1) For fiscal year 2016, 49.4 percent;
- (2) For fiscal year 2017, 48.8 percent;
- (3) For fiscal year 2018, 48.2 percent; and
- (4) For fiscal year 2019 and subsequent fiscal years, 47.6 percent.

The Board is prohibited by statute from issuing Supplemental Severance Tax Bonds with a term that extends beyond the fiscal year in which they are issued unless the aggregate amount of Senior Severance Tax Bonds and Supplemental Severance Tax Bonds outstanding, after giving effect to the proposed issuance, can be serviced with not more than the following percentages of the annual deposits into the Bonding Fund, as determined by the lesser of the deposits during the preceding fiscal year or the deposits during the current fiscal year as estimated by the Board:

- (1) For fiscal year 2016, 61.9 percent;
- (2) For fiscal year 2017, 61.3 percent;
- (3) For fiscal year 2018, 60.7 percent; and
- (4) For fiscal year 2019 and subsequent fiscal years, 60.1 percent.

In addition, short-term Supplemental Severance Tax Funding Notes may be issued 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 Senior and Supplemental Severance Tax Bonds and Funding Notes does not exceed the following percentages of the lesser of the deposits in the Bonding Fund during the preceding fiscal year or the deposits into the Bonding Fund during the current fiscal year as estimated by the Board:

- (1) For fiscal year 2016, 94.4 percent;
- (2) For fiscal year 2017, 93.8 percent;
- (3) For fiscal year 2018, 93.2 percent;
- (4) For fiscal year 2019, 91 percent;
- (5) For fiscal year 2020, 89.4 percent;
- (6) For fiscal year 2021, 87.8 percent; and
- (7) For fiscal year 2022 and subsequent fiscal years, 86.2 percent.

The Senior Severance Tax Bonds and Funding Notes fund a wide variety of capital projects while Supplemental Severance Tax Bonds and Funding Notes are earmarked for capital projects for public education. The Board has authority 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 outstanding Senior Severance Tax 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 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.

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, NMSA 1978, Sections 7-26-1 to 11 (1937, as amended through 1999) (the "Severance Tax Act"), and the Oil and Gas Severance Tax Act, NMSA 1978, Sections 7-29-1 to 23 (1959, as amended through 2008) (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 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.

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USE OF PROCEEDS

Purpose

The proceeds of the 2016A and 2016C Bonds are being used to provide funds to finance capital improvements approved by the State Legislature and signed by the Governor. The proceeds of the 2016B Bonds are being used to advance refund all or a part of certain maturities of the State’s Severance Tax Bonds, Series 2011A-1 (the “2011A-1 Bonds”); the State’s Severance Tax Bonds, Series 2013A (the “2013A Bonds”); and the State’s Severance Tax Bonds, Series 2014A (the “2014A Bonds”), as described herein. The purpose of the advance refunding is to achieve annual and present value savings.

The proceeds of the Bonds are expected to be applied in the manner set forth in the following table:

	<u>2016A Bonds</u>	<u>2016B Bonds</u>	<u>2016C Bonds</u>
SOURCES:			
Par Amount	\$78,750,000.00	\$181,395,000.00	\$41,925,000.00
Original Issue Premium	19,769,891.65	26,924,145.65	996,189.80
TOTAL SOURCES	\$98,519,891.65	\$208,319,145.65	\$42,921,189.80
USES:			
Deposit to Capital Project Account	\$98,438,269.00		\$42,808,563.00
Deposit to Escrow Account		\$208,142,861.19	
Underwriters’ Discount	76,550.13	176,327.76	112,430.98
Additional Proceeds	5,072.52	(43.30)	195.82
TOTAL USES	\$98,519,891.65	\$208,319,145.65	\$42,921,189.80

Bonds to be Refunded

The net proceeds of the 2016B Bonds will be used to advance refund \$8,290,000 of the 2011A-1 Bonds; \$87,975,000 of the 2013A Bonds and \$91,115,000 of the 2014A Bonds, plus accrued interest. The 2011A-1 Bonds to be partially refunded (the “Refunded 2011A-1 Bonds”) mature on July 1, 2018 through July 1, 2021. The 2013A Bonds to be refunded (the “Refunded 2013A Bonds”) mature on July 1, 2019 through July 1, 2023. The 2014A Bonds to be refunded (the “Refunded 2014A Bonds” and, collectively with the Refunded 2011A-1 Bonds and the Refunded 2013A Bonds, the “Refunded Bonds”) mature on July 1, 2020 through July 1, 2024. Proceeds of the 2016B Bonds will be used to fund an escrow account (“Escrow Account”) created pursuant to the 2016B Bond Resolution that will provide for payments of: (i) the principal on the Refunded 2011A-1 Bonds upon prior redemption on July 1, 2017, and the interest on the Refunded 2011A-1 Bonds as it becomes due through July 1, 2017; (ii) the principal on the Refunded 2013A Bonds upon prior redemption on July 1, 2018, and the interest on the Refunded 2013A Bonds as it becomes due through July 1, 2018; and (iii) the principal on the Refunded 2014A Bonds upon prior redemption on July 1, 2019, and the interest on the Refunded 2014A Bonds as it becomes due through July 1, 2019.

Refunding and Defeasance

The proceeds of the 2016B Bonds will be deposited into the Escrow Account for the Refunded Bonds pursuant to an Escrow Agreement among the State, the State Treasurer as paying agent, registrar

and authenticating agent for the Refunded Bonds and Bank of Albuquerque, a division of BOKF, NA, as escrow agent (the “Escrow Agent”), in amount sufficient, together with investment income thereon, to pay the principal of and interest on the Refunded Bonds as set forth below in the Summary of Refunded Bonds.

Moneys in the Escrow Account established under the Escrow Agreement for the payment of the Refunded Bonds may be invested, as provided in the Escrow Agreement, in the following classes of securities: (i) direct obligations of, or obligations as to full and timely payment of principal and interest on which is unconditionally guaranteed by, the United States of America; (ii) obligations issued or guaranteed as to full and timely payment of principal and interest by an agency or person controlled by and acting as an instrumentality of the United States of America, pursuant to authority granted by Congress of the United States of America; and (iii) obligations described in Section 103(a) of the Tax 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 noncallable 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 clauses (i) and (ii) are not available to satisfy 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 S&P Global Ratings or Moody’s Investors Service, or similar rating agency in its highest rating category (without regard to any refinement or gradation by numerical modifier or otherwise).

The initial investment of the Escrow Account will be designed to produce sufficient funds to provide fully for the payments of interest due on the Refunded Bonds from the closing of the 2016B Bonds to the respective redemption dates of the Refunded Bonds. The Board reserves the right to modify the investments in the Escrow Account at any time and from time to time upon the condition that any reinvestments meet the sufficiency requirement in the preceding sentence. If the initial or any subsequent investment of the Escrow Account, or either of them, are solely in cash and/or Defeasance Obligations (defined below) which are certified by an independent public accounting firm of national redemption to satisfy the sufficiency requirements stated above, the Refunded Bonds will be deemed to be defeased and no longer entitled to the benefit of the lien on the Bonding Fund revenues.

Summary of Refunded Bonds

The following table sets forth the maturity dates, maturity amounts, interest rates and redemption dates of the Refunded Bonds.

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Severance Tax Bonds, Series 2011A-1

<u>Maturity (July 1)</u>	<u>Interest Rate</u>	<u>Principal Refunded</u>	<u>Redemption Date (July 1)</u>
2018	2.000%	\$2,115,000.00	2017
2019	2.250%	2,010,000.00	2017
2020	2.750%	2,055,000.00	2017
2021	3.000%	2,110,000.00	2017

Severance Tax Bonds, Series 2013A

<u>Maturity (July 1)</u>	<u>Interest Rate</u>	<u>Principal Refunded</u>	<u>Redemption Date (July 1)</u>
2019	4.000%	\$16,245,000.00	2018
2020	4.000%	16,890,000.00	2018
2021	4.000%	17,570,000.00	2018
2022	4.000%	18,270,000.00	2018
2023	4.000%	19,000,000.00	2018

Severance Tax Bonds, Series 2014A

<u>Maturity (July 1)</u>	<u>Interest Rate</u>	<u>Principal Refunded</u>	<u>Redemption Date (July 1)</u>
2020	5.000%	\$16,375,000.00	2019
2021	5.000%	17,270,000.00	2019
2022	5.000%	18,065,000.00	2019
2023	5.000%	18,955,000.00	2019
2024	5.000%	20,450,000.00	2019

The accuracy of computations indicating that the amount on deposit in the Escrow Account for the Refunded Bonds is sufficient to make the required payments in connection with the refunding of the Refunded Bonds will be verified with Causey Demgen & Moore, Inc., Denver, Colorado. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

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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. The moneys in the Bonding Fund are also available to pay costs of issuance in connection with the sale of Severance Tax Bonds and Supplemental Severance Tax Bonds.

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”) adopted on May 20, 2014. 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 Tax Code (defined herein) 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 2011 through Fiscal Year 2015.

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TABLE 2**Principal Sources of Capital Project Funding
Fiscal Year Ended June 30**

(Dollars in millions)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Proceeds from General Obligation Bonding Program⁽¹⁾					
General Obligation Bonds	\$ 19.7	\$ --	\$139.3	\$ --	\$167.0
Subtotal	\$ 19.7	\$ --	\$139.3	\$ --	\$167.0
Proceeds from Severance Tax Bonding Program⁽¹⁾					
Severance Tax Bonds ⁽²⁾	\$ --	\$121.2	\$ --	\$339.7	\$ --
Severance Tax Funding Notes ⁽³⁾	27.3	76.2	112.0	90.5	128.2
Supplemental Severance Tax Bonds ⁽²⁾	--	--	--	--	--
Supplemental Severance Tax Funding Notes ⁽²⁾	206.1	148.7	167.8	175.2	214.5
Subtotal	\$233.4	\$346.1	\$279.8	\$605.4	\$342.7
Proceeds From Other Sources					
General Fund	\$ --	\$ --	\$ --	\$ --	\$ --
Transportation Bonds ⁽⁴⁾	--	--	--	70.1	--
Lease Appropriation Bonds	--	--	--	--	--
Subtotal	\$ --	\$ --	\$ --	\$70.1	\$ --
Total⁽⁵⁾	\$253.1	\$346.1	\$419.1	\$675.5	\$509.7

- (1) Dollar amounts from State Board of Finance funding programs reflect net proceeds available for capital expenditure. Amounts vary annually by legislative action, governor vetoes and timing of bond closings.
- (2) In Fiscal Year 2016, the State issued its Severance Tax Bonds, Series 2015A in the aggregate principal amount of \$129,195,000 and its Supplemental Severance Tax Bonds, Series 2015B, in the aggregate principal amount of \$69,745,000.
- (3) 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.
- (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, with the exception of the State Transportation Highway Infrastructure Fund Revenue Bonds issued March 12, 2014 for \$70,110,000, 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	\$ 69,135,000	\$ 69,135,000
Severance Tax Bonds, Series 2010A	73,500,000	73,500,000
Severance Tax Bonds, Refunding Series 2010D	44,990,000	44,990,000
Severance Tax Bonds, Series 2011A-1	33,250,000	24,960,000
Severance Tax Bonds, Refunding Series 2011A-2	47,540,000	47,540,000
Severance Tax Bonds, Series 2012A	48,225,000	48,225,000
Severance Tax Bonds, Series 2013A	132,210,000	44,235,000
Severance Tax Bonds, Series 2014A	139,770,000	48,655,000
Severance Tax Bonds, Series 2015A	129,195,000	129,195,000
Severance Tax Bonds, Series 2016A	0	78,750,000
Severance Tax Bonds, Series 2016B	0	181,395,000
Severance Tax Bonds, Series 2016C	0	41,925,000
	\$717,815,000	832,505,000

Source: New Mexico State Board of Finance.

Additional senior lien bonds may be issued in the future only if certain statutory conditions as to debt service capacity are met. See “THE SEVERANCE TAX BONDS – Security for the 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. In Fiscal Year 2016, 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 61.9 percent of the annual deposits into the Bonding Fund as determined by the lesser of the deposits during the preceding fiscal year or the deposits during the current fiscal year as estimated by the Board. In addition, in Fiscal Year 2016, 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 94.4 percent of the deposits into the Bonding Fund as determined by the lesser of the deposits during the preceding fiscal year or the deposits during the current fiscal year as estimated by the Board. The Board has been authorized by statute 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**

	<u>Prior to Delivery</u>	<u>After Delivery</u>
Supplemental Severance Tax Bonds, Series 2010B	\$52,795,000	\$52,795,000
Supplemental Severance Tax Bonds, Series 2015B	69,745,000	69,745,000
	<hr/> \$122,540,000	<hr/> \$122,540,000

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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beginning Balance	\$130,346	\$161,190	\$254,810	\$142,806	\$19,572
Receipts:					
Taxes:					
Oil and Gas Severance Tax	\$350,718	\$449,283	\$400,959	\$518,371	\$474,533
Other Minerals Severance Taxes	<u>16,009</u>	<u>13,548</u>	<u>13,416</u>	<u>12,297</u>	<u>11,506</u>
Total Severance Taxes	<u>\$366,727</u>	<u>\$462,831</u>	<u>\$414,375</u>	<u>\$530,668</u>	<u>\$486,039</u>
Other Income:					
Interest on Investments	\$ 18,102	\$9,941	\$ 6,772	\$5,844	\$5,035
Bond Proceeds	0	4	0	0	0
Other financing sources	<u>10,823</u>	<u>7,126</u>	<u>2,777</u>	<u>4,706</u>	<u>8,435</u>
Total Other Income	\$ 28,295	\$17,072	\$ 9,549	\$ 10,552	\$13,470
Total Receipts	\$395,652	\$479,903	\$423,923	\$541,219	\$499,509
Disbursements:					
Senior Bond Debt Service	\$103,867	\$121,367	\$127,951	\$246,999 ⁽⁴⁾	\$16,795
Senior Short-term Obligations ⁽³⁾	27,273	76,220	111,999	90,545	128,217
Supplemental Bond Debt Service	19,212	29,300	21,483	28,084 ⁽⁵⁾	1,507
Supplemental Short-term Obligations ⁽³⁾	206,130	148,745	167,832	175,161	214,472
Costs of Issuance and Other Charges	<u>4,838⁽⁶⁾</u>	<u>3,034⁽⁷⁾</u>	<u>2,774⁽⁸⁾</u>	<u>(1,331)⁽⁸⁾</u>	<u>639</u>
Total Disbursements	\$361,321	\$378,665	\$432,039	\$539,458	\$361,630
Transfers:					
To Severance Tax Permanent Fund	<u>\$ 3,488</u>	<u>\$7,617</u>	<u>\$103,888</u>	<u>\$124,996</u>	<u>\$4,980</u>
Total Transfers	\$ 3,488	\$7,617	\$103,888	\$124,996	\$4,980
Ending Balance, June 30	\$161,190 ⁽⁹⁾	\$254,810 ⁽¹⁰⁾	\$142,806	\$19,571	\$152,471

- (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 \$120.6 million July 1, 2014 principal and interest payment on Severance Tax Bonds that was paid on June 27, 2014.
- (5) Includes \$12.5 million July 1, 2014 principal and interest payment on Supplemental Severance Tax Bonds that was paid on June 27, 2014.
- (6) Includes \$2.0 million paid to escrow agent in connection to Series 2010D advance refunding.
- (7) Includes \$2.2 million paid to the Internal Revenue Service in August 2011 for arbitrage rebate liabilities.
- (8) Fiscal Year 2013 includes \$2.2 million that was incorrectly debited a second time in July 2012 for the August 2011 arbitrage rebate payment made to the Internal Revenue Service as part of the State Treasurer's Fiscal Year 2012 audit adjustments. Fiscal Year 2014 reflects reversal of this error in November 2013.
- (9) 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.
- (10) 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⁾**

(Dollars in thousands)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Severance Tax Bonding Fund Receipts					
Taxes: Natural Gas	\$87,553	\$106,844	\$110,611	\$110,269	\$109,869
Oil	<u>\$201,842</u>	<u>\$216,295</u>	<u>\$236,230</u>	<u>\$255,168</u>	<u>\$267,461</u>
Subtotal-Oil & Gas Severance Tax	\$289,395	\$323,139	\$346,841	\$365,437	\$377,331
Coal	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Other Minerals	<u>\$2,200</u>	<u>\$2,200</u>	<u>\$2,200</u>	<u>\$2,200</u>	<u>\$2,200</u>
Subtotal-Other Severance Tax	\$12,200	\$12,200	\$12,200	\$12,200	\$12,200
Investment Earnings	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000
Other Income	<u>\$6,000</u>	<u>\$6,000</u>	<u>\$6,000</u>	<u>\$6,000</u>	<u>\$6,000</u>
Total Receipts	\$315,595	\$349,339	\$373,041	\$391,637	\$403,531

(1) Columns may not total due to rounding.

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⁽¹⁾**

<u>Fiscal Year Ending 6/30</u>	<u>Projected STBF Revenues</u>	<u>Scheduled Senior Debt Service⁽²⁾</u>	<u>Projected Senior Debt Service Coverage</u>	<u>Scheduled Supplemental Debt Service⁽²⁾</u>	<u>Projected Supplemental Coverage</u>
2016	\$ 315,594,925	\$ 142,085,219	2.22x	\$ 13,841,891	2.02x
2017	349,339,150	141,063,473	2.48x	19,025,925	2.18x
2018	373,041,100	138,935,000	2.69x	20,474,425	2.34x
2019	391,636,900	133,190,150	2.94x	21,141,675	2.54x
2020	403,530,625	120,026,625	3.36x	21,413,175	2.85x
2021	403,139,652	104,693,425	3.85x	20,591,400	3.22x
2022	402,675,509	88,143,675	4.57x	9,121,125	4.14x
2023	402,140,479	82,210,150	4.89x	9,122,500	4.40x
2024	401,536,793	73,996,675	5.43x	9,124,625	4.83x
2025	400,866,631	55,133,250	7.27x	9,121,625	6.24x

(1) Since these projections were finalized, global oil and natural gas prices have continued to experience market volatility. Accordingly, revenue and debt service coverage projections are subject to continuing review.

(2) 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 97.6 percent of total Fiscal Year 2015 Bonding Fund tax receipts. This percentage is calculated net of applicable 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 are made jointly by the Department of Finance and Administration (the “DFA”), the TRD, the Department of Transportation and the Legislative Finance Committee. The Department of Finance and Administration uses these price and volume estimates as well as national price forecasts to project Severance Tax receipts. See “[Appendix C: FORMS OF ATTORNEY GENERAL’S NO LITIGATION LETTERS](#)” 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 2015, the TRD received an average of 616 oil and natural gas returns per month containing an average of 117,609 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 Extraction Taxes 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. TRD is currently in the process of transitioning ONGARD capabilities to a more modern system.

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, the United States District Court for the District of New Mexico 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. *Ute Mountain Ute Tribe v. Homans*, 775 F. Supp. 2d 1259 (D.N.M. 2009) (Parker, J.). The Tenth Circuit Court of Appeals overturned the district court opinion and held that the State severance taxes are not preempted by federal law because, among other things, the State had asserted sufficient justification for imposing the taxes. *Ute Mountain Ute Tribe v. Rodriguez*, 660 F.3d 1177 (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. *Ute Mountain Ute Tribe v. Padilla*, 132 S.Ct. 1557 (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 3.7 percent and 0.6 percent, respectively, of total statewide production in Fiscal Year 2015. The TRD estimates that oil and natural gas production on Indian land generated \$12.9 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2015. On December 30, 2014, the Navajo Nation completed the purchase of the Navajo coal mine. As a result, there has not been any production from the Navajo Mine reported to the TRD in Fiscal Year 2015. No potash, copper or carbon dioxide (CO₂) is produced on Indian land.

NMSA 1978, Section 7-29C-1 (1999), 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 as of 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 \$1.3 million in Fiscal Year 2015. About \$500,000 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 NMSA 1978, Sections 7-29C-2 (2001), 7-9-88.2 (2001) and 9-11-12.2 (2001), 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 did not reduce Bonding Fund revenue in Fiscal Year 2015.

Recent Local Law Developments

Over the past few years, several local governments in the State have proposed or adopted laws that 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 2008, Santa Fe County amended its land development code to address oil and gas exploration, drilling, production, transportation, abandonment and remediation. The provisions of this code, while restrictive, do not ban exploration activities and to date have not been challenged by lawsuit. In April 2013, Mora County, a 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.” Several lawsuits were filed challenging the validity of this Ordinance. In January 2015, a federal district court declared the Mora County ordinance invalid based on several grounds including violation of the Supremacy Clause and the First Amendment of the U.S. Constitution and preemption by New Mexico oil and gas regulatory statutes. *SWEPI, LP v. Mora County*, 81 F. Supp. 3d 1075 (D.N.M. 2015). In March 2015, the Mora County Commission voted to repeal the ordinance. Legislation heavily regulating oil and gas development was adopted in November 2014 in San Miguel County, also in the north central section of the State. Legislation banning hydraulic fracturing was adopted in Las Vegas, a municipality in San Miguel County, by its city council but was not signed and is not enforced by its mayor. Historically, there has been little or no oil and gas production in Santa Fe, Mora or San Miguel counties.

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 2005 to 2014. 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 16,426 billion cubic feet (bcf) at the end of calendar year 2014, down from 19,687 bcf at the beginning of calendar year 2005. Reserves decreased by 3,261 bcf since the beginning of 2005, and production was about 13,782 bcf. Additions through new discoveries and revised estimates have offset 76 percent of the production since 2005. The current reserve estimate represents a New Mexico reserve-to-current-production ratio of 13:1 years.

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, directional drilling, and hydraulic fracturing have advanced the discovery of new reserves and the production capability for reserves. In 2014, the additions to New Mexico's reserves were the largest in recent history. Combined with stable production, 2014 experienced the highest reserve-to-current production ratio in recent history at 13:1. 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 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, if prices increase, all other things being equal, we would expect reserves to increase.

TABLE 8

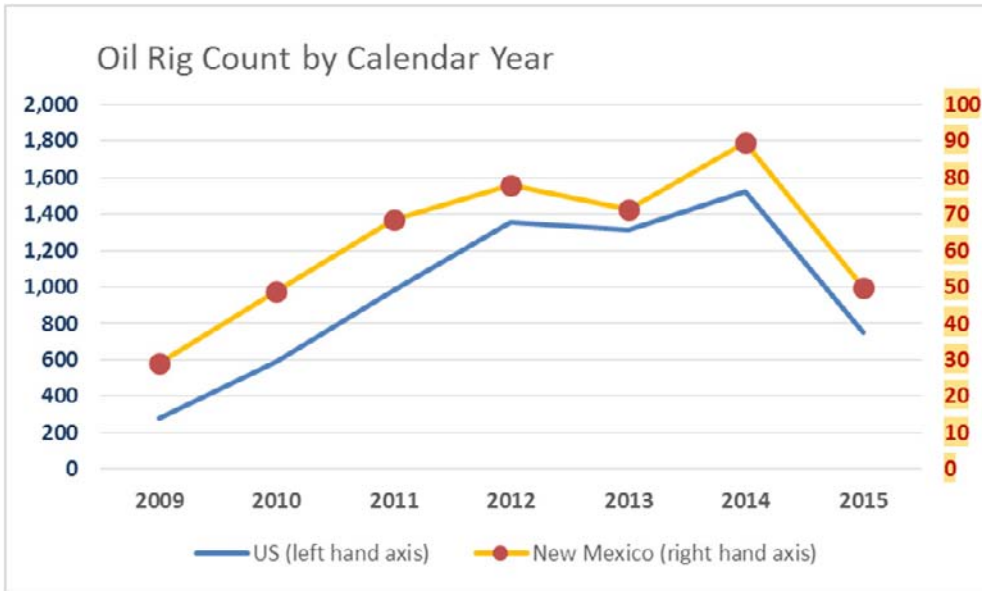
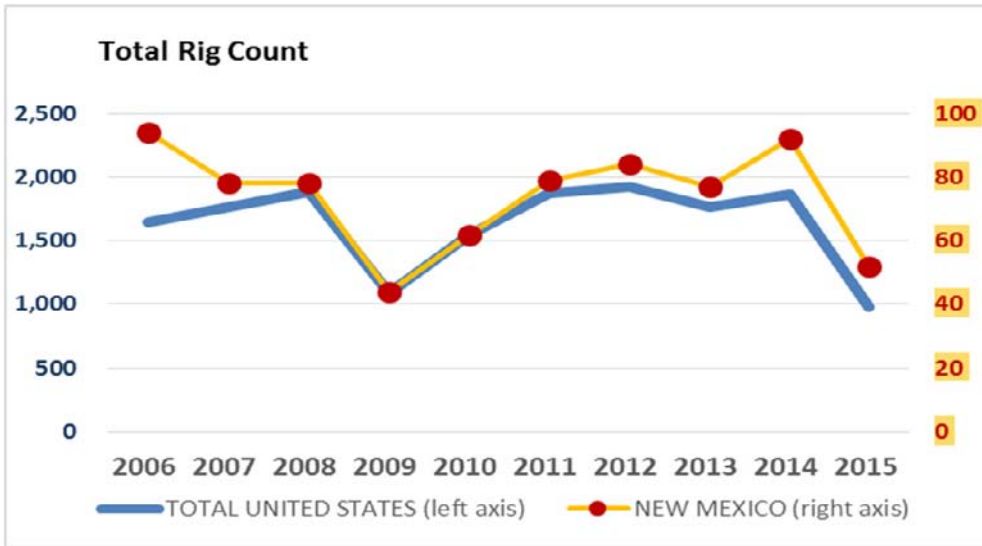
**New Mexico Natural Gas Reserves⁽¹⁾
(Natural Gas numbers in billion cubic feet)**

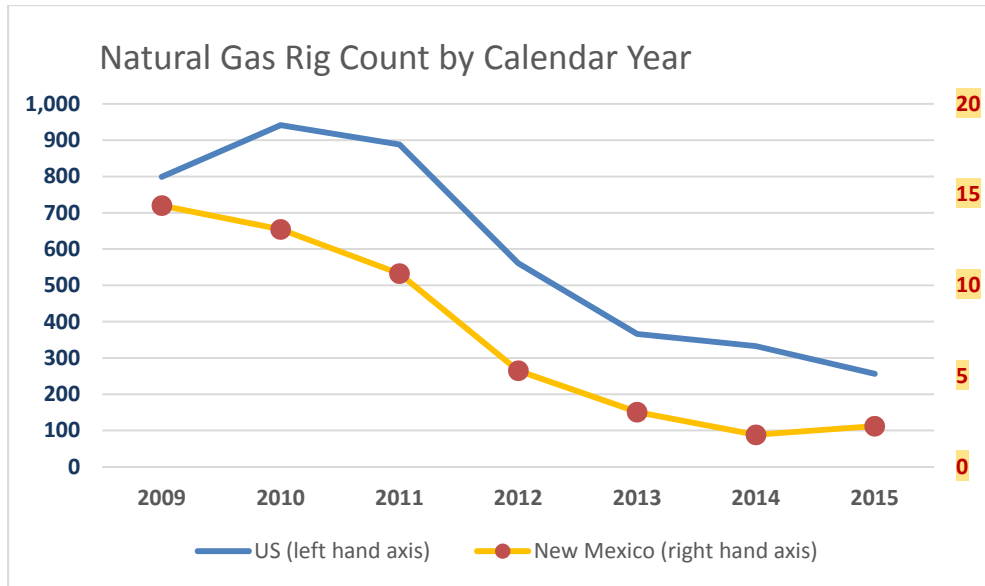
<u>Calendar Year</u>	<u>Beginning Reserves</u>	<u>Net Additions/ Adjustments</u>	<u>Estimated Production</u>	<u>Ending Reserves</u>
2005	19,687	1,185	1,528	19,344
2006	19,344	1,295	1,535	19,104
2007	19,104	757	1,464	18,397
2008	18,397	349	1,399	17,347
2009	17,347	644	1,347	16,644
2010	16,644	1,156	1,271	16,529
2011	16,529	833	1,224	16,138
2012	16,138	-374	1,211	14,553
2013	14,553	1,175	1,161	14,567
2014	14,567	3,122	1,263	16,426

(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 graphs below. 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. Since 2006, drilling activity in the United States climbed steadily until the sharp decrease of energy prices in 2009. After the 2009 price drop, oil drilling rebounded strongly reaching new record levels near the end of 2014. Drilling activity once again decreased sharply with a short lag following the recent decline in oil prices. Recent increases in natural gas supply have caused a marked decline in drilling activity both nationally and in New Mexico. 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. In Fiscal Year 2015, the Raton Basin produced approximately 23.0 million cubic feet of natural gas. In Fiscal Year 2015 production from the Raton Basin was approximately 2.0 percent of total natural gas production in the State, the San Juan Basin 55.0 percent and the Permian Basin 43.0 percent.

In May 2008, the New Mexico Oil Conservation Commission adopted new “pit rules” regulating the maintenance of open pits. Some industry representatives asserted that the increased costs associated with protecting the groundwater during oil and gas operations would have a negative effect on the number of drilling rigs working in New Mexico. In June 2013, the Oil Conservation Commission amended the pit rules relating to, among other things, waste pit permits, siting, design, construction and closures. The Commission stated that the amendments streamline and clarify the rules making it easier for oil and gas operators, especially small-scale operators, to comply. Both the 2008 and 2013 pit rule actions were appealed and both appeals were certified to the New Mexico Court of Appeals. On February 24, 2016, the Court of Appeals upheld the 2013 Commission rulemaking. The Court concluded that the Commission adequately explained the reasoning for the adoption of the rule and satisfied the legal requirements for notice. *Earthworks Oil & Gas Accountability Project v. New Mexico Oil Conservation Comm’n.*, 2016-NMCA-___, (No. 33,451, Feb. 24, 2016), *cert. denied*, 2016-NMCERT-___ (No. 35,284, Apr. 15, 2016).

Table 9 presents information on the number of natural gas well completions in New Mexico. Natural gas well completions have fallen from 1,759 in 2006 to 99 in 2015. 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.

TABLE 9

Number of Natural Gas Well Completions by Calendar Year

2006	1,759
2007	1,483
2008	1,197
2009	860
2010	512
2011	528
2012	411
2013	249
2014	134
2015	99

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 between 1986 and 2002, 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 27.5 tcf in 2015. 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. New U.S. Environmental Protection Agency standards under the Obama Administration have supported this switch to natural gas powered electricity generation.

According to the EIA, after peaking around 23 tcf in the mid-1970s, annual production of natural gas declined in response to falling prices to a low of 16.9 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 a new all-time high of 28.8 tcf in 2015 according to EIA.

The historic gap between domestic production and domestic consumption has been met by growing imports, which increased from 0.8 tcf in 1986 to 4.0 tcf in 2007, falling to 1.2 tcf in 2014 and then to 0.9 tcf in 2015 (the lowest level since 1987). Net imports have fallen sharply in recent years, as domestic production has expanded while domestic demand has grown more slowly, reducing the demand for imports.

Average annual natural gas values for the U.S. and New Mexico are presented in Table 10. The U.S. average references the spot price of natural gas at the Henry Hub pipeline terminal in Louisiana. This is the price typically reported in the national news media. Prices increased steadily from 2006 to 2008, but have fallen sharply since then. At the national level, the expansion of domestic supplies fueled by new technologies has been sufficient to offset any increase in production driven by the economic recovery.

TABLE 10

**Henry Hub Spot vs New Mexico Average Wellhead Price by Fiscal Year
(\$ per thousand cubic feet)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Henry Hub Spot Price	\$9.31	\$7.08	\$8.55	\$6.10	\$4.37	\$4.28	\$3.14	\$3.55	\$4.44	\$3.45
New Mexico Producers	\$7.53	\$6.56	\$8.40	\$5.61	\$5.20	\$5.50	\$5.00	\$4.37	\$5.13	\$3.78
NM as a percentage of Henry Hub	80.9%	92.7%	98.2%	92.0%	119.0%	128.5%	159.2%	123.1%	115.5%	109.6%

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

New Mexico average wellhead values have exceeded Henry Hub spot prices largely because the New Mexico average includes natural gas liquids, while Henry Hub prices represent “dry” gas only. Natural gas liquid products are used in refining, gasoline blends, home heating (propane) and a number of industrial applications such as the production of ethylene for plastics. As such, they are priced at a premium to dry gas and tend to track oil prices closely. New Mexico producers’ wellhead prices in 2015 were \$3.78 per thousand cubic feet.

Natural Gas Production

Total natural gas production in New Mexico increased sharply in the early 1990s due to increased coal seam production in the San Juan Basin then steadily declined until 2011. Natural gas production from gas wells continued to decline at rates similar to the previous years; however beginning in 2012, much of the decline in natural gas production from gas wells was offset by associated natural gas production from new oil wells in the Permian Basin. In fiscal Year 2015 production totaled 1,185 bcf. Gross sales revenue increased steadily through 2008 as the price of natural gas continued to increase, peaking at \$12 billion. Prices fell sharply in 2009 and have remained in the range of \$3.50 to \$5.50 since then, resulting in gross sales revenue of approximately \$4.4 billion in Fiscal Year 2015. Taxable production volume, sales revenue, and average price per thousand cubic feet for Fiscal Years 2006 through 2015 are presented in the following table.

TABLE 11

**Natural Gas Subject to Taxation
Production, Revenues and Average Price
Fiscal Years 2006-2015**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Sales										
Volume (bcf)	1,523	1,516	1,428	1,390	1,282	1,224	1,229	1,173	1,186	1,185
Gross Sales										
Revenues (millions)	\$11,462	\$9,935	\$12,002	\$7,797	\$6,657	\$6,805	\$6,145	\$5,177	\$6,086	\$4,436
Gross Average										
Price per mcf	\$7.53	\$6.56	\$8.40	\$5.61	\$5.20	\$5.50	\$5.00	\$4.37	\$5.13	\$3.78
Net Taxable Value ⁽¹⁾ (millions)	\$9,514	\$8,074	\$9,700	\$6,083	\$5,098	\$5,223	\$4,689	\$3,929	\$4,707	\$3,311

(1) Data reflects estimates of revenue per product prior to adjustments for penalty, interest and other adjustments.

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 2015.

TABLE 12

Ten Largest Natural Gas Producers in New Mexico and 2015 Production

	<u>Thousand Cubic Feet</u>
BURLINGTON RESOURCES OIL & GAS COMPANY LP	234,475,722
CONOCOPHILLIPS COMPANY	139,054,960
OXY USA INC	97,225,215
DEVON ENERGY PRODUCTION COMPANY, LP	87,206,921
COG OPERATING LLC	80,446,241
BP AMERICA PRODUCTION COMPANY	60,567,937
WPX ENERGY PRODUCTION, LLC	50,599,955
XTO ENERGY, INC	48,756,298
CHEVRON U S A INC	42,368,981
APACHE CORP	37,251,045

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, and the Governor approved, 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, and the Governor approved, 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 2015. Although the State offers reduced severance tax rates for several categories of production, prices are above the threshold level, so none of these incentives are presently applicable. 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

Incentive Category	Incentive Tax Rate	Threshold Price Below Which Incentive Rate Applies	Qualified Production As a Percent of Fiscal Year 2015 Total
Production Restoration Project	0.0000% ⁽¹⁾	\$24.00 per barrel ⁽²⁾ \$24.00 per barrel ⁽²⁾	0.0% Oil ⁽⁴⁾ 0.0% Natural Gas ⁽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: NMSA 1978, Sections 7-29-4(A), (B) (2005).

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Projections of Severance Tax Revenues from Natural Gas

The natural gas price outlook is prepared by the Department of Finance and Administration using analysis by the Consensus Group as well as forecasts by the U.S. Energy Information Administration and Moody's Analytics economic forecasting services, and public information about NYMEX futures contracts.

For Fiscal Year 2015, New Mexico producers received an estimated weighted average price of \$3.78 per mcf, down from \$5.13 in Fiscal Year 2014. In the January 2016 severance tax revenue forecast, the Department of Finance and Administration assumed an average price for Fiscal Year 2016 of \$2.60 per mcf and \$3.20 per mcf for Fiscal Year 2017. Continued oversupply of natural gas has depressed prices nationally. Prices are expected to increase to \$3.40 per mcf in Fiscal Year 2018 and \$3.45 and \$3.50 per mcf for Fiscal Years 2019 and 2020, respectively. The forecast of gradual price increases is based on increased demand as the national economic recovery gathers steam and decreased supply as low prices curtail natural gas drilling activity nationally. 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.

Natural gas volume production remained unchanged at 1,185 bcf in Fiscal Year 2015. Because of lower prices, gross revenue for New Mexico producers decreased by 27.0 percent in Fiscal Year 2015. In January 2016, the Department of Finance and Administration's severance tax revenue forecast assumed that natural gas production would decline by approximately 0.4 percent in Fiscal Year 2016, by 0.8 percent in Fiscal Year 2017, and an average of 2.0 percent per year in Fiscal Years 2018 through 2020.

The severance tax base for natural gas is defined as the wellhead value less deductions for the expense of processing and transporting 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 26.0 percent in Fiscal Year 2015. For the January 2016 severance tax revenue forecast, the Department of Finance and Administration assumed deductions of 23.9 percent for Fiscal Years 2016 through 2020 consistent with the average deduction percentage for the prior three years. Despite the decline in natural gas drilling, natural gas production continues from pre-existing gas wells and as associated gas from oil wells, albeit at a decreasing rate. Overall New Mexico severance tax revenues have increasingly been driven by oil instead of natural gas. In fact, in Fiscal Year 2015, oil production constituted roughly 66 percent of total taxable value, an increase from 24 percent in Fiscal Year 2005.

In Fiscal Year 2015, severance tax revenues from natural gas were \$122 million, net of the Intergovernmental Production Tax Credit. The table below sets forth the DFA's five-year projection for natural gas volume, price, and severance tax receipts.

TABLE 14

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Natural gas sales (bcf)	1,180	1,170	1,140	1,120	1,100
Average sales price (\$ per mcf)	\$2.60	\$3.20	\$3.40	\$3.45	\$3.50
Severance Taxes on Natural Gas (in thousands)	\$87,533	\$106,844	\$110,611	\$110,269	\$109,869

Source: New Mexico Department of Finance and Administration, January 2016.

OIL PRODUCTION AND SEVERANCE TAX REVENUE

Oil Reserves and Production

The table below presents the EIA’s estimate of oil “proven reserves” from 2005 to 2014. 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 remained relatively flat at approximately 60 million barrels beginning in Fiscal Year 2005 and continuing through Fiscal Year 2008. Beginning in Fiscal Year 2009, production began to increase steadily, reaching a new high of 116 million barrels in Fiscal Year 2014. In 2014, New Mexico reserves represented approximately 12.7 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 2014 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.

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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>
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
2011	823	107	64	866
2012	866	175	76	965
2013	965	297	91	1,171
2014	1,171	421	116	1,476

(1) Barrels in millions.

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

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 2006 through 2015. There has been a significant increase in oil well 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

2006	1,143
2007	923
2008	1,289
2009	1,055
2010	1,404
2011	1,592
2012	1,440
2013	1,382
2014	1,307
2015	813

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

The following table sets forth the production levels of the largest oil producers in the State in calendar year 2015.

TABLE 17

Ten Largest Oil Producers in New Mexico and 2015 Production

	<u>Barrels</u>
COG OPERATING LLC	23,836,144
DEVON ENERGY PRODUCTION COMPANY, LP	18,513,075
APACHE CORP	8,137,810
MEWBOURNE OIL CO	7,427,174
CHEVRON U S A INC	6,331,639
EOG RESOURCES INC	6,242,064
CIMAREX ENERGY CO.	5,519,858
BOPCO, L.P.	5,519,417
OXY USA INC	5,157,484
COG PRODUCTION, LLC	4,685,767
YATES PETROLEUM CORPORATION	4,601,664

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 ten Fiscal Years are presented in the following table.

TABLE 18

**Oil Subject to Taxation
Production, Revenues and Average Prices
Fiscal Years 2006-2015**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Sales Volume (bbl in millions)	60.5	60.1	60.0	62.3	62.9	67.0	79.7	93.8	113.5	141.4
Gross Sales Revenues (millions)	\$3,634	\$3,553	\$5,628	\$4,037	\$4,470	\$5,547	\$7,144	\$8,047	\$10,795	\$8,580
Gross Average Price per bbl	\$60.08	\$59.11	\$93.74	\$64.84	\$71.29	\$84.20	\$89.64	\$85.82	\$95.13	\$60.67
Net Taxable Value ⁽¹⁾ (millions)	\$3,290	\$3,189	\$5,049	\$3,618	\$4,007	\$4,958	\$6,380	\$7,211	\$9,580	\$7,566

(1) Data reflects estimates of revenue per product prior to adjustments for penalty, interest and other adjustments.

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, and the Governor approved, 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, and the Governor approved, 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"). The 1999 Legislature and the Governor 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 January 2016 severance tax revenue forecast by the Department of Finance and Administration assumes that the incentives will not apply through Fiscal Year 2020.

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"), additional drilling for exploration and development, or the use of new technologies, such as hydraulic fracturing and horizontal drilling, is usually estimated at 10 percent per year. During most of the 1990s, 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, due to new technologies that facilitate access to oil deposits in tight shale, reaching 141.4 million barrels in Fiscal Year 2015. The Department of Finance and Administration's volume projection includes an annual increase in production of 6.4 percent for Fiscal Year 2016, 3.3 percent for Fiscal Year 2017, an average of 1.3 percent growth in Fiscal Years 2018 through 2020.

Prices: Over the past ten Fiscal Years weighted average annual oil prices received by New Mexico producers have ranged from \$59.11 in Fiscal Year 2007 to a high of \$95.13 in Fiscal Year 2014. The severance tax revenue forecast by the Department of Finance and Administration in January 2016 assumes a price per barrel of \$40.50 in Fiscal Year 2016, \$42.00 in Fiscal Year 2017, \$45.00 in Fiscal Year 2018, and \$48.00 and \$50.00 in Fiscal Years 2019 through 2020, respectively. The Fiscal Year 2016 forecast price reflects sales prices from April through March. Strong prices early in the fiscal year are expected to push up the annual average.

Revenues: In Fiscal Year 2015, severance tax revenues from oil were \$283.7 million, net of the Intergovernmental Production Tax Credit. The five-year forecast by the DFA, reflected in Table 19, projects revenues will decrease due to greater price stability and slower production growth. The forecasts are also net of the Intergovernmental Production Tax Credit.

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TABLE 19

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Oil sales (million barrels)	150.00	155.00	158.00	160.00	161.00
Average price (\$/barrel)	\$40.50	\$42.00	\$45.00	\$48.00	\$50.00
Severance Taxes on Oil (in thousands)	\$201,842	\$216,295	\$236,230	\$255,168	\$267,461

Source: New Mexico Department of Finance and Administration, January 2016.

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, the State had the following estimated recoverable reserves in calendar year 2014: 2,749 million short tons of underground coal and 4,048 million short tons of surface coal for a total of 6,797 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: 6,043 million short tons of underground coal and 5,782 million short tons of surface coal for a total of 11,826 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 2015, there were three mining companies producing coal in New Mexico: El Segundo Coal Company, LLC; Lee Ranch Coal Company; and San Juan Coal Company. The San Juan Coal Company is 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. In December 2013, a fourth mine, the BHP Navajo Mine, was sold by BHP Billiton, the parent company of BHP Navajo Coal Company, to the Navajo Transitional Energy Company (NTEC) a Navajo Nation-owned company established for the purpose of acquiring the Navajo Mine. Prior to the sale of the mine, output from the Navajo Coal Company was 8.5 million tons in Fiscal Year 2013, the last full fiscal year prior to the sale of the mine.

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 0.2 million tons in Fiscal Year 2015, down 50 percent from Fiscal Year 2014. The El Segundo Coal Company commenced operations in June 2008. In Fiscal

Year 2015, the El Segundo Coal Company produced 8.1 million tons of coal, down 1.2 percent from Fiscal Year 2014. Peabody Natural Resources is preferentially pulling coal out of its El Segundo Mine, which partially explains why production 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.

On April 13, 2016, Peabody Energy Corporation (and various affiliates and subsidiaries, including Peabody Natural Resources) filed a Voluntary Petition with the U.S. Bankruptcy Court under Chapter 11 of the U.S. Bankruptcy Code. *See In re Peabody Energy Corp.*, (No. 16-42529, U.S. Bankr. Ct., E.D. Mo.). At this time, operations at the Lee Ranch and El Segundo Mines have not been impacted by the filing. The New Mexico Attorney General's Office has entered an appearance in the bankruptcy proceeding.

Currently, the El Segundo Coal Company 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 supplies coal to Western Fuels Association and Tucson Electric Power under longer-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 expected to take 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 5.7 million tons in Fiscal Year 2015, down 3.4 percent from Fiscal Year 2014. In May 2015, BHP announced an agreement in principle to sell the San Juan Mine to Westmoreland Coal Company of Englewood, Colorado. Westmoreland Coal Company assumed operations of the San Juan Mine on February 1, 2016. At the same time, Public Service Company of New Mexico announced an agreement with Westmoreland Coal Company to extend the San Juan Mine coal supply contract for the San Juan Generating Station from 2017 to 2022. The coal supply agreement and the agreement in principle for the sale of the mine are subject to regulatory approvals. Westmoreland Coal Company announced the completion of its acquisition of the San Juan Mine on February 1, 2016.

In 2013, WildEarth Guardians filed suit against the U.S. Office of Surface Mining, Reclamation and Enforcement (OSM) claiming that OSM improperly approved mining plans for the mining of federally owned coal at several western coal mines, including the San Juan Mine in New Mexico. The suit was filed in the U.S. District Court for Colorado. The claims relating to the San Juan Mine were severed and transferred to the U.S. District Court for New Mexico and in March 2014, WildEarth Guardians filed an Amended Petition for Review in that court limiting its claims to the San Juan Mine. The suit claims that OSM violated the National Environmental Policy Act in its 2008 approval of a mining plan modification by failing to provide public notice and participation and failing to take a hard look at the impacts of mining on air and water quality. The WildEarth Guardians case is now in settlement discussions. The briefing is complete and the parties have asked the District Court for a stay while discussions are ongoing.

In December 2015, New Mexico's Public Regulation Commission approved by a 4-1 vote a plan to reduce air emissions at the San Juan Generating Station in compliance with federal requirements under the Clean Air Act. The plan includes the installation of additional emission control technology at two coal fired generating units, the retirement of two other coal fired generating units by year end 2017 and the construction of a natural gas power generator. The Public Service Company of New Mexico has

received approval from the New Mexico Public Regulation Commission to decommission the two units. Nuclear power from the Palo Verde Generating Station in Arizona will also provide energy to make up for the loss from the two retired coal units.

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. The recent decline in sales volume was caused by the purchase of the Navajo mine by the Navajo nation. A few months prior to the sale, TRD had already reported lower volumes, which may have been a reflection of the declining trend in recent years.

As reflected in the table, gross average prices have ranged from \$29.55 per ton in Fiscal Year 2011 to \$38.13 per ton in Fiscal Year 2015. Output in short tons over the same period has ranged from 24.2 million in Fiscal Year 2011 to 14.0 million in Fiscal Year 2015. 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 \$1.6 million in severance surtax was collected in Fiscal Year 2014 and \$650,000 in Fiscal Year 2015.

The surtax rate for surface-mined coal in Fiscal Year 2011 was \$1.13 per ton and \$1.09 per ton for coal mined underground; in Fiscal Year 2012, the surface-mined tax rate was \$1.17 and the underground-mined tax rate was \$1.13 per ton; in Fiscal Year 2013, the surface-mined tax rate was \$1.27 and the underground-mined tax rate was \$1.23 per ton. All coal mined underground has always been exempt from the surtax. In Fiscal Year 2014, the surface-mined surtax rate was \$1.30 per short ton and the underground-mineral surtax rate was \$1.26. In Fiscal Year 2015, the surface-mined surtax rate was \$1.28 per short ton and the underground-mineral surtax rates was \$1.23.

After a number of years of stable revenues, 2011 marked a significant decrease of coal severance tax from \$23.3 million in Fiscal Year 2010 to \$15.7 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 severance tax collections were \$8.3 million in Fiscal Year 2015.

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TABLE 20**Coal Production, Prices, Revenues, and Taxes
Fiscal Years 2011 to 2015**

	2011	2012	2013	2014	2015
Production:					
Total Sales Volume (tons)	24,202,247	23,024,642	22,634,537	18,466,917	14,019,573
Surface Mined Surtax Exempt	16,148,057	16,413,332	15,880,674	11,366,169	7,974,724
Surface Mined Non-Exempt	1,768,875	533,727	893,391	832,843	351,397
Underground Mined Surtax Exempt	6,285,315	6,077,582	5,860,472	6,267,905	5,693,451
Prices:					
Weighted Average Price per Ton for All Coal	\$29.55	\$33.65	\$34.11	\$35.47	\$38.13
Sales Revenue:					
Total Sales Revenue	\$715,148,886	\$774,782,796	\$772,134,654	\$654,998,911	\$534,625,847
Taxes Collected and Intergovernmental Tax Credits (ITC):					
Gross Severance Tax and Severance Surtax Due	\$ 15,668,404	\$ 13,626,955	\$ 13,919,087	\$ 11,483,480	\$ 8,327,076
Intergovernmental Tax Credit (ITC)	\$ 3,034,510	\$ 2,348,013	\$ 2,298,775	\$ 3,385,576	\$ 2,408,236
Net Severance Tax and Severance Surtax Liability (Net of ITC)	\$ 12,633,894	\$ 11,278,942	\$ 11,620,312	\$ 8,097,904	\$ 5,918,840
Effective Taxes (Net of ITC):					
Effective Tax Rate	1.77%	1.46%	1.50%	1.24%	1.11%
Effective Tax per Ton for all Coal (Net of ITC)	\$0.52	\$0.49	\$0.51	\$0.44	\$0.42

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 trillion cubic feet ("tcf"), of which 7.0 tcf 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 105.0 bcf in Fiscal Year 2015, a decrease of 2.1 percent from 107.3 bcf during Fiscal Year 2014. The weighted average wellhead price of CO₂ sales for Fiscal Year 2015 was \$1.22 per mcf reported at the production facility, a decrease of 25 cents from \$1.47 per mcf during Fiscal Year 2014. Severance Taxes on CO₂ are levied at the rate of 3.75 percent of taxable sales value. Deductions have ranged from 32.7 percent in Fiscal Year 2006 to 22.9 percent in Fiscal Year 2008. Weighted average deductions were 32.1 percent in Fiscal Year 2015.

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 data 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 data 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.

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TABLE 21

Severance Tax Rates on Other Minerals

<u>Mineral Resources</u>	<u>Fiscal Year 2014⁽¹⁾ Collections</u>	<u>Fiscal Year 2015⁽¹⁾ Collections</u>	<u>Tax Rate</u>	<u>Gross Value as Percent of Full Value</u>
Potash	\$1,383,492	\$1,399,122	2.500%	not fixed
Copper	777,519	916,173	0.500	16.67%
Timber, Pumice, Gypsum, Clay, Fluorspar, Other	61,651	60,779	0.125	not fixed
Molybdenum ⁽³⁾	5,231	0	0.125	50.00
Lead, Zinc	Not detailed	Not detailed	0.125	16.67
Gold	3,726	16,991	0.200	50.00
Silver	704	700	0.200	30.00
Uranium	Not detailed	Not detailed	3.500	50.00 ⁽²⁾
Other than Potash, Copper, Molybdenum	Not detailed	Not detailed		

(1) Collections for Fiscal Years 2014 and 2015 are the most recent data available.

(2) Taxable Value as a Percentage of Full Value.

(3) In June 2014, Chevron Mining closed its Questa molybdenum mine in Taos County, reducing total molybdenum collections to zero in Fiscal Year 2015.

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

Severance tax revenue from potash was \$1.4 million in Fiscal Year 2015, essentially unchanged from Fiscal Year 2014. Severance tax revenue from copper, which is limited because of the statutorily defined narrow tax base, was \$916,173 in Fiscal Year 2015, up from \$777,519 in Fiscal Year 2014. Weighted average copper prices were \$3.07 per pound in Fiscal Year 2015.

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 2015 and reflect an average sales price of \$60.67 per barrel for oil and \$3.78 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
Effective Tax Rates applicable for Fiscal Year 2015**

<u>Type of Tax</u>	<u>Crude Oil</u>		<u>Natural Gas</u>	
	<u>Ad Valorem</u>	<u>Per Barrel</u>	<u>Ad Valorem</u>	<u>Per mcf</u>
Price		\$60.67		\$3.78
Oil and Gas School Tax	2.78%	\$1.69	2.95%	\$0.11
Oil and Gas Severance Tax	3.31%	\$2.01	2.78%	\$0.11
Oil and Gas Conservation Tax (General Fund only)	0.20%	\$0.12	0.14%	\$0.01
Natural Gas Processors Tax	N/A	N/A	0.42%	\$0.02
Oil and Gas Production <i>ad valorem</i> Tax	1.01%	\$0.61	0.88%	\$0.03
Oil and Gas Production Equipment <i>ad valorem</i> Tax	1.01%	\$0.61	0.88%	\$0.29
Total	7.53%	\$4.57	7.61%	\$0.29
Subtotal: State Tax Only (excludes <i>ad valorem</i> taxes)	6.29%	\$3.82	5.87%	\$0.22

Source: New Mexico Department of Finance and Administration.

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 WTI oil price fell below \$70.00 in the first calendar quarter of 2015. The Oil and Gas Production Ad Valorem Tax and the Oil and Gas Production Equipment Ad Valorem Equipment 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 \$18.3 million in Fiscal Year 2015, down from approximately \$20.4 million in Fiscal Year 2014. Coal production, also, decreased from approximately 18.4 million tons in Fiscal Year 2014 to approximately 14.0 million tons in

Fiscal Year 2015. Thus, the average effective tax rate per ton increased from \$1.11 per ton in Fiscal Year 2014 to approximately \$1.31 per ton for Fiscal Year 2015. With total sales revenue of approximately \$535.5 million in Fiscal Year 2015, the average effective tax rate was 3.25 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 2015 is shown in Table 23.

TABLE 23

Tax Burden on Coal for Fiscal Year 2015⁽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)	\$0.50	1.56%	\$ 8,327,076
Resource Excise Tax	\$0.28	0.73%	\$ 3,897,921
Conservation Tax	\$0.07	0.18%	\$ 987,473
Total Production Taxes	<u>\$0.85</u>	<u>2.47%</u>	<u>\$ 13,212,470</u>
Property Tax ⁽²⁾	\$0.24	0.67%	\$ 5,094,886
Gross Receipts Tax	\$2.30	6.48%	\$ 20,665,206
Total Production and Non-Production Taxes	<u>\$3.39</u>	<u>9.62%</u>	<u>\$ 38,972,562</u>
Price per Ton			\$38.20
Total Production (Short Tons)			14,019,571
Total Value			\$535,512,558

(1) The figures reported in this table come from the New Mexico Taxation and Revenue Department's GenTax System. 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 tax year began September 1, 2014.

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 2015, the most recent year for which data is available, 88 percent of all coal produced in the State was supplied to electric power plants in New Mexico. 94.7 percent of all coal produced in New Mexico is subject to gross receipts tax. The combined state and local tax rate for Fiscal Year 2015 is 6.87 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 affect 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).

Principal, interest and redemption proceeds 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 Paying 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, Paying Agent or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest or redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or Paying 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 Paying 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.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following summarizes certain provisions of the Bond Resolution relating to the 2016A Bonds and 2016B Bonds that was passed on May 17, 2016, as well as the Bond Resolution relating to the 2016C Bonds that was passed on May 17, 2016. Both resolutions contain numerous similar provisions. Unless otherwise noted, this summary describes language included in both resolutions. This summary does not purport to be complete and reference is made to each 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%) 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 escrow 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 NMSA 1978, Section 6-14-10E (1983), 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, and if the time for the payment of any such claim shall be extended, such extended payment or payments of interest shall not be entitled, in the event of a default in the provisions of the Bond Resolution, to the benefit or security of the Bond Resolution, except upon prior payment in full of the principal of and interest on the Bonds the payment of interest on which has not been extended; (g) the State will make no use of the proceeds of the 2016A Bonds or 2016B Bonds or any funds reasonably expected to be used to pay the 2016A Bonds or 2016B Bonds which will cause the 2016A Bonds or 2016B Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Tax Code"), or which would result in the loss of the exclusion from gross income for federal income tax purposes of the interest on the 2016A Bonds or 2016B 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 2016A Bonds and 2016B 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 2016A Bonds and 2016B 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 Tax 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 Tax 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 Tax 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 S&P Global Ratings 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 noncallable 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 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 2016A Bonds and 2016B 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.

The Board has taken the steps necessary to cause interest on the 2016A Bonds and 2016B Bonds to be excluded from gross income under present federal income tax laws pursuant to Section 103 of the Tax Code, as amended. Interest on the Bonds is also exempt from taxation by the State.

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 are 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 2016A Bonds and 2016B Bonds (see "TAX MATTERS" below and the form of opinions of Co-Bond Counsel, attached hereto as Appendix D) are subject to the approving legal opinions of Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-Bond Counsel to the State ("Co-Bond Counsel"). Certain legal matters will be passed upon for the State of New Mexico by Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-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

Tax-Exempt 2016A Bonds and 2016B Bonds

In the opinions of Co-Bond Counsel, assuming continuous compliance with certain covenants described below, interest on the 2016A Bonds and 2016B Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Tax Code, interest on the 2016A Bonds and 2016B Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the “adjusted current earnings” adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations as described below, and interest on the 2016A Bonds and 2016B Bonds is exempt from income taxes imposed directly thereon by the State under State income tax laws in effect on the date of delivery of the Bonds as described herein.

The Tax Code and State law impose several requirements which must be met with respect to the 2016A Bonds and 2016B Bonds in order for the interest thereon to be excluded from gross income, alternative minimum taxable income (except to the extent of the aforementioned adjustment applicable to corporations), State taxable income and State alternative minimum taxable income. Certain of these requirements must be met on a continuous basis throughout the term of the 2016A Bonds and 2016B Bonds. These requirements include: (a) limitations as to the use of proceeds of the 2016A Bonds and 2016B Bonds; (b) limitations on the extent to which proceeds of the 2016A Bonds and 2016B Bonds may be invested in higher yielding investments; and (c) a provision, subject to certain limited exceptions, that requires all investment earnings on the proceeds of the 2016A Bonds and 2016B Bonds above the yield on the 2016A Bonds and 2016B Bonds to be paid to the United States Treasury. The State will covenant and represent in the Bond Resolution that it will take all steps to comply with the requirements of the Tax Code and State law (in effect on the date of delivery of the Bonds) to the extent necessary to maintain the exclusion of interest on the 2016A Bonds and 2016B Bonds from gross income and alternative minimum taxable income (except to the extent of the aforementioned adjustment applicable to corporations) under such federal income tax laws and State taxable income under such State income tax laws. Co-Bond Counsel’s opinions as to the exclusion of interest on the 2016A Bonds and 2016B Bonds from gross income, alternative minimum taxable income (to the extent described above), State taxable income and State alternative minimum taxable income is rendered in reliance on these covenants, and assumes continuous compliance therewith. The failure or inability of the State to comply with these requirements could cause the interest on the 2016A Bonds and/or the 2016B Bonds to be included in gross income, alternative minimum taxable income, State taxable income or State alternative minimum taxable income, or a combination thereof, from the date of issuance. Co-Bond Counsel’s opinions also are rendered in reliance upon certifications of the State, the Board and other certifications furnished to Co-Bond Counsel. Co-Bond Counsel have not undertaken to verify such certifications by independent investigation.

Section 55 of the Tax Code contains a 20 percent alternative minimum tax on the alternative minimum taxable income of corporations. Under the Tax Code, 75 percent of the excess of a corporation’s “adjusted current earnings” over the corporation’s alternative minimum taxable income (determined without regard to this adjustment and the alternative minimum tax net operating loss deduction) is included in the corporation’s alternative minimum taxable income for purposes of the alternative minimum tax applicable to the corporation. “Adjusted current earnings” includes interest on the 2016A Bonds and 2016B Bonds.

The Tax Code contains numerous provisions which may affect an investor’s decision to purchase the 2016A Bonds and 2016B Bonds. Owners of the 2016A Bonds and 2016B Bonds should be aware that the ownership of tax-exempt obligations by particular persons and entities, including, without limitation, financial institutions, insurance companies, recipients of Social Security or Railroad Retirement benefits,

taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, foreign corporations doing business in the United States and certain “subchapter S” corporations may result in adverse federal and State tax consequences. Under Section 3406 of the Tax Code, backup withholding may be imposed on payments on the 2016A Bonds and 2016B Bonds made to any owner who fails to provide certain required information, including an accurate taxpayer identification number, to certain persons required to collect such information pursuant to the Tax Code. Backup withholding may also be applied if the owner underreports “reportable payments” (including interest and dividends) as defined in Section 3406, or fails to provide a certificate that the owner is not subject to backup withholding in circumstances where such a certificate is required by the Tax Code. All of the 2016A Bonds and 2016B Bonds were at a premium, representing a difference between the original offering price of those 2016A Bonds and 2016B Bonds and the principal amount thereof payable at maturity. Under certain circumstances, an initial owner of such bonds (if any) may realize a taxable gain upon their disposition, even though such bonds are sold or redeemed for an amount equal to the owner’s acquisition cost. Co-Bond Counsel’s opinions relate only to the exclusion of interest on the 2016A Bonds and 2016B Bonds from gross income, alternative minimum taxable income, State taxable income and State alternative minimum taxable income as described above and will state that no opinion is expressed regarding other federal or State tax consequences arising from the receipt or accrual of interest on or the ownership or disposition of the 2016A Bonds and 2016B Bonds. Owners of the 2016A Bonds and 2016B Bonds should consult their own tax advisors as to the applicability of these consequences.

The opinions expressed by Co-Bond Counsel are based on existing law as of the delivery date of the Bonds. No opinion is expressed as of any subsequent date nor is any opinion expressed with respect to pending or proposed legislation. Amendments to the federal or State tax laws may be pending now or could be proposed in the future that, if enacted into law, could adversely affect the value of the 2016A Bonds and 2016B Bonds, the exclusion of interest on the 2016A Bonds and 2016B Bonds from gross income or alternative minimum taxable income, State taxable income or State alternative minimum taxable income or both from the date of issuance of the 2016A Bonds and 2016B Bonds or any other date, the tax value of that exclusion for different classes of taxpayers from time to time, or that could result in other adverse tax consequences. In addition, future court actions or regulatory decisions could affect the tax treatment or market value of the 2016A Bonds and 2016B Bonds. Owners of the 2016A Bonds and 2016B Bonds are advised to consult with their own tax advisors with respect to such matters.

The Internal Revenue Service (the “Service”) has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the 2016A Bonds and 2016B Bonds. If an audit is commenced, the market value of the 2016A Bonds and 2016B Bonds may be adversely affected. Under current audit procedures, the Service will treat the State as the taxpayer and the Owners may have no right to participate in such procedures. The State has covenanted in the Bond Resolution not to take any action that would cause the interest on the 2016A Bonds and 2016B Bonds to lose its exclusion from gross income for federal income tax purposes, from alternative minimum taxable income, from State taxable income, or from State alternative minimum taxable income, except to the extent described above for the owners thereof for federal income tax purposes. None of the State, the Board, Fiscal Strategies Group, Inc., Public Resources Advisory Group, Rodey, Dickason, Sloan, Akin & Robb, P.A., or Sherman & Howard L.L.C. is responsible for paying or reimbursing any bondholder with respect to any audit or litigation costs relating to the 2016A Bonds and 2016B Bonds.

A copy of the proposed forms of opinions of Co-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 the ownership or disposition of the 2016A Bonds and 2016B

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.

Federally Taxable and State Tax-Exempt 2016C Bonds

In the opinions of Co-Bond Counsel, interest on the 2016C Bonds is included in gross income under federal income tax laws pursuant to the Tax Code, and is exempt from taxation by the State and any political subdivision thereof.

The Tax Code contains numerous provisions, including provisions related to the imposition of additional taxes, which may affect an investor's decision to purchase the 2016C Bonds. Further, under Section 3406 of the Tax Code, backup withholding may be imposed on payments on the 2016C Bonds in certain situations including: (i) an owner who fails to provide certain required information to certain persons required to collect such information; (ii) the owner underreports "reportable payments" (including interest and dividends) as defined in Section 3406; or (iii) an owner fails to provide a certificate that the owner is not subject to backup withholding when such a certificate is required by the Tax Code.

The opinions expressed by Co-Bond Counsel are based on existing laws as of the delivery date of the 2016C Bonds. No opinion is expressed as of any subsequent date nor is any opinion expressed with respect to pending or proposed legislation. Amendments to the federal or State tax laws may be pending now or could be proposed in the future that, if enacted into law, could adversely affect the value of the 2016C Bonds. In addition, future court actions or regulatory decisions could affect the market value of the 2016C Bonds. Owners of the 2016C Bonds are advised to consult with their own tax advisors with respect to such matters.

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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.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Prior to the delivery of the 2016B Bonds, Causey, Demgen & Moore, Inc., Denver Colorado, will deliver a report on the mathematical accuracy of certain computations contained in schedules relating to the adequacy of the maturing principal amounts of the securities held by the Escrow Agent and interest to be earned thereon to pay all the principal of and interest on the Refunded Bonds when due. Based on the mathematical computations of the accountants, the 2016B Bonds Escrow Account will be funded in an amount sufficient such that the Refunded Bonds to be refunded with proceeds of the 2016B Bonds will be deemed to have been paid and will no longer be outstanding as of the date of the establishment of the Escrow Account.

RATINGS

The Bonds have received ratings from Moody's Investors Service, Inc. and S&P Global Ratings, 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 continuing disclosure undertakings (the substantial forms of which appear 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, 2016, and to provide notices of occurrence of certain enumerated events, if material. The Board will further agree in the continuing disclosure undertakings 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 undertakings, 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.

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 undertaking filings.

On May 12, 2016, S&P Global Ratings downgraded the ratings of the State's Senior Severance Tax Bonds to "AA-" (from "AA") and downgraded the ratings of the State's Supplemental Severance Tax Bonds to "A+" (from "AA-"). Also on May 12, 2016, Moody's Investor Service downgraded the ratings of the State's Senior Severance Tax Bonds to "Aa2" (from "Aa1") and downgraded the ratings of the State's Supplemental Severance Tax Bonds to "Aa3" (from "Aa2"). Such ratings reflect only the views of S&P Global Ratings and Moody's Investor Services, respectively, and an explanation of the significance of such ratings may be obtained from them. In compliance with its previously-existing continuing disclosure undertakings, the Board, on behalf of the State, filed a material event notice with respect to the downgrades on May 12, 2016.

The continuing disclosure undertakings with respect to the Bonds 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 undertakings 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, 407 Galisteo Street, Bataan Memorial Building, Room 181, Santa Fe, New Mexico 87501, or by telephone at (505) 827-4980.

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: /s/ Susana Martinez
President

APPENDIX A

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

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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 in land area, containing approximately 121,593 square miles. The estimated 2015 population of the State is 2,085,109. 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 approximately 22 cabinet 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 4, 2014.

The State Board of Finance (the "Board") 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 Board of Finance is a division of the DFA that provides operational, analytical and administrative support to the Board. 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 2012 through 2016

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 represented approximately 13.1 percent of current-year recurring appropriations for Fiscal Year 2012. The Governor expressed goals of maintaining reserves of 10 percent in future fiscal years, and providing for five-year expenditure forecasts to accompany consensus revenue forecasts. During the 2012 regular legislative session, \$100.8 million in Fiscal Year 2012 non-recurring appropriations were enacted, including \$55 million for Medicaid and personal care option program expenditures, as well as \$6 million for the Economic Development Department's job training incentive program.

Fiscal Year 2013. New Mexico's economy stagnated in Fiscal Year 2013. Total General Fund revenues fell by 1.6 percent during this period, however, this level of decline was anticipated by the consensus group, as actual revenue came in as forecast in December 2012, in the final forecast before adopting the Fiscal Year 2013 General Appropriation. Total recurring revenue was approximately \$5.7 billion. Approximately half of the decline in General Fund revenue was attributable to lower oil and natural gas prices, a reflection of national and international trends in energy markets and lackluster state lease sales. The price of oil averaged \$85.82 per barrel and the price of natural gas averaged \$4.40 per mcf in Fiscal Year 2013. Mineral production taxes, bonuses and royalties totaled \$943 million in Fiscal Year 2013, a decrease of 9 percent from Fiscal Year 2012. In addition, the federal government sequestered about \$21 million in Federal Mineral Leasing (FML) revenues, which were returned to the state in the early half of Fiscal Year 2014 causing a shift in revenue accounting periods.

The state's broad-based taxes grew minimally during Fiscal Year 2013, with the exception of personal income tax collections, which grew by 7.9 percent. This growth rate is partially driven by accelerated payments that were made in anticipation of federal tax changes. Fiscal Year 2013 general sales tax revenue was 1.1 percent below Fiscal Year 2012, primarily due to reduced federal procurement spending. Corporate income tax collections fell 4.9 percent compared to Fiscal Year 2012, apparently a reflection of the sluggish national rate of economic growth. Investment income to the General Fund from the state's Permanent Funds also declined in Fiscal Year 2013 due to the constitutionally mandated decrease in the annual distribution from the Land Grant Permanent Fund from 5.8 percent to 5.5 percent in Fiscal Year 2013.

General Fund reserves were approximately \$651.4 million at the end of Fiscal Year 2013, approximately 11.5 percent of Fiscal Year 2013 recurring appropriations, after accounting for the \$31.7 million contingent liability established in the Fiscal Year 2013 General Fund financial statements for potential charges related to unreconciled cash transactions. This balance also includes a \$20 million contingent appropriation related to special education funding maintenance of effort.

Fiscal Year 2014. General Fund revenues rebounded from the Fiscal Year 2013 decline largely as a result of high oil and natural gas revenues. Recurring revenue grew by 5.8 percent in Fiscal Year 2014, reaching \$6.04 billion. New Mexico oil prices averaged \$95.14 per barrel and the price of natural

gas averaged \$5.13 per mcf. Strong oil and natural gas production contributed to the revenue increase with oil volume growth of 17 percent and a natural gas volume increase of 1 percent following years of declining production. In Fiscal Year 2014, oil volumes were double the amount produced in Fiscal Year 2009. Mineral production taxes, rents and royalties increased by 24.6 percent over Fiscal Year 2013 to \$1.2 billion. General sales taxes, including the gross receipts tax (GRT) and compensating tax, also experienced growth of 5.2 percent. Permanent fund investment income benefited from a larger fund corpus and strong stock market returns. Income tax revenues decreased slightly, reflecting a one-time acceleration of capital gains income in Fiscal Year 2013.

Major changes were made to the corporate income tax in the 2013 legislative session to be phased in over several years. These changes reduce corporate tax rates and allow single sales factor income apportionment for manufacturers. Legislation passed in the 2014 legislative session will allow taxpayers to carry forward net operating losses (NOLs) for 20 years. While “static” estimates have projected a slight decline in revenues in the near term, these measures are likely to encourage new business investment and economic growth, with positive effects on State revenues.

The General Fund reserve balance was approximately \$638.0 million at the end of Fiscal Year 2014 or 10.8 percent of Fiscal Year 2014 recurring appropriations. Reserves were negatively impacted by a reduction of \$73.1 million of federal Medicaid reimbursements. The reserves are also affected by a \$20 million reduction in tobacco settlement distributions in Fiscal Year 2014 as a result of a recent arbitration decision that found New Mexico lacking in diligence with regards to non-participating manufacturers that are parties to the Master Settlement Agreement. In addition, the State booked a \$36 million contingent appropriation related to federal special education funding maintenance of effort requirements. The State believes it has met maintenance of effort requirements, and has appealed the federal ruling, but a full resolution will likely take more than a year.

Fiscal Year 2015. A steep drop in crude oil and natural gas prices during Fiscal Year 2015 sharply reduced the growth rate of total General Fund recurring revenue. Whereas non-oil and gas related revenue grew by over 7 percent, total revenue including oil and gas related revenues grew at 2.6 percent to \$6.24 billion, surpassing the previous peak level reached in Fiscal Year 2008. New Mexico oil prices averaged \$60.64 per barrel in Fiscal Year 2015, while New Mexico natural gas prices averaged \$3.78 per mcf. Strong volume growth offset declining energy prices with oil volumes growing 25 percent over Fiscal Year 2014 volumes. Natural gas volumes remained unchanged from the prior fiscal year. With strong growth across the retail, construction, wholesale, and service sectors, GRT grew by 5.2 percent. Distributions from the State’s two permanent funds continued to benefit from a larger fund corpus and strong stock market returns, and reached a total of \$685 million or 11 percent of total General Fund revenues. Income tax revenues also grew in Fiscal Year 2015 with 6.8 percent growth for personal income tax and 29.3 percent growth for corporate income tax. Due to stronger-than-expected non-oil and gas revenues, state General Fund reserves were \$713.1 million or 11.6 percent of recurring appropriations at the end of Fiscal Year 2015.

Fiscal Year 2016. During the 2015 legislative session, the Consensus Revenue Estimating Group (the “Consensus Group”) forecast Fiscal Year 2016 General Fund recurring revenue growth of just 2 percent. Oil and gas related revenue was expected to fall by 12 percent, while non-oil and gas revenues were expected to grow by 5.7 percent. The decline in revenue was partially affected by the diversion of a large portion of the liquor excise tax to the lottery tuition scholarship program. Offsetting this and other declines, the insurance premiums tax collections were expected to increase sharply due to expansion of the Medicaid program.

Because Fiscal Year 2015 spending was slightly above Fiscal Year 2015 recurring revenue, that left room for budget growth of only 1.3 percent in Fiscal Year 2016. Most State agencies’ budgets were

grown modestly, with one-time funding used to supplement limited General Fund revenue. Larger increases were provided for child protective services, law enforcement salary increases, and a staff increase for the public defender's office.

In their updated forecast prepared in January 2016, the Consensus Group projected a 22 percent decline of oil and gas related revenues, offset by 1.8 percent growth in other revenues, resulting in an estimated 2.8 percent decline in General Fund recurring revenue in Fiscal Year 2016. The Consensus Group expects oil and gas prices to improve gradually from recent low levels as the effects of lower prices result in increased demand and reduced supplies for both commodities. The January 2016 forecast projects New Mexico oil prices to average \$37.00 per barrel in Fiscal Year 2016, while New Mexico natural gas prices were expected to average \$2.55 per mcf. The Consensus Group forecasts oil volumes to increase by 6.1 percent in Fiscal Year 2016 and natural gas volumes to increase by 1.3 percent. Permanent fund distributions were expected to grow again in Fiscal Year 2016 due to the cumulative impact on the funds' corpus of rapid oil production growth in recent years. Income tax growth is expected to weaken due to a projected decline in corporate income tax receipts. General sales tax revenue is also expected to decline, in part due to a decrease in gross receipts tax revenues in response to reduced oil and gas drilling activity.

In response to ongoing declines in oil and gas prices that occurred in the midst of the 2016 legislative session, a 0.5 percent reduction in Fiscal Year 2016 appropriations was spread across all agencies with the exception of the Medicaid program and certain other healthcare-related programs. With the inclusion of non-recurring appropriations in the Fiscal Year 2016 budget, this reduction left estimated reserves at the end of Fiscal Year 2016 at \$490.9 million, or 7.9 percent of recurring appropriations.

As of March 2016, a combination of economic factors including rising enrollments, a pending decrease in the federal matching rate for the expansion population, and rising drug costs had caused the State to project a short fall of \$417 million in total state and federal Medicaid funding over the remainder of Fiscal Year 2016 and through the end of Fiscal Year 2017. The state share of this projected shortfall was \$87 million. As of May 2016, a series of factors, including lower-than-expected enrollment rates and delays in the imposition of certain federal fees on insurance providers, along with the reduction of reimbursement rates for providers, has reduced the projected General Fund shortfall over the course of Fiscal Years 2016 and 2017 from \$87 million to \$24 million.

In September 2015, the State was notified by the Internal Revenue Service (the "IRS") that the IRS would be conducting an examination of the State's Supplemental Severance Tax Bonds, Series 2004B (the "2004B Bonds"). The IRS routinely examines municipal debt issuances to determine compliance with federal tax requirements. The audit was completed with the IRS making no adverse finding as to the tax-exempt status of the 2004B Bonds.

In November 2015, the United States Health and Human Services Office of Inspector General (the "Inspector General") released a report concluding that the State received more than \$15.9 million in unallowable performance bonus payments under the Children's Health Insurance Program Reauthorization Act ("CHIPRA") for fiscal years 2009 through 2013. Specifically, the Inspector General determined that the State included ineligible individuals in its enrollment figures for bonus requests to the Centers for Medicare and Medicaid Services ("CMS") under the program, resulting in an overpayment of \$15,965,758 by CMS to the State. The Inspector General recommended that the State refund the money to the federal government. In the report, the State stated that it believed its method for determining enrollment was correct and that the bonus payments received were allowable under federal requirements. According to the State, the methodology utilized by New Mexico was delineated in the supporting documentation submitted with each CHIPRA bonus application, and the documentation indicated the specific population groups that were being excluded. CMS approved payments based on this

methodology, and at no time did CMS deem the state's methodology to be incorrect or not in compliance with its guidelines. It is expected that the CMS will determine whether to pursue any recovery in connection with the Inspector General's recommendation.

Fiscal Year 2017. In the Consensus Group forecast prepared in January 2016, total Fiscal Year 2017 recurring revenue is expected to grow by 4.1 percent. Oil and gas related revenue was projected to remain unchanged from Fiscal Year 2016 levels as supply and demand in energy markets respond to lower oil and gas prices. New Mexico oil prices were projected to average \$38.00 per barrel in Fiscal Year 2017, while New Mexico natural gas prices were expected to average \$2.90 per mcf. Oil volumes were projected to grow 3.3 percent in Fiscal Year 2017 and natural gas volumes were estimated to decline by 2.5 percent. Non-oil and gas related revenue was forecast to grow by 4.6 percent, reflecting growth in general sales tax, income tax, insurance premiums tax and permanent fund distributions.

Oil and gas prices continued to decrease during the 2016 legislative session, raising concerns about whether the January revenue outlook was too high. In response, the Legislature and Executive agreed to appropriate less than the amount projected to be available in the January revenue forecast. Total appropriations for Fiscal Year 2017 were held to \$6.23 billion, roughly \$100 million less than the January revenue forecast. Fiscal Year 2017 ending reserves are projected to be \$595.4 million or 9.6 percent of recurring appropriations. As another cautionary measure, the Legislature and Executive provided authority for the Executive to transfer up to \$345 million from the State's reserves to cover any budgetary shortfall that might occur in Fiscal Years 2016 or 2017.

Education Funding Litigation. Two lawsuits challenging the funding of the State's primary and secondary education system were filed in 2014. In March 2014, individual plaintiffs in New Mexico District Court in McKinley County brought suit against the State, among others, alleging, among other things, that the State's educational funding formula violates the sufficiency of education and uniform system of public schools provisions of the New Mexico Constitution and asks the court for injunctive relief ordering the State to develop a budget and funding formula that sufficiently, uniformly and equitably funds the public school system. In April 2014, individual plaintiffs in New Mexico District Court in Santa Fe County brought suit against the State, among others, alleging, among other things, that the State has failed to provide a sufficient and uniform system of education in violation of the sufficiency, uniformity, equal protection and due process provisions of the New Mexico Constitution because of an inadequate and arbitrary funding system. The lawsuit asks for a declaratory judgment and injunctive relief requiring the adoption of a school finance system to remedy the alleged violations. Plaintiffs also seek an order granting them attorneys' fees and costs. In the most recent scheduling order, issued by the Court on October 2, 2015, the case was set for trial May 22, 2017. Neither lawsuit asks for a specific award of damages. Because the cases are pending, the State believes it is premature to assess what effect, if any, this litigation might have on State budget matters.

Public Education Department Audits. In March 2016, the Office of the State Auditor noted that recent audits of the Public Education Department had uncovered a lack of meaningful oversight and control over the finances of the State's increasing number of charter schools. The State Auditor concluded that greater financial controls would be necessary in the future. The Office also noted a \$21 million understatement of infrastructure spending by the Public Education Department.

In response to the concerns of the State Auditor, the PED has requested that all State-chartered charter schools submit corrective action plans to the PED by May 8, 2016, with similar plans to be provided each year thereafter following release of the audit. The PED Charter School Division has implemented training and guidance procedures for newly-created charter schools, including good governance practices, school budget and finance rules, and basic training in Public Schools Accounting and Budgeting procedures. In addition, each charter school has been assigned a school budget analyst in

the Charter School Division to provide assistance and oversight of cash reporting. The PED has also begun to provide semi-annual workshops in partnership with the New Mexico Association of School Business Officials on various school business topics. The PED will evaluate whether mandatory attendance at such workshops might be a reasonable requirement.

Pension and Other Retirement Funds and Benefits

Legislative History. 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.

Educational Retirement Board-Historic Financial Information. The ERB had 146,089 members as of June 30, 2015, including active, retired, inactive vested and inactive non-vested members. The market value of Educational Retirement Fund (the “Fund”) as of June 30, 2015 was \$11.5 billion. The ERB had net investment gains for the Fiscal Year 2015 of 3.7 percent. As of March 31, 2016 the market value of the Fund was \$11.14 billion.

As with many other states, the State has experienced funding issues regarding its pension funds. The Legislature has enacted several reforms in recent years to better ensure the continued sustainability of the ERB pension program. In 2009, the Legislature increased the years in service requirement from 25 to 30 years, and extended the rule whereby ERB members could retire with full benefits if their combined service and age at retirement met or exceeded 75 to 80 for new members hired after July 1, 2010. A 2011 change in law required retired members who return to work with an educational employer to pay non-refundable contributions to the Fund equal to the amount paid by non-retired employees. Employers continue to pay the employers’ contributions to the Fund for retired members who return to work. Finally, in 2013, the Legislature increased employee contributions for members whose salary exceeds \$20,000 per year to 10.1 percent in Fiscal Year 2014 and 10.7 percent beginning in Fiscal Year 2015, kept in place scheduled increases in employer contribution rates, created a new tier of membership for persons who become members on or after July 1, 2013, created certain actuarial limitations on benefits of new tier members, and placed limitations on future cost of living adjustments (“COLA”) for current and future retirees which are tied to the future funded ratios of the plan. The projected actuarial funded ratio in 2043 with these changes is 100.7 percent.

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, 2015, the actuarial value of assets was \$11.5 billion and the unfunded accrued actuarial liability (“UAAL”) was \$6.5 billion. Other 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 at that time. In April 2013, the ERB made further changes to its assumptions regarding post-retirement, disabled, and active mortality rates, retirement rates, changes to its service-based termination table and decreases in wage inflation from 4.75 percent to 4.25 percent and in the payroll growth from 3.75 percent to 3.50 percent. These changes reduced the June 30, 2013 UAAL by \$81.5 million. Finally, in June 2015, the ERB voted to further lower the wage inflation assumption from 4.25 percent to 3.75 percent, to adopt a generational mortality projection to better reflect future longevity improvements, to remove its population growth assumption for projections and to make minor changes to several demographic assumptions.

The 2011 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, 2015, the UAAL had an amortization period of 43.2 years. 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. The calculation is based on current contribution rates which are established by State statute.

Schedule of Statutorily-Mandated Contribution Rates

<u>Fiscal Year</u>	<u>Wage Category</u>	<u>Date Range</u>	<u>Member Rate</u>	<u>Employer Rate</u>	<u>Total</u>
2010	\$20k or less	7/1/2009-6/30/2011	7.90%	12.40%	20.30%
2010	Over \$20k		9.40%	10.90%	20.30%
2011	\$20k or less	7/1/2009-6/30/2011	7.90%	12.40%	20.30%
2011	Over \$20k		9.40%	10.90%	20.30%
2012	\$20k or less	7/1/2011-6/30/2012	7.90%	12.40%	20.30%
2012	Over \$20k		11.15%	9.15%	20.30%
2013	\$20k or less	7/1/2012-6/30/2013	7.90%	12.40%	20.30%
2013	Over \$20k		9.40%	10.90%	20.30%
2014	\$20k or less	7/1/2013-6/30/2014	7.90%	13.15%	21.05%
2014	Over \$20k		10.10%	13.15%	23.25%
2015	\$20k or less	7/1/2014 – Future	7.90%	13.90%	21.80%
2015	Over \$20k		10.70%	13.90%	24.60%

Source: NMSA 1978, Section 22-11-21 (2013).

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.

The ERB implemented Governmental Accounting Standards Board (“GASB”) Statement 67 requirements with its June 30, 2013 financial statements. GASB Statement 67 requires ERB to report net pension liability (“NPL”) which is measured as total pension liability less the amount of the plan’s fiduciary net position. GASB 67 replaced GASB 25 which had required ERB to report the annual required contribution of the employer (“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, NPL and the ERB funded ratio for Fiscal Years 2011 through 2015.

ERB Funded Ratio

<u>Fiscal Year</u>	<u>Annual Required Contribution (GASB 25)</u>	<u>Net Pension Liability (GASB 67)</u>	<u>Funded Ratio</u>
2011	\$377,884,749	--	63.0
2012	\$400,461,343	--	60.7
2013	--	\$6,276,852,149	60.1
2014	--	\$5,705,730,813	63.1
2015	--	\$6,477,266,299	63.7

Source: Educational Retirement Board.

The ERB also implemented GASB Statement 68 early with its June 30, 2014 financial statements. GASB 68 requires the plan’s participating employers to recognize their pro rata share of NPL on their balance sheets.

In July 2012, the ERB adopted goals of achieving a 95 percent, plus or minus 5 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 by a COLA 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. SB 115 reduces the amount of the COLA until ERB is 100 percent funded. The amount of the adjustment is determined by the change in the Consumer Price Index (“CPI”), the retiree’s pension amount and the retiree’s service credit. Pensions cannot be decreased if there is a decrease in the CPI.

In December 2013, the Supreme Court of New Mexico, in *Barlett v. Cameron*, 2014-NMSC-002, rejected the claims of certain retired teachers, professors and other public education employees challenging the state constitutionality of Senate Bill 115 (Chapter 61, Laws 2013) to the extent that it reduces the future amounts that all education retirees might receive as an annual COLA. The court held that Article XX Section 22 of the State Constitution did not grant the retirees a right to an annual COLA based on the formula in effect on the date of their retirement. The court held that any future COLA to a retirement benefit is merely a year-to-year expectation that, until paid, does not create a property right under the State Constitution. Once paid, the COLA by statute becomes part of the retirement benefit and a property right subject to those constitutional protections.

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, over \$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 49,173 members as of June 30, 2015. As of June 30, 2015, the total market value of PERA Fund was \$14.495 billion. The Fiscal Year 2015 PERA total fund investment return was 1.87 percent. As of March 31, 2016, the total market value of the PERA fund was \$13.962 billion.

The PERA Board performs annual actuarial valuations of the retirement Funds it administers. Cavanaugh Macdonald Consulting, LLC completed an actuarial valuation of the PERA Fund, Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund as of June 30, 2015.

In May 2015, PERA actuaries conducted an experience study, testing actuarial assumptions currently used in its valuations. 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 3.0 percent per annum and real rate of return rate of 4.75 percent, reflecting an investment rate of return of 7.75 percent. The Board also adopted reduced wage inflation and payroll growth assumptions of 3.5 percent, each compounded annually, as well as revised retirement and mortality assumptions.

PERA member and employer contribution rates are established by State statute. As described more thoroughly herein, in 2013, the Legislature amended the PERA Act to increase the employer contribution rate of 0.4 percent beginning July 1, 2014, and to increase member contribution rates by 1.5 percent beginning July 1, 2013.

Actuarial information for each fund as of June 30, 2015 is shown in the table below.

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

	<u>PERA⁽¹⁾</u>	<u>Judicial</u>	<u>Magistrate</u>	<u>VFF</u>	<u>Legislative</u>
Membership	96,479	305	178	9,797	318
<u>Actuarial Information</u>					
Accrued Liability ⁽²⁾	\$18,786,486	\$141,281	\$52,580	\$ 43,916	\$ 26,610
Actuarial Value of Assets ⁽³⁾	\$14,074,919	\$ 88,249	\$32,803	\$ 61,575	\$ 36,868
Unfunded (Overfunded) Accrued Liability	\$ 4,711,567	\$ 53,032	\$19,777	\$ (17,659)	\$ (10,257)
Present Value of Statutory Obligations	\$21,572,172	\$163,711	\$57,580	\$ 50,590	\$ 30,496

(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 a 7.75 percent annual return are smoothed in over a four-year period.

Source: Public Employees Retirement Association.

As of June 30, 2015, PERA has an amortization or funding period of 41 years, based on the employer and member contribution rates in effect as of July 1, 2015. Member and employer rates are

established pursuant to Section 10-11-1 through 10-11-142 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 74.9 percent as of June 30, 2015 and the UAAL of the PERA Fund increased \$410 million to approximately \$4.7 billion. The State's portion of the UAAL of the PERA Fund is 52.4 percent, or \$25 billion. Prior to 2013 pension reform, the funded ratio was 65.3 percent and the UAAL of the PERA Fund was calculated to be approximately \$6.2 billion. The primary cause of the slight decrease in the funded ratio and increase in accrued actuarial liability from fiscal year 2014 to 2015 is the lower than expected investment return from the 2015 plan years. On a market value basis, PERA's funded ratio is approximately 76.99% as of June 30, 2015.

Current 30-year projections indicate the PERA Fund will be 113 percent funded in 2043. In 2015, PERA implemented GASB 67 for the second year. PERA has also produced an audited Schedule of Employer Allocations and Pension Amounts and expects its release in the spring of 2016 to assist its employer participants in implementing GASB 68. The total NPL as of June 30, 2015, for the PERA Fund allocated to its nearly 200 cost sharing employers that participate in the Fund is approximately \$4.2 billion.

In 2015, PERA completed the Schedule of Employer Allocations required by GASB 68 and provided local governments with the allocation percentage necessary to derive an employer's proportionate share of the collective NPL as of June 30, 2014. This information assisted GASB 68 implementers in implementing GASB 68 for the first time in 2015. PERA continues to provide statewide outreach and assistance to local governments to ensure local governments continue to receive pertinent allocation information required by GASB 67 and 68.

The following table lists the funded ratios for each individual PERA fund for Fiscal Years 2011 through 2015.

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>
2011	70.5%	56.0%	59.8%	173.4%	89.2%
2012	65.3	51.0	53.2	167.9	91.8
2013	72.9	55.7	58.4	138.2	115.2
2014	75.8	64.2	64.5	139.7	129.3
2015	74.9	62.5	62.4	140.2	138.5

Source: Public Employees Retirement Association.

Recent legislative changes enacted during the 2009 through 2015 legislative sessions also amended various provisions of the Public Employees Retirement act to improve the long-term stability of the fund. House Bill 573 (Chapter 288, Laws 2009) included training requirements for members of the PERA board. House Bill 854 (Chapter 125, Laws 2009) modified 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 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. 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 prior to September 20, 2013 to analyze whether contribution rate changes have had an adverse actuarial effect on the retirement systems.

Senate Bill 27 (Chapter 225, Laws 2013) significantly amended the Public Employees' Retirement Act by creating a new tier of reduced benefits for new hires. The law 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 percent (subject to certain requirements) for employees earning \$20,000 or more in annual salary; provided for an increase in the statutory employer contribution of 0.4 percent beginning in Fiscal Year 2015; increased age and service requirements; lengthened the base average salary calculation amount from three to five years for Tier 2 employees; increases the vesting period for employees from five to eight years for most Tier 2 members; lowered the annual service credit by 0.5 for most members; and makes several other clarifying and technical changes.

Legislative changes enacted during the 2014 legislative session amended sections of the law relating to the judicial and magistrate retirement funds and followed many of the changes implemented in the 2013 legislative session for the public employees' and educational retirement funds. House Bill 33 (Chapter 35, Laws 2014) amended the Judicial Retirement Act. Among other things, the law suspended for two years and makes adjustments to cost of living increases, adjusted employee and employer contributions, required mandatory participation in the fund and implemented changes to the benefits structure. House Bill 216 (Chapter 39, Laws 2014) amended the Magistrate Retirement Act. Among other things, the law suspended for two years and makes adjustments to cost of living increases, adjusted employee and employer contributions, required mandatory participation and implemented changes to the benefit structure. Senate Bill 160 (Chapter 43, Laws 2014) also made changes to the Magistrate Retirement Act. This law duplicated the changes made in House Bill 216.

New Mexico Retiree Health Care Authority-Historic Financial Information. The NMRHCA 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 58,036 enrolled members as of July 2015 and approximately 300 participating public entities.

NMRHCA's long-term investments continue to perform well as the 5-year rate of return totaled 9.45 percent. In addition, NMRHCA has added over \$158.2 million to its trust fund over the past five years. NMRHCA's trust fund balance as of June 30, 2015 was \$429.9 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 from 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 are 2 percent and 1 percent of the participating employee's salary for Fiscal Years 2016 and 2017.

Based on the GASB Statement 43 valuation for Fiscal Year 2014, 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 \$3.4 billion. As required by GASB Statement 43, this calculation takes into consideration only current assets of the NMRHCA Fund. NMRHCA

continues to look for additional opportunities to further strengthen the financial standing of the program. In 2012, NMRHCA’s Board of Directors 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), did not work or pay into the system as long (increasing years of service required to receive maximum subsidy) and decreased subsidies for family members. Combined, these actions are expected to further improve the financial condition of the trust fund by increasing revenues and reducing future liabilities.

As recently as 2007, the NMRHCA was projected to be insolvent as early as 2014. However, according to the most recent solvency report, actions taken by the NMRHCA including decreasing subsidy levels, increasing premiums and modifying plan designs, coupled with increases in employer and employee contribution rates have extended the NMRHCA’s solvency period through 2035.

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 2011 through 2014. The percentage of ARC contributed in 2015 will be determined as part of the 2016 GASB valuation.

NMRHCA Annual Required Contribution

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$326,994,988	36.9
2012	\$340,074,787	39.8
2013	\$353,657,828	38.3
2014	\$367,804,141	40.6
2015	\$292,656,756	NA

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, 2015 was approximately \$4.73 billion, an overall asset increase of approximately 0.8 percent from the prior fiscal year. Investment performance for the one year period ended June 30, 2015

was 3.21 percent, 1.19 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 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 NMSA 1978, Section 19-1-1 (1912), 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, 2015, the market value of the LGPF was approximately \$14.81 billion, an asset increase of approximately 4.2 percent over the prior fiscal year. Investment performance for the year ended June 30, 2015 was 3.42 percent, 0.98 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 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 annual 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 were made to implement and maintain educational reforms as provided by law. An additional 0.8 percent was 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 an investigation by the New York Attorney General into placement fees paid in relation to investments made by New York pension funds, led to an indictment of an investment advisor to that fund as well as New Mexico SIC and ERB. The investment advisor later pled guilty to a fraud charge relating to investments made by the New York retirement fund. In connection with that plea, the investment advisor stated that from 2004 to 2009 his business 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 recommendations of 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. To date, no criminal charges have been filed by state or federal investigators in New Mexico. In May 2011, the SIC, filed recovery lawsuits against more than a dozen placement agents, the former State Investment Officer, and other individuals, alleging that these individuals improperly benefited from pay-to-play and kickback schemes involving SIC investments. To date, settlements of more than \$32 million have been placed in escrow pending final approval by the

courts, or in some cases, delivered to the permanent funds. Additional legal recovery efforts are ongoing. Additional settlements and trials are anticipated in 2016.

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, and investment best practices for the SIC and New Mexico's public employee and state educator pensions (PERA & ERB). 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. Removal of individual investment authorization powers by the Investment Officer alone, and addition of Council Investment, Audit, Governance and legal Committees have greatly improved Council practices and governance procedures. In an October 2013 strategic planning session, the SIC asked the consulting group now known as Hewitt-Ennis Knupp to revisit the SIC's recent efforts to improve the SIC's investment and operational practices, and assist the SIC in its continuing efforts to expand reforms. The SIC later endorsed a 2013 Strategic Planning Summary report and plan produced in conjunction with this effort.

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, which has statutory responsibility for completion of the book to bank reconciliation, to address some of these issues. A material weakness finding related to the completion of an accurate and timely book to bank reconciliation was reported in DFA's Fiscal Year 2012 and 2013 annual financial statements. A significant deficiency finding related to the book to bank reconciliation process was reported in DFA's Fiscal Year 2014 and 2015 annual financial statements.

In June 2012, an independent diagnostic report commissioned by DFA confirmed that State agency claims on the State General Fund Investment Pool had not been reconciled against the assets managed by the State Treasurer's Office since the inception of SHARE in 2006. This reconciliation is the

foundation of the book to bank reconciliation process. It was also recognized that the fundamental business processes and information necessary to perform this basic control were not in place.

In 2012, beginning immediately upon discovery of this issue, DFA commenced remediation efforts to redesign business processes, banking structure and SHARE system configuration. Since 2012, DFA has undertaken multiple remediation and reconciliation projects in partnership with the Department of Information Technology, the State Treasurer's Office, and Deloitte Consulting LLC, a firm with significant experience with PeopleSoft software. The purpose of the remediation and reconciliation projects is to design and implement the changes necessary to prepare the State's book to bank reconciliations in a complete, accurate and timely manner. The completed remediation efforts have resulted in changes to SHARE system configurations, cash accounting policies and procedures, business practices, and banking structure that facilitate the completion of timely and accurate book to bank reconciliations. Further remediation efforts and business process enhancements are currently underway.

The first phase of the remediation effort was completed in Fiscal Year 2013 and resulted in the addition of new staff and the implementation of processes that allowed DFA to begin performing monthly book to bank reconciliations of statewide cash activity on a go-forward basis beginning February 1, 2013. In 2014, DFA received a legislative appropriation to conduct a historical reconciliation of statewide cash transactions from July 1, 2006, the implementation date of SHARE, through January 31, 2013. Unfortunately incomplete data sets and the absence of data granularity prevented successful completion of the historical reconciliation effort. The historical analysis added value to the State by identifying key process improvements needed to reduce reconciliation issues on a go-forward basis.

In 2012, in an environment of incomplete data, supported by a system with known implementation issues and millions of unreconciled transactions, management concluded that the likelihood of a loss related to the lack of a book to bank reconciliation process was probable. In accordance with the requirements of generally accepted governmental accounting standards related to uncertainty, a contingent liability for a potential loss which ultimately totaled \$100 million was established. The potential loss was reported as a special item on the statement of revenues, appropriations and changes in fund balances, since it was 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 the Fiscal Year 2015 audit of the State's Component Appropriation Funds ("General Fund") the State reported that reconciliation procedures performed during the fiscal year provide evidence that the financial assets held in the State General Fund Investment Pool exceed the claims on those assets recorded in the general ledger by approximately 0.1% of the Pool's assets. Given the small difference between the book and bank value of assets, and the consistent results derived from new procedures to reconcile cumulative claims to existing resources, DFA management re-evaluated the uncertainty and determined that the likelihood of a loss is remote. In accordance with the requirements of generally accepted governmental accounting principles the previously established \$100 million contingent liability for a potential loss was eliminated, with the effect that General Fund reserve balances were increased by \$100 million. Although there remains some uncertainty in balances related to transactions which occurred prior to February 1, 2013, the consistent results yielded by current reconciliation processes provide sufficient confidence that the contingent loss provision is no longer needed.

The Fiscal Year 2013 CAFR, the first audited State CAFR, was submitted to the State Auditor for review in June 2014 and released in November 2014 with a disclaimed opinion. Previous CAFRs were reviewed by an independent auditor. A review of financial statements is a lower standard than an audit of financial statements. The Fiscal Year 2013 audited CAFR identified the following material weaknesses: (1) book-to-bank reconciliation; (2) interagency/interfund transactions; (3) government fund type classifications; (4) budget statements; and (5) internal control over financial reporting.

Many of the same issues identified in the Fiscal Year 2013 CAFR were identified again in Fiscal Year 2014 and prevented the auditor from providing an opinion on all the statements contained within the CAFR. However, while in Fiscal Year 2013 the entire CAFR audit received a disclaimed opinion, for Fiscal Year 2014 the auditor was able to express an unmodified opinion on 40 percent of the total fund level opinion units. Additionally, two of the five Fiscal Year 2013 material weaknesses were resolved, and the ongoing reconciliation of bank transactions to the general ledger, which has been in place since February 2013 as described above, has positioned the State to resolve another long-standing issue. Finally, the 2014 CAFR was released 4 months earlier than the 2013 CAFR, helping to address a serious concern that has been raised by the bond rating agencies.

Over the last three years, accounting and control initiatives to improve financial reporting practices have been undertaken by DFA. The CAFR is considered an important statement about the State's financial condition by the bond rating agencies, federal regulatory bodies and the individuals holding the State's bonds.

Recognizing the importance of timely CAFR issuance to the financial community, the State implemented specialized software to automate CAFR preparation for Fiscal Year 2015. The software has assisted in streamlining the development process and enhancing data integrity. While it is premature to assess the software's impact on the State's opinion units, to date there has been a marked improvement in data quality and a reduction in reviewer follow-up questions. The Statewide Financial Reporting and Accountability Bureau also added two new positions at the beginning of calendar year 2016 to aid with report production and agency outreach activities. The combination of the new software and added staff allowed for report production to be accelerated by about three weeks over the prior year. The full benefit of the new software and the additional staff is expected to be more fully realized in future reporting cycles.

Other steps, including the Office of the State Auditor's acceleration of the agency audit submission date by two weeks, the recent enhancement of data valuation logic within the State's enterprise system and continued improvements to the annual update of the State's Model of Accounting Practices should ensure improvements in CAFR production over coming years.

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 Investment Pool, the Local Government Investment Pool, Bond Proceeds Investment Pools, the Severance Tax Bonding Fund and bond debt service funds.

In February 2014, working with the Financial Control Division, the Treasurer's Office recommended and implemented 12 new investment accounts for the State Wide Chart of Accounts in order to record all investment accounting activity on a monthly basis versus providing the information on a net basis once a year. This allows for the State Treasurer's investment transaction records to be input into the SHARE system until a \$2.9 million dollar appropriation for the configuration of the PeopleSoft Treasury Management Module can be implemented. This module will allow for real time recording of all investment and cash management activity and is scheduled to be implemented once PeopleSoft Financials 9.2 is implemented.

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 Years 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. Final distributions were made to shareholders in January 2015.

According to the Investment Policy, the State Treasurer's Investment Committee is appointed by the State Treasurer and the Board. The Investment Committee is an advisory committee that reviews investment reporting and any other matters of the State Treasurer's choosing. The Investment Committee consists of five voting members: the State Treasurer or designee; the State Treasurer's Chief Investment Officer, 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 money 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.

In addition to the 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 2010 United States Census was 2,059,179. 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, Tarrant 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 following table sets forth information on population growth in New Mexico and nationally.

Population New Mexico and the United States 2005-2015

<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>
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	2,059,179	308,745,538	2.6	0.7
2011 (est.)	2,078,226	311,718,857	0.9	1.0
2012 (est.)	2,084,792	314,102,623	0.3	0.8
2013 (est.)	2,086,890	316,427,395	0.1	0.7
2014 (est.)	2,085,567	318,907,401	(0.1)	0.8
2015 (est.)	2,085,109	321,418,820	(0.0)	0.8

Source: U.S. Census Bureau, Population Division. Released: March 2016.

Major industries in the State include oil and natural gas production, tourism and retail, healthcare, government and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are a notable part of the State's economy. Currently, lower global oil prices are negatively impacting mining and industries that serve the mining industry. In 2014, the largest employment sector in the State was government (comprising approximately 19.3% of the state's work force), followed, in order, by health care and social assistance; retail trade; accommodation and food services; and professional and technical services. For the twelve-month period ended December 31, 2014, total average employment in the State increased by 0.9% as compared to the same twelve-month period ending December 31, 2013. The following table sets forth information on employment by industry over the period of 2005 through 2014, the most recent figures available.

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Total New Mexico Full-time and Part-time Employment by North American Industry Classification System 2005-2014⁽¹⁾

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Growth 2013-2014</u>	<u>Growth 2005-2014</u>
Total employment	1,049,639	1,079,061	1,104,526	1,107,298	1,074,644	1,059,607	1,063,793	1,065,980	1,073,485	1,082,882	0.9%	3.2%
Wage and salary employment	845,476	868,518	878,592	881,856	849,122	837,320	837,281	839,789	846,885	853,031	0.7%	0.9%
Proprietors employment	204,163	210,543	225,934	225,442	225,522	222,287	226,512	226,191	226,600	229,851	1.4%	12.6%
Farm proprietors employment	15,588	15,255	18,193	18,041	18,270	19,083	20,715	21,436	21,547	21,470	-0.4%	37.7%
Nonfarm proprietors employment	188,575	195,288	207,741	207,401	207,252	203,204	205,797	204,755	205,053	208,381	1.6%	10.5%
Farm employment	23,262	22,829	25,804	24,702	25,228	25,630	27,323	28,370	29,218	28,250	-3.3%	21.4%
Nonfarm employment	1,026,377	1,056,232	1,078,722	1,082,596	1,049,416	1,033,977	1,036,470	1,037,610	1,044,267	1,054,632	1.0%	2.8%
Private employment	807,678	841,900	868,783	869,301	833,198	816,542	822,659	825,711	833,413	845,765	1.5%	4.7%
Forestry, fishing, related activities and other ⁽²⁾	5,229	5,135	5,172	5,311	5,307	5,215	5,237	5,149	5,260	5,641	7.2%	7.9%
Mining ⁽³⁾	21,116	23,528	24,891	28,295	24,432	27,022	28,356	34,227	36,850	39,435	7.0%	86.8%
Utilities	4,074	4,122	4,451	4,564	4,801	4,565	4,508	4,542	4,623	4,612	-0.2%	13.2%
Construction ⁽⁴⁾	73,895	79,675	80,478	77,887	67,177	61,238	59,293	57,937	59,216	59,945	1.2%	-18.9%
Manufacturing	41,175	42,745	42,810	40,595	36,422	34,537	35,613	35,664	35,444	34,774	-1.9%	-15.5%
Durable goods manufacturing ⁽⁵⁾	28,502	29,863	29,772	28,038	24,371	23,033	23,610	23,105	22,557	21,770	-3.5%	-23.6%
Nondurable goods manufacturing ⁽⁶⁾	12,673	12,882	13,038	12,557	12,051	11,504	12,003	12,559	12,887	13,004	0.9%	2.6%
Wholesale trade	27,878	28,863	28,749	28,606	26,582	26,801	26,373	26,083	26,136	26,159	0.1%	-6.2%
Retail trade ⁽⁷⁾	115,813	116,478	118,682	117,897	113,809	110,226	111,331	111,668	112,557	113,598	0.9%	-1.9%
Transportation and warehousing ⁽⁸⁾	25,271	25,875	27,380	26,629	24,279	23,351	24,281	25,294	25,408	26,133	2.9%	3.4%
Information ⁽⁹⁾	17,289	18,424	18,805	18,942	17,457	17,114	16,469	16,468	16,070	15,567	-3.1%	-10.0%
Finance and insurance ⁽¹⁰⁾	31,907	32,185	33,693	34,628	35,848	34,550	35,451	35,046	34,666	35,153	1.4%	10.2%
Real estate and rental and leasing ⁽¹¹⁾	38,266	40,436	42,998	42,557	40,380	39,916	39,833	38,412	38,437	38,678	0.6%	1.1%
Professional and technical services	66,766	74,267	81,912	82,032	80,366	78,331	77,473	76,057	75,807	76,505	0.9%	14.6%
Management of companies and enterprises	6,349	6,428	6,073	5,906	5,587	5,406	5,504	5,457	5,514	5,504	-0.2%	-13.3%
Administrative and waste services ⁽¹²⁾	55,159	58,410	60,352	60,260	55,817	54,266	54,742	53,383	54,572	54,708	0.2%	-0.8%
Educational services	15,349	15,869	15,714	15,908	16,263	16,734	16,208	16,094	16,326	16,855	3.2%	9.8%
Health care and social assistance ⁽¹³⁾	104,958	107,797	111,692	114,683	118,041	119,378	121,489	123,078	123,434	125,250	1.5%	19.3%
Arts, entertainment and recreation ⁽¹⁴⁾	21,404	21,792	22,840	23,229	23,212	22,981	23,007	23,586	23,621	23,803	0.8%	11.2%
Accommodation and food services ⁽¹⁵⁾	81,317	84,409	85,075	83,953	81,660	81,122	82,309	83,126	85,409	87,918	2.9%	8.1%
Other services, except public administration ⁽¹⁶⁾	54,463	55,462	57,016	57,419	55,758	53,789	55,182	54,440	54,063	55,527	2.7%	2.0%
Government and government enterprises ⁽¹⁷⁾	218,699	214,332	209,939	213,295	216,218	217,435	213,811	211,899	210,854	208,867	-0.9%	-4.5%

[Footnotes on following page]

- (1) Most recent data available.
- (2) The “Forestry, fishing, related activities, and other” category includes: forestry and logging; fishing, hunting and trapping; and support activities for agriculture and forestry.
- (3) The “Mining” category includes: oil and gas extraction; mining (except oil and gas); and support activities for mining.
- (4) The “Construction” category includes: construction of buildings; heavy and civil engineering construction; and specialty trade contractors.
- (5) The “Durable goods 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, appliance, and component manufacturing; motor vehicles, bodies and trailers, and parts manufacturing; other transportation equipment manufacturing; furniture and related product manufacturing; and miscellaneous manufacturing.
- (6) 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.
- (7) The “Retail trade” category includes: motor vehicle and parts dealers; furniture and home furnishings stores; electronics and appliance stores; building material and garden equipment and supplies dealers; food and beverage stores; health and personal care stores; gasoline stations; clothing and clothing accessories stores; sporting goods, hobby, musical instrument, and book stores; general merchandise stores; miscellaneous store retailers; and nonstore retailers.
- (8) 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.
- (9) The “Information” category includes: publishing industries (except Internet); motion picture and sound recording industries; broadcasting (except Internet); Internet publishing and broadcasting; telecommunications; data processing, hosting, and related services; and other information services.
- (10) The “Finance and insurance” category includes: monetary authorities-central bank; credit intermediation and related activities; securities, commodity contracts, and other financial investments and related activities; insurance carriers and related activities; and funds, trusts and other financial vehicles.
- (11) The “Real estate and rental and leasing” category includes: real estate; rental and leasing services; and lessors of nonfinancial intangible assets (except copyrighted works).
- (12) The “Administrative and waste services” category includes: administrative and support services; and waste management and remediation services.
- (13) The “Health care and social assistance” category includes: ambulatory health care services; hospitals; nursing and residential care facilities; and social assistance.
- (14) The “Arts, entertainment and recreation” category includes: performing arts, spectator sports, and related industries; museums, historical sites, and similar institutions; and amusement, gambling and recreation industries.
- (15) The “Accommodation and food services” category includes: accommodation; and food services and drinking places.
- (16) The “Other services, except public administration” category includes: repair and maintenance; personal and laundry services; religious, grantmaking, civic, professional, and similar organizations; and private households.
- (17) The “Government and government enterprises” category includes: federal, civilian; military; state and local; and state and local governments.

Source: Regional Economic Information System, Bureau of Economic Analysis, September 2015

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

**Employment and Labor Force
New Mexico and the United States
2006 – 2015**

<u>Year</u>	<u>Civilian Labor Force</u>		<u>Number of Employed</u>		<u>Unemployment Rate</u>		<u>N.M. as % of U.S. Rate</u>
	<u>New Mexico</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾	<u>New Mexico</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾	<u>New Mexico</u>	<u>United States</u>	
2006	928	151,428	889	144,427	4.2%	4.6%	91%
2007	934	153,124	899	146,047	3.8%	4.6%	83%
2008	945	154,287	902	145,362	4.5%	5.8%	78%
2009	940	154,142	869	139,877	7.5%	9.3%	81%
2010	936	153,889	860	139,064	8.1%	9.6%	84%
2011 ⁽²⁾	930	153,617	860	139,869	7.5%	8.9%	84%
2012 ⁽²⁾	929	154,975	863	142,469	7.1%	8.1%	88%
2013 ⁽²⁾	924	155,389	859	143,929	7.0%	7.4%	95%
2014 ⁽²⁾	921	155,922	859	146,305	6.7%	6.2%	108%
2015 ⁽²⁾	920	157,130	859	148,834	6.6%	5.3%	125%

(1) Figures rounded to nearest thousand.

(2) Estimates for 2011-2015 are subject to revision. All figures were benchmarked January 2014 and revised February 2016.

Source: U.S. Department of Commerce, Bureau of Business & Economic Research, February 2016.

**Personal Income
New Mexico and the United States
2006 – 2015**

<u>Year</u>	<u>Personal Income (Dollars in thousands)</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
2006	\$59,840,045	\$11,381,350,000	--	--
2007	63,348,816	11,995,419,000	5.9%	5.4%
2008	67,102,829	12,492,705,000	5.9%	4.1%
2009	65,773,493	12,079,444,000	-2.0%	-3.3%
2010	68,182,725	12,459,613,000	3.7%	3.1%
2011	71,821,138	13,233,436,000	5.3%	6.2%
2012	74,180,920	13,904,485,000	3.3%	5.1%
2013	73,571,354	14,064,468,000	-0.8%	1.2%
2014	77,356,150	14,683,147,000	5.1%	4.4%
2015	80,200,588	15,324,108,725	3.7%	4.4%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data. Last Revised: March 2016.

**Per Capita Personal Income
New Mexico and the United States
2006 - 2015**

<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>
2006	\$30,497	\$38,144	80%	--	--
2007	31,832	39,821	80%	4.4%	4.4%
2008	33,374	41,082	81%	4.8%	3.2%
2009	32,293	39,376	82%	-3.2%	-4.2%
2010	33,019	40,277	82%	2.2%	2.3%
2011	34,556	42,453	81%	4.7%	5.4%
2012	35,585	44,266	80%	3.0%	4.3%
2013	35,254	44,438	79%	-0.9%	0.4%
2014	37,091	46,049	81%	5.2%	3.6%
2015	38,457	47,669	81%	3.7	3.5

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data. Revised: March 2016.

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2005-2015
Wages and Salaries by Industry Sector

NAICS Earnings by Place of Work ⁽¹⁾ <u>Applicable to 2005-2015</u>	New Mexico (Actual Dollars) ⁽²⁾		United States (Dollars in Millions) ⁽²⁾		Cumulative Annual Percent Change 2005 - 2015		Distribution of 2015 Wages & Salaries	
	2015	2005	2015	2005	N.M.	U.S.	N.M.	U.S.
Farm Wage and Salary	\$ 293,165	\$214,760	\$ 27,090	\$19,022	36.5%	42.4%	0.8%	0.3%
Non-farm Wage and Salary	37,170,981	28,494,581	7,789,373	5,669,804	30.4%	37.4%	99.2%	99.7%
Private Wage and Salary	27,355,566	19,947,786	6,538,724	4,692,227	37.1%	39.4%	73.0%	83.9%
Forestry, Fishing, related activities, and other	83,963	55,994	17,821	11,627	49.9%	53.3%	0.2%	0.2%
Mining	1,997,183	935,624	78,592	40,258	113.5%	95.2%	5.3%	1.0%
Utilities	364,434	244,035	59,027	41,906	49.3%	40.9%	1.0%	0.8%
Construction	1,978,883	1,891,291	381,181	321,546	4.6%	18.5%	5.3%	4.9%
Manufacturing	1,601,778	1,546,191	801,780	710,362	3.6%	12.9%	4.3%	10.3%
Wholesale Trade	1,168,676	964,845	440,851	324,775	21.1%	35.7%	3.1%	5.6%
Retail Trade	2,711,313	2,250,525	480,079	392,793	20.5%	22.2%	7.2%	6.1%
Transportation and Warehousing	1,053,828	793,524	255,702	183,730	32.8%	39.2%	2.8%	3.3%
Information	694,435	555,651	264,049	195,273	25.0%	35.2%	1.9%	3.4%
Finance and Insurance	1,440,499	1,026,434	610,902	449,051	40.3%	36.0%	3.8%	7.8%
Real Estate and Rental and Leasing	400,605	318,719	117,747	87,308	25.7%	34.9%	1.1%	1.5%
Professional, Scientific, and Technical Services	4,093,092	2,529,013	786,272	472,985	61.8%	66.2%	10.9%	10.1%
Management of Companies and Enterprises	358,274	308,493	261,004	153,601	16.1%	69.9%	1.0%	3.3%
Administrative and Waste Services	1,444,539	1,216,718	336,853	232,968	18.7%	44.6%	3.9%	4.3%
Educational Services	344,023	264,525	142,218	88,010	30.1%	61.6%	0.9%	1.8%
Health Care and Social Assistance	4,680,383	2,944,341	885,461	560,754	59.0%	42.7%	12.5%	11.3%
Arts, Entertainment, and Recreation	225,153	161,439	85,467	58,793	39.5%	45.4%	0.6%	1.1%
Accommodations and Food Services	1,614,215	1,105,207	286,434	188,308	46.1%	52.1%	4.3%	3.7%
Other Services, Except Public Administration	1,100,292	835,217	247,286	178,179	31.7%	38.8%	2.9%	3.2%
Government and Government Enterprises	9,815,416	8,546,795	1,250,650	977,577	14.8%	27.9%	26.2%	16.0%
Total	\$37,464,147	\$28,709,341	\$7,816,463	\$5,688,826				

(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) All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 24, 2016.

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APPENDIX B

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2015

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
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**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
OFFICIAL ROSTER
JUNE 30, 2015**

Office of the State Treasurer

Tim Eichenberg, State Treasurer

Ricky Bejarano, Deputy State Treasurer

State Treasurer's Investment Committee

Tim Eichenberg, Chairman

Charmaine Cook, Chief Investment Officer, Investment Division Director

Paul Cassidy, Member

Mark Pike, Member

Jeff Primm, State Board of Finance Member



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INDEPENDENT AUDITORS' REPORT

Honorable Susana Martinez, Governor
State Board of Finance
Honorable Tim Eichenberg, State Treasurer
Honorable Timothy Keller, State Auditor
State of New Mexico Office of the State Treasurer
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparison for the general fund, and each fiduciary fund, of the State of New Mexico Office of the State Treasurer (the Office) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Honorable Susana Martinez, Governor
State Board of Finance
Honorable Tim Eichenberg, State Treasurer
Honorable Timothy Keller, State Auditor
State of New Mexico Office of the State Treasurer

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, each fiduciary fund, and the aggregate remaining fund information of the Office as of June 30, 2015, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the State of New Mexico Office of the State Treasurer are intended to present the financial position, the changes in financial position, of only that portion of the governmental activities, and each major fund of the Office that is attributable to the transactions of the Office. They do not purport to, and do not present fairly the financial position of State of New Mexico as of June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 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 which 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. Schedules 1 – 13 in the Supplementary Information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Susana Martinez, Governor
State Board of Finance
Honorable Tim Eichenberg, State Treasurer
Honorable Timothy Keller, State Auditor
State of New Mexico Office of the State Treasurer

Schedules 1 – 13 in the Supplementary Information section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 – 11 in the Supplementary Information section are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The vendor schedule, required by 2.2.2.10(A)(2)(g) NMAC, and schedule of arbitrage on tax exempt bonds have not been subjected to the auditing procedures applied in the audit of the basic and combining and individual fund financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2015 on our consideration of the Office’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 25, 2015

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 position decreased by \$61,347,332.
- The General Fund's main financing source was appropriations, which amounted to \$3,907,400 or 99.9% 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 are comprised of 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 position presents information on all of the State Treasurer's assets and liabilities, which is the difference between the two being reported as net position.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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

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

The State Treasurer maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, General Obligation Bond Fund and the Severance Tax Bond Fund. 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 (comprised of the Bond Proceeds Investment Pools #1 (Tax Exempt) and #2 (Taxable)), and the State Funds Investment Pool. The State Treasurer's fiduciary funds account for cash, securities, and other investments identified and held on behalf of local and State government agencies. 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 on behalf of State agencies. Collectively, these funds are shown on the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position as the Investment Trust Fund. The Gaming Suspense Fund was established to collect monies owed to the State from gaming establishments. It is reported as an agency fund.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 23 of this report.

Other Information. The combining statements referred to earlier in connection with the General Obligation and Severance Tax Bond funds are presented immediately following the notes to the financial statements. Combining statements, schedules of capital assets, and schedules of long-term debt can be found beginning on page 75 of this report. Fiduciary schedules begin on page 91.

Government-wide Financial Analysis

Net Position: Table A-1 summarizes the State Treasurer's net position as of June 30, 2015. Total State Treasurer net position for fiscal year 2015 is \$159,599,468, the majority of which is restricted as to purpose.

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

	Years Ended June 30,	
	2015	2014
ASSETS		
Cash, Cash Equivalents and Repurchase Agreements	\$ 184,019,252	\$ 47,444,910
Due from Other Agencies	112,239,369	179,091,818
Bond Interest Receivable	660,636	-
Other Assets	3,451	4,359
Capital Assets, Net	17,539	32,542
Total Assets	<u>\$ 296,940,247</u>	<u>\$ 226,573,629</u>
CURRENT LIABILITIES		
Accounts Payable and Others	\$ 137,242,988	\$ 5,505,195
Compensated Absences, Amounts Due in One Year	97,791	121,634
Total Liabilities	<u>137,340,779</u>	<u>5,626,829</u>
NET POSITION		
Investment in Capital Assets	17,539	32,542
Restricted	159,670,836	221,027,008
Unrestricted	(88,907)	(112,750)
Total Net Position	<u>159,599,468</u>	<u>220,946,800</u>
Total Liabilities and Net Position	<u>\$ 296,940,247</u>	<u>\$ 226,573,629</u>

As noted earlier, net position 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 \$159,599,468 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, 2015**

By far, the largest portion of the State Treasurer's net position 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.

The restricted portion of the State Treasurer's net position, \$159,670,836, represents resources that are subject to external restrictions on their use.

Changes in Net Position: Governmental activities decreased the State Treasurer's net position by \$61,347,332. Key elements of this decrease are shown in Table A-2.

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

	Years Ended June 30,	
	2015	2014
GOVERNMENTAL ACTIVITIES		
Revenues:		
Program Revenues:		
General Government	\$ -	\$ -
Total Program Revenues	-	-
General Revenues:		
State General Fund Appropriations, net	3,726,719	3,767,652
State Property Tax Levy	78,006,684	74,591,667
Severance and Other Taxes	426,330,559	569,569,009
Interest Revenue	6,551,241	6,535,757
Miscellaneous Revenue	-	-
Total General Revenues	<u>514,615,203</u>	<u>654,464,085</u>
Total Revenues	514,615,203	654,464,085

(Continued on next page)

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

**Table A-2
Changes in the State Treasurer's Net Position (Continued)**

	Years Ended June 30,	
	2015	2014
Expenses and Other Financing Sources (Uses):		
General Government	\$ (4,482,917)	\$ (4,946,079)
Debt Service Activity	(573,231,052)	(616,218,614)
Other Sources:		
Bond Proceeds	403,649	350,000
Transfers in from Other State Agencies	1,347,785	(115,654,197)
Net (Expenses) Revenue	<u>(575,962,535)</u>	<u>(736,468,890)</u>
Increase (Decrease) in Net Position	(61,347,332)	(82,004,805)
Net Position - Beginning of Year	220,946,800	241,780,324
Restatement	<u>-</u>	<u>61,171,281</u>
Net Position - Beginning of Year, Restated	<u>220,946,800</u>	<u>302,951,605</u>
Net Position - End of Year	<u>\$ 159,599,468</u>	<u>\$ 220,946,800</u>

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 \$159,679,720, which is a decrease of \$61,356,172 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 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 Bond Debt Service Funds, and Schedule 5 - Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Severance Tax Bond Debt Service Funds.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 4.6%.

Capital Assets and Debt Administration

Capital Assets. The State Treasurer's investment in capital assets for its governmental activities as of June 30, 2015 amounts to \$17,539, net of accumulated depreciation. This investment in capital assets includes equipment. Additional information on the State Treasurer's capital assets can be found in Note 7 of this report.

Long-Term Debt. For the year ended June 30, 2015, the State Treasurer was responsible for administering debt service payments on total bonded debt outstanding of \$1,213,135,639, 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 by \$47,414,394 from the prior year as principal payments in fiscal year 2015 exceeded issuances.

	Years Ended June 30,	
	2015	2014
General obligation bonds	\$ 457,647,826	\$ 349,931,690
Severance tax bonds	755,487,813	910,618,343
Total principal balances	<u>\$ 1,213,135,639</u>	<u>\$ 1,260,550,033</u>

Significant Highlights

During fiscal year 2015, the State Treasurer's Office continued to hold operating costs down to stay within state budget constraints. The executive management team continued to closely review weekly budget status reports in order to identify potential cost savings. By the end of fiscal year 2015, cost savings yielded a \$180,681 reversion to the General Fund. Over the past five years, the State Treasurer's budget has been reduced by approximately \$131,500 through vacancies and other cost-saving measures.

Following the agency's stated objective of selecting investments based primarily on safety, then liquidity, and finally, yield, the agency ended fiscal year 2015 with unrealized gains of \$9,710,368 as compared to unrealized gains of \$7,083,996 in fiscal year 2014. Earnings decreased to \$26,082,419 in 2015 from \$26,658,045 in 2014, a decrease of 2.2%. 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 \$4,408,577,512 at June 30, 2015, a decrease of 0.9% from June 30, 2014 when balances totaled \$4,449,744,471.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 prevented DFA from performing a meaningful reconciliation between its general ledger and funds held by STO. 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 were preventing the completion of a timely and accurate statewide cash reconciliation and recommended an approach to remediate the current cash control issues. Deloitte was consultant prepared the diagnostic and performed project management.

Most issues are a result of inadequate 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 not integrated into SHARE.

Recommendations from the remediation project were implemented effective February 1, 2013 to facilitate a point forward reconciliation which included:

- Opening and aligning bank accounts by agency
- Creation of a GL account for each bank account
- Establishment of GL account 101800 (Agency Interest in SGFIP - "Remediated Process") to capture and report funds held by the State Treasurer's Office (STO) in the State General Fund Investment Pool (SGFIP) for the account of the State Agency.
- Modifications to the SHARE Accounts Payable, Accounts Receivable, and Treasury modules enhance the State's ability to reconcile cash.
- Business process changes to Third-Party Warrant Processing effective November 1, 2013.

DFA considers the remediation project to be a success and is reconciling on a monthly basis. Additional remediation recommendations require that the SHARE system receive hardware and software upgrades. The hardware is scheduled to be upgraded early in calendar year 2015 and is anticipated to provide the needed capacity for several critical functions. Implementation of the full treasury management module which will include the deal management module, which is an integrated investment and accounting system, is anticipated to occur after the SHARE software is upgraded in calendar year 2016.

The State Treasurer's Office continued 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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

In fiscal year 2015, the State Treasurer also created the Financial Literacy Trainer position. This position provides financial literacy training in schools throughout New Mexico for students in grades 4 through 12. STO's HR Bureau Chief assumed the financial literacy duties in May 2015.

Staff development programs provided ongoing education and training for the State Treasurer's Office employees, providing training on supervisory skills, working in a union environment, defensive driving, civil rights, ethics sexual harassment prevention and EEOC. Other training was resourced on the benefits of the deferred compensation program, the state public employees retirement program and retiree health care coverage. The State Treasurer's Office continues to honor retiring employees and recognize employee years of service once they have been employed for five years or longer.

Planning and forecasting was also an important focus in the last part of fiscal year 2015, 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 legislation in 2013. A request to extend the appropriation through 2018 was submitted in October 2014. This extension was approved by the legislature in January 2015.

In fiscal year 2015, 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. While we have not yet received the official rating notification, the Standard & Poor's representatives shared that they firmly believed that the AAAM rating would be reaffirmed based on a strong analysis of credit quality, market price exposure and management.

The Investment Division made meaningful strides in hiring key staff and re-aligning job functions within the division, ensuring cross-training and back-ups.

The three staff members in the Investment Accounting Department were realigned under the Budget & Finance Division where the investment accounting functions now occur.

The Investment Division of the State Treasurer's Office hosted the 7th Annual LGIP Stakeholder Meeting in September 2015, inviting all participants to attend. The program was held in Albuquerque and included speakers such as James E. Glassman, Head Economist with JPMorgan Chase Bank and Barry Weiss, Director from Standard & Poor's. 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 May 2014, the new Investment Policies for the General Fund Investment Pool and the LGIP were approved and adopted by the State Treasurer and the State Board of Finance and were implemented on July 1, 2014.

In fiscal year 2015, the State Treasurer's Office implemented a new process for the selection of broker-dealers for the annual list of trading partners. The object of the revised process was to maximize usefulness to STO's investment strategy while keeping the list to a reasonable number per industry practice. The new process was well received and the Broker-Dealer list for FY16, effective 10/1/2015, was approved by the State Board of Finance.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

When anticipated SHARE updates are made, the PeopleSoft Treasury Management System will be integrated into the current SHARE configuration and it will include the Enhanced Cash Management module and the Deal Management module. Once this integration is complete, it will replace QED, the State Treasurer's Office legacy investment accounting software. Once this integration is completed, the State Treasurer's Office will not have to enter financial information into two different systems, which will simplify reconciliations.

The Investment Division outreach on behalf of the Local Government Investment Pool was continued in fiscal year 2015 through the New Mexico Association of Counties, and the New Mexico Municipal League.

The Investment Division reviewed additional repurchase agreements (REPO) and Triparty counterparties. On the topic of collateral, a state collateral pool program is being researched and discussed with the state's banking community. The Agency worked with the NM Board of Finance to conduct a new Fiscal Agent and Investment Custodian procurement. Additionally, the reintroduction of corporate credit into the investment portfolios was approved by Treasurer Eichenberg. Procedures and practices for corporate credit investments were in process as of year-end.

The State Treasurer places a high priority on active participation on all of the boards and commissions on which he serves. In fiscal year 2015, 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.
- The State Treasurer's Office continues to reduce budget through vacancy savings and through attrition. Staffing levels were reduced and existing staff job duties were enhanced.
- The overall costs of facilities, equipment and transportation were reduced within current budget constraints.

These factors were considered in preparing the State Treasurer's budget for fiscal year 2015.

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:

Tim Eichenberg, State Treasurer
Office of the State Treasurer
PO Box 5135
Santa Fe, New Mexico 87505

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF NET POSITION
JUNE 30, 2015**

	Governmental Activities
ASSETS	
Investment in State General Fund Investment Pool	\$ 303,060
Repurchase Agreements (Held in State General Fund Investment Pool)	183,716,192
Due from Other Agencies	112,239,369
Bond Interest Receivable	660,636
Other Assets	3,451
Capital Assets, Net of Accumulated Depreciation:	
Equipment	17,539
Total Assets	\$ 296,940,247
LIABILITIES	
Accounts Payable	195,152
Accrued Payroll	58,954
Other Liabilities	136,829,045
Accrued Payroll Taxes	15,410
Due to State General Fund	144,427
Compensated Absences	97,791
Total Liabilities	137,340,779
NET POSITION	
Investment in Capital Assets	
Restricted for:	17,539
Debt Service	159,670,836
Unrestricted	(88,907)
Total Net Position	159,599,468
TOTAL LIABILITIES AND NET POSITION	\$ 296,940,247

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF NET ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position Primary Government
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES			
General Government	\$ 4,482,917	\$ -	\$ (4,482,917)
Interest on Debt Service Activity	48,243,902	-	(48,243,902)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 52,726,819	\$ -	(52,726,819)
GENERAL REVENUES:			
State Property Tax Levy			78,006,684
Severance Taxes			426,330,559
BOND ACTIVITY:			
Bond Proceeds			403,649
Bond Principal Payments			(524,987,150)
TRANSFER FROM (TO) STATE AGENCY:			
State General Fund Appropriations			3,729,300
Special Appropriations			178,100
Reversions to State General Fund FY15			(180,681)
Other State Agencies			1,347,785
Interest			6,517,825
Federal Funds			33,416
Total General Revenues and Transfers			(8,620,513)
CHANGE IN NET POSITION			(61,347,332)
Net Position - Beginning			220,946,800
NET POSITION - ENDING			\$ 159,599,468

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015**

	18200			Total Governmental Funds
	Major Funds			
	General Fund	General Obligation Bond Fund	Severance Tax Bond Fund	
ASSETS				
Investment in State General Fund				
Investment Pool	\$ 303,060	\$ -	\$ -	\$ 303,060
Repurchase Agreements (Held in				
State General Fund Investment Pool)	-	31,513,960	152,202,232	183,716,192
Other Assets	3,451	-	-	3,451
Bond Interest Receivable	-	160,825	499,811	660,636
Due from Other Agencies	-	15,447,556	96,791,813	112,239,369
	<u>306,511</u>	<u>47,122,341</u>	<u>249,493,856</u>	<u>296,922,708</u>
Total Assets	<u>\$ 306,511</u>	<u>\$ 47,122,341</u>	<u>\$ 249,493,856</u>	<u>\$ 296,922,708</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts Payable	\$ 78,836	\$ -	\$ 116,316	\$ 195,152
Other Liabilities	-	-	136,829,045	136,829,045
Due to State General Fund	144,427	-	-	144,427
Accrued Payroll	58,954	-	-	58,954
Accrued Payroll Taxes	15,410	-	-	15,410
Total Liabilities	<u>297,627</u>	<u>-</u>	<u>136,945,361</u>	<u>137,242,988</u>
FUND BALANCES:				
Restricted for:				
Debt Service	-	47,122,341	112,548,495	159,670,836
Unassigned	8,884	-	-	8,884
Total Fund Balances	<u>8,884</u>	<u>47,122,341</u>	<u>112,548,495</u>	<u>159,679,720</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 306,511</u>	<u>\$ 47,122,341</u>	<u>\$ 249,493,856</u>	<u>\$ 296,922,708</u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balance - Governmental Funds (Balance Sheet - Governmental Funds)	\$ 159,679,720
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Amounts reported for governmental activities in the Statement of Net Position 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 Position

Capital assets total acquisition value	263,731
Total accumulated depreciation	(246,192)
Total Capital Assets, Net	17,539

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 Position

	(97,791)
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Net Position of Governmental Activities (Statement of Net Position)	<u><u>\$ 159,599,468</u></u>
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**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

	Major Funds			Total Governmental Funds
	General Fund	General Obligation Bond Fund	Severance Tax Bond Fund	
REVENUES				
Interest Income - Debt Service	\$ -	\$ 995,011	\$ 5,552,933	\$ 6,547,945
Federal Funds	3,297	-	-	3,297
Severance Taxes	-	-	426,330,559	426,330,559
State Property Tax Levy	-	78,006,684	-	78,006,684
Total Revenues	<u>3,297</u>	<u>79,001,695</u>	<u>431,883,492</u>	<u>510,888,484</u>
EXPENDITURES				
Current:				
Personnel Services and Employee Benefits	2,836,603	-	-	2,836,603
Operating Costs:				
Contractual Services	299,794	-	-	299,794
Other Administrative Expenditures	593,619	-	-	593,619
Debt Service:				
Principal and Interest on Long-Term Debt	-	75,411,248	155,130,531	230,541,779
Principal and Interest on Short-Term Debt	-	-	342,689,273	342,689,273
Other Charges	-	301,663	460,078	761,741
Total Expenditures	<u>3,730,016</u>	<u>75,712,911</u>	<u>498,279,882</u>	<u>577,722,809</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,726,719)	3,288,784	(66,396,390)	(66,834,325)
OTHER FINANCING SOURCES (USES):				
State General Fund Appropriations	3,729,300	-	-	3,729,300
Special Appropriation	178,100	-	-	178,100
Reversions to State General Fund FY13	(180,681)	-	-	(180,681)
Bond Proceeds	-	403,649	-	403,649
Transfer (to) from Other State Agency	-	-	1,347,785	1,347,785
Total Other Financing Sources (Uses)	<u>3,726,719</u>	<u>403,649</u>	<u>1,347,785</u>	<u>5,478,153</u>
NET CHANGE IN FUND BALANCES	-	3,692,433	(65,048,605)	(61,356,172)
Fund Balances - Beginning of Year	<u>8,884</u>	<u>43,429,908</u>	<u>177,597,100</u>	<u>221,035,892</u>
FUND BALANCES - END OF YEAR	<u>\$ 8,884</u>	<u>\$ 47,122,341</u>	<u>\$ 112,548,495</u>	<u>\$ 159,679,720</u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Net Change in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ (61,356,172)
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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 \$15,003 exceeded capital outlay expense of \$0 in the current period:	(15,003)
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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:

Decrease in Compensated Absences	<u>23,843</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (61,347,332)</u></u>
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**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES AND EXPENDITURES – GENERAL FUND -
BUDGET AND ACTUAL (Budgetary Basis)
YEAR ENDED JUNE 30, 2015**

	General Fund			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State General Fund Appropriation	\$ 3,729,300	\$ 3,729,300	\$ 3,729,300	\$ -
Federal Grants	4,000	4,000	3,297	(703)
Other	178,100	178,100	178,100	-
Total Revenues	<u>3,911,400</u>	<u>3,911,400</u>	<u>3,910,697</u>	<u>(703)</u>
EXPENDITURES				
Current:				
Personnel Services and Benefits	3,007,447	2,862,447	2,836,603	25,844
Contractual Services	312,053	357,053	299,794	57,259
Operating Costs	591,900	691,900	593,619	98,281
Total Expenditures	<u>3,911,400</u>	<u>3,911,400</u>	<u>3,730,016</u>	<u>181,384</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	180,681	<u>\$ 180,681</u>
RECONCILIATION TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE				
Unbudgeted Reversions to State General Fund			<u>(180,681)</u>	
NET CHANGE IN FUND BALANCES (GAAP BASIS)			<u>\$ -</u>	

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	Investment Trust Fund	Agency Fund - Gaming Suspense Fund
ASSETS		
Cash and Investments:		
Fiscal Agent Bank Account	\$ 85,318,980	\$ -
Cash in Banks	493,691,193	-
Certificates of Deposit	77,950,178	-
U.S. Government Securities	3,028,345,064	-
Municipal Bonds	64,129,385	-
Repurchase Agreements	606,000,000	-
Discounted Notes	41,641,606	-
Total Cash and Investments	4,397,076,406	-
Securities Receivable	18,958	-
Other Receivables	-	17,157,050
Accrued Interest Receivable	11,482,148	-
	11,482,148	-
TOTAL ASSETS	\$ 4,408,577,512	\$ 17,157,050
LIABILITIES		
Due to Broker	\$ 16,592,613	\$ -
Other Liabilities	28,307	-
Due To State General Fund	-	17,157,050
Total Liabilities	16,620,920	\$ 17,157,050
NET POSITION - HELD IN TRUST	4,391,956,592	
TOTAL LIABILITIES AND NET POSITION	\$ 4,408,577,512	

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2015**

	Investment Trust Fund
ADDITIONS	
Investment Income	\$ 26,082,419
Deposits	46,265,768,007
DEDUCTIONS	
Management Fees	(297,173)
Withdrawals	(46,304,164,686)
Change in Net Position	(12,611,433)
NET POSITION, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2014	4,404,568,025
NET POSITION, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2015	\$ 4,391,956,592

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015

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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 DEFINITION OF REPORTING ENTITY (CONTINUED)

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

The State Treasurer is responsible for making the State of New Mexico's debt service and interest payments on general obligation and severance tax bonds and maintaining the related accounting records. The proceeds from the issuance of these general obligation and severance tax bonds and the related debt are maintained in agency funds at the 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.

Advice and Consent 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 financial statements of the CAFR. The details of the debt are reported in the supplementary and additional information sections in this report.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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.

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 GASBs 39 and 61) 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 position 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 is 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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. General State Levy and Severance Tax revenues 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 90 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.

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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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.

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

The LGIP Short-Term Investment Pool (SHARE Fund 68590) 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 10190) 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 10090) accounts for securities and other investments identified and held in custody only for State agencies.

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. This is an agency fund.

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.

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, 2015**

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."

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.

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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are not reported as liabilities in the applicable governmental activities. The State Treasurer is not the issuer of the debt, nor is it ultimately responsible for the debt.

The 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.

Fund Balance

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or 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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

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.

Net Position

The government-wide statements utilize a net position presentation categorized as follows:

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

Net investments in capital assets is intended to reflect the portion of net position 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 position is restricted by the bond indenture for debt service. Restricted net position totals \$159,670,836.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Office did not have any items that qualified for reporting in this category as of June 30, 2015.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Department did not have any items that were required to be reported in this category as of June 30, 2015.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

In January 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Compliant with the requirements of Government Accounting Standards Board Statement No.68 and No.71, the State of New Mexico has implemented the standards for the fiscal year ending June 30, 2015.

The Office, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, the total pension liability exceeds Plan net position resulting in a Net pension liability. The State has determined the State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

NOTE 3 STATE GENERAL FUND INVESTMENT POOL

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006, through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I the Department of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point- forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been applied to fiscal year-end 2014 and the months from January 2015 through June 2015.

Agency claims on the SGFIP will be honored in their entirety. Any adjustment necessary to the claims balance will be applied against the General Operating Reserve. No portion of the adjustment shall be allocated to any specific agency that participates in the SGFIP.

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, 2015, the State Treasurer had \$303,060 invested in the State General Fund Investment Pool.

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

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Budgets and Budgetary Accounting (Continued)

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.

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 ended June 30, 2015 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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS

Fiscal Agent Bank

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, 2016 with an option to renew to 2018.

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 effective July 1, 2014 for a two-year period, with the option to renew for up to six additional years at the discretion of the State Board of Finance.

Investment Trust Fund

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

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

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

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

The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$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, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Trust Fund (Continued)

At June 30, 2015, collateral pledged to public money deposits was as follows:

	Fiscal Agent Account	Certificates of Deposit
Cash in Bank (Bank Balance)	\$ 38,005,944 *	\$ 65,950,000
Less FDIC Insurance Coverage	-	1,540,227
Total Unsecured Public Funds	\$ 38,005,944	\$ 64,409,773
Collateral Requirement (50%, 75% or 102%) of Uninsured Public Funds	\$ 19,002,972	\$ 49,427,387
Collateral Pledged:		
US Government Securities	44,488,777	78,290,842
Excess (Under) Collateralized	\$ 25,485,805	\$ 28,863,455

* Fiscal agent bank is required to collateralize the monthly average balance.

See Schedule 10 for reconciliation.

Brokered Transactions

The State Treasurer initiated electronic purchase trades with the following brokers during the year ended June 30, 2015:

<u>Broker Name</u>	<u>Number of Transactions</u>
BANK OF AMERICA	1
BANK OF OKLAHOM	5
BARCLAYS	9
BB&T CAPITAL MA	11
BMO CAPTIAL MAR	20
BNP PARIBAS	2
BOSC, INC	1
CASTLEOAK SECUR	16
CRT CAPITAL GRO	1
DAIWA CAPITAL M	2
DEUTSCHE BANK S	11
DREXEL HAMILTON	2
FIRST SOUTHWEST	19
FTN FINANCIAL S	6
GUGGENHEIM SECU	1
HSBC	4
INTL FCSTONE PA	11
J.P. MORGAN SEC	2
JEFFRIES & CO	4
KEYBANC CAPITAL	6
LAWSON FINANCIA	2

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Brokered Transactions (Continued)

<u>Broker Name</u>	<u>Transactions</u>
LOOP CAPITAL MA	2
MFR SECURITIES	1
MIZUHO SECURITI	14
MORGAN STANLEY	11
MURIEL SIEBERT	1
MUTUAL SECURITI	1
PIERPONT SECURI	2
RAMIREZ & CO, I	1
RBS	4
RBS GREENWICH C	1
ROBERT W BAIRD	11
SCOTT & STRINGF	2
SOC GEN AMERICA	11
SOUTH STREET SE	1
SOUTHWEST	32
STIFFEL NICOLAU	10
SUNTRUST ROBINS	1
TD SECURITIES	11
UBS	3
WEDBUSH SECURIT	18
WELLS FARGO SEC	31
ZIONS BANK	3
Total	<u><u>308</u></u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Balances

The fair value of investments administered by the State Treasurer at June 30, 2015 follows:

	<u>Cost</u>	<u>Carrying Amount Fair Value</u>
Fiscal Agent Bank Account	\$ 85,318,980	\$ 85,318,980
Certificates of Deposit	77,950,178	77,950,178
Cash in Bank	493,691,193	493,691,193
U.S. Government Securities	3,018,679,573	3,028,345,064
Investment in LGIP	12,380,592	12,380,592
Municipal Bonds	64,090,036	64,129,385
Repurchase Agreements	606,000,000	606,000,000
Discounted Notes	41,636,079	41,641,606
	<u>4,399,746,631</u>	<u>4,409,456,998</u>
Less interfund investments	(12,380,592)	(12,380,592)
Total	<u>\$ 4,387,366,039</u>	<u>\$ 4,397,076,406</u>

The fair value includes repurchase agreements of \$183,716,192 of debt service funds reported in the Statement of Net Position - Governmental Activities and Governmental Funds Activity for general obligation funds and severance tax bond funds. In addition, it includes \$303,060 of cash in STO's 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.

Consolidated Investment Pool (Tax-Exempt Bond Proceeds Investment Pool # 1)

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 in accordance with the Investment Policy of the Office of the State Treasurer.

Consolidated Investment Pool (Taxable Bond Proceeds Investment Pool # 2)

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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Local Government Investment Pool (Short Term 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, 2015, 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, 2015, the WAM(R) of the LGIP was 54.6 days, and the WAM(F) was 77.7 days. The fund was rated AAAM by Standard & Poor's as of June 30, 2015.

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Guidelines and Limitations (Continued)

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 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 mortgage obligations, and debentures issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Permitted by Policy (Continued)

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.
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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Permitted by Policy (Continued)

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.
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 States 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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

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 not registered in the name of the State Treasurer and are held by either the counterparty of the counterparty's trust department of agent but not in the 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.

The State Treasurer's Office Collateral Manager reviews and tracks all state funds held in state depository institutions. Deposits and collateral are reviewed almost daily and a statutorily required risk assessment is performed quarterly, although the assessments are not intended as an opinion as to the financial health of the subject institution. The \$687,334,239 in balances are collateralized in compliance with NMAC 2.60.4. Although in compliance with NMAC 2.60.4 as of June 30, 2015, there was \$111,181,239 of the State

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

Treasurer's bank balances of \$687,334,239 that 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, 2015 for the general fund investment pool are as follows:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
AAA:		
Municipals	\$ 3,198,170	0.14%
AA+:		
Treasuries	517,175,996	22.98%
Gov Agency	984,510,587	43.74%
Municipals	4,127,649	0.18%
Aa1:		
Municipals	3,963,548	0.18%
Aa2:		
Municipals	3,514,087	0.16%
Aa3:		
Municipals	753,060	0.03%
AA:		
Municipals	5,202,190	0.23%
AA-:		
Municipals	963,628	0.04%
A+:		
Municipals	202,674	0.01%
A:		
Municipals	5,375,950	0.24%

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
A-:		
Municipals	\$ 300,045	0.01%
A1:		
Municipals	207,544	0.01%
NR:		
Municipals	2,852,678	0.13%
Inv in LGIP	46,358	0.00%
Fiscal Agent Account	85,318,980	3.79%
Cash Miscellaneous	8,691,000	0.39%
Repurchase Agreements	359,184,465	15.96%
CD's	64,750,178	2.88%
Bank of the West	200,484,840	8.91%
Grand Total	<u><u>\$ 2,250,823,628</u></u>	<u><u>100.00%</u></u>

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2015 for the local government investment pool are as follows:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
AA+:		
Gov Agency	\$ 364,212,149	51.77%
NR:		
Gov Agency	33,093,848	4.70%
Cash	284,515,353	40.44%
Discounted Notes	21,643,746	3.08%
Grand Total	<u><u>\$ 703,465,095</u></u>	<u><u>100.00%</u></u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2015 for the Bond Proceeds Investment Pool #2 are as follows:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
AAA:		
Municipals	\$ 1,034,190	0.13%
AA+:		
Treasuries	344,836,150	42.96%
Gov Agency	318,289,861	39.65%
Municipals	275,014	0.03%
AA:		
Municipals	604,999	0.08%
Aa1:		
Municipals	5,236,440	0.65%
Aaa:		
Municipals	500,075	0.06%
A+:		
Municipals	400,592	0.05%
NR:		
Municipals	150,020	0.02%
Repurch	95,813,923	11.94%
CD's	10,200,000	1.27%
Cash Miscellaneous	19,997,860	2.49%
LGIP	5,312,665	0.66%
Grand Total	<u>\$ 802,651,788</u>	<u>100.00%</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2015 for the Bond Proceeds Investment Pool # 1 are as follows:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
AAA:		
Municipals	\$ 2,928,298	0.45%
AA+:		
Treasury	275,236,220	42.18%
Gov Agency	190,990,254	29.27%
Municipals	2,811,333	0.43%
Aaa:		
Municipals	1,003,295	0.15%
Aa1:		
Municipals	10,887,825	1.67%
Aa2:		
Municipals	391,339	0.06%
Aa3:		
Municipals	46,421	0.01%
AA:		
Municipals	1,052,965	0.16%
AA-:		
Municipals	1,248,389	0.19%
A+:		
Municipals	1,509,619	0.23%
A1:		
Municipals	630,094	0.10%
A2:		
Municipals	320,053	0.05%
NR:		
Municipals	2,437,202	0.37%
Repurch	151,001,612	23.14%
Mutual Funds	7,021,569	1.08%
Certificate of Deposits	3,000,000	0.46%
Grand Total	\$ 652,516,487	100.00%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

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.
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 thirty-five percent (35%) 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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

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:

Securities	Fair Value	Percentage of Portfolio
U.S. Treasury Obligations:		
U.S. Treasuries	\$ 517,175,996	22.98%
U.S. Government Agency Obligations:		
FFCB	171,445,962	7.62%
FHLB	76,608,282	3.40%
FHLMC	331,383,555	14.72%
FNMA	405,072,789	18.00%
Municipals		
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	160,019	0.01%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	200,022	0.01%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	100,008	0.00%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	518,560	0.02%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	1,500,195	0.07%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	1,047,130	0.05%
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV RFDG	115,006	0.01%
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV RFDG	205,056	0.01%
ALBUQUERQUE N MEX MET ARROYO FLOOD CTL AUTH	1,201,920	0.05%
ALBUQUERQUE N MEX MUN SCH DIST NO 012 ED	3,505,565	0.16%
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER	500,795	0.02%
AZTEC N MEX MUN SCH DIST NO 002 14/OCT/2008	100,779	0.00%
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	500,795	0.02%
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	509,080	0.02%
BERNALILLO N MEX MUN SCH DIST NO 1 RFDG-SCH	250,610	0.01%
BERNALILLO N MEX MUN SCH DIST NO 1 RFDG-SER B	125,185	0.01%
CHOCTAW CNTY MISS HOSP REV TAXABLE-CHOCTAW COUNTY	273,890	0.01%
CORRALES N MEX HOLD HARMLESS GROSS RCPTS TAX REV	136,521	0.01%
DONA ANA CNTY N MEX 26/NOV/2013 01/SEP/2015 2%	235,686	0.01%
FARMINGTON N MEX MUN SCH DIST NO 005 RFDG-SER B	867,612	0.04%
FARMINGTON N MEX MUN SCH DIST NO 005 SCH BLDG-SER	165,498	0.01%
GALLUP N MEX POLLUTION CTL REV RFDG-TR-STATE	5,054,648	0.23%
GRANTS / CIBOLA CNTY N MEX SCH DIST NO 1	130,554	0.01%
GRANTS / CIBOLA CNTY N MEX SCH DIST NO 1	172,815	0.01%
GUAM GOVT WTRWKS AUTH WTR & WASTEWTR SYS REV RFDG	300,045	0.01%
KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006	187,135	0.01%
KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006	364,069	0.02%
LAS CRUCES N MEX JT UTIL REV RFDG & IMPT	1,059,233	0.05%
LAS CRUCES N MEX JT UTIL REV RFDG & IMPT	1,104,602	0.05%
LAS VEGAS N MEX GROSS RCPTS TAX REV RFDG & IMPT	207,544	0.01%
LOS ALAMOS CNTY N MEX INC GROSS RCPTS TAX IMPT REV	167,859	0.01%
LOS LUNAS N MEX GROSS RCPT TAX REV RFDG	727,942	0.03%

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

Securities	Fair Value	Percentage of Portfolio
LOVINGTON N MEX MUN SCH DIST NO 001 18/MAR/2014	\$ 300,933	0.01%
MIDPENINSULA REGL OPEN SPACE DIST CALIF FING AUTH	249,950	0.01%
NEW MEXICO EDL ASSISTANCE FNDTN RFDG-ED LN-SER A-1	761,963	0.03%
NEW MEXICO FIN AUTH REV SUB LIEN PUB PROJ	333,229	0.02%
NEW MEXICO FIN AUTH REV TAXABLE-SR LIEN PUB PROJ	126,504	0.01%
NEW MEXICO FIN AUTH REV TAXABLE-SUB LIEN PUB PROJ	100,627	0.00%
NEW MEXICO FIN AUTH ST TRANSN REV RFDG-SUB	102,212	0.01%
NEW MEXICO FIN AUTH ST TRANSN REV SR LIEN-SER A	306,642	0.01%
NEW MEXICO MILITARY INST AT ROSWELL SYS REV	100,545	0.00%
NEW MEXICO ST SEVERANCE TAX SER A 21/JUN/2012	188,483	0.01%
NEW MEXICO ST UNIV REVS TAXABLE-RFDG & IMPT-SER C	581,479	0.03%
PASCO CNTY FLA SCH BRD CTFS PARTN SER A	321,302	0.01%
PROSPER TEX INDPT SCH DIST CAP APPREC 15/AUG/2006	481,080	0.02%
RUIDOSO N MEX MUN SCH DIST NO 3 RFDG 20/MAY/2014	225,351	0.01%
RUIDOSO N MEX WASTERWATER REV RFDG 12/JUL/2013	202,674	0.01%
SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2015 2%	315,460	0.01%
SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2016 2%	375,987	0.02%
SANDOVAL CNTY N MEX RFDG 13/DEC/2013 01/AUG/2015	200,308	0.01%
SANDOVAL CNTY N MEX RFDG 13/DEC/2013 01/AUG/2016	228,740	0.01%
SANTA FE N MEX GROSS RCPTS TAX REV RFDG-SUB	104,176	0.01%
SOUTHERN SANDOVAL CNTY N MEX ARROYO FLOOD CTL AUTH	25,037	0.00%
SYLACAUGA ALA HEALTH CARE AUTH REV COOSA VALLEY	522,267	0.02%
SYLACAUGA ALA HEALTH CARE AUTH REV COOSA VALLEY	793,800	0.04%
TAOS N MEX SCH DIST FOR ISSUES DATED PRIOR TO	337,181	0.02%
TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006	150,222	0.01%
TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006	126,933	0.01%
VOLUSIA CNTY FLA SCH BRD CTFS PARTN LEASE REV	753,060	0.03%
WESTMORELAND CNTY PA MUN AUTH MUN SVC REV SER K	299,997	0.01%
WILL CNTY ILL SCH DIST NO 122 PREREFUNDED-2013-SER	348,705	0.02%
CDs	64,750,178	2.88%
Cash Miscellaneous	8,691,000	0.39%
Fiscal Agent Account	85,318,980	3.79%
LGIP	46,358	0.00%
Repurchase Agreements	359,184,465	15.96%
Bank of the West	200,484,840	8.91%
Grand Total	<u>\$ 2,250,823,628</u>	<u>100%</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

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

Securities	Fair Value	Percentage of Portfolio
U.S. Government Agency Obligations:		
FFCB	\$ 105,755,167	15.03%
FHLB	178,100,332	25.32%
FNMA	66,599,991	9.47%
FHLMC	46,850,506	6.66%
Cash	284,515,353	40.44%
Discounted Notes	21,643,746	3.08%
Grand Total	<u>\$ 703,465,095</u>	<u>100%</u>

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

Securities	Fair Value	Percentage of Portfolio
U.S. Treasury Obligations:		
U.S. Treasuries	\$ 344,836,150	42.96%
U.S. Government Agency Obligations:		
FFCB	43,530,290	5.42%
FHLMC	85,753,050	10.68%
FNMA	150,509,418	18.75%
FHLB	38,497,103	4.80%
Municipal Bonds		
ALAMOGORDO N MEX MUN SCH DIST NO 001 26/MAR/2013	350,518.00	0.04%
ALBUQUERQUE N MEX MUN SCH DIST NO 012 EDUCATION	175,504.00	0.02%
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER	200,836.00	0.03%
BERNALILLO N MEX MUN SCH DIST NO 1 RFDG	164,284.80	0.02%
COLFAX CNTY N MEX GROSS TAX RCPTS IMPT 24/FEB/2015	228,658.50	0.03%
GALLUP MC KINLEY CNTY N MEX SCH DIST NO 001	254,320.00	0.03%
LAS CRUCES N MEX SCH DIST NO 002 SCH 23/DEC/2013	550,841.50	0.07%
LAS CRUCES N MEX SCH DIST NO 002 SCH 23/DEC/2013	488,190.75	0.06%
LOS LUNAS N MEX SCH DIST NO 1 SCH BLDG-SER A	198,001.05	0.03%
NEW MEXICO FIN AUTH REV SR LIEN-PUB PROJ REVOLVING	1,034,190.00	0.13%
NEW MEXICO ST SEVERANCE TAX SER A-1 06/DEC/2011	150,019.50	0.02%
RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG	1,101,716.00	0.14%
RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG	610,434.00	0.08%
RUIDOSO N MEX MUN SCH DIST NO 3 12/FEB/2013	405,020.25	0.05%
RUIDOSO N MEX WASTERWATER REV RFDG 12/JUL/2013	400,592.00	0.05%

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

Securities	Fair Value	Percentage of Portfolio
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	\$ 400,968	0.05%
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	411,288.00	0.05%
SANTA FE CNTY N MEX 16/OCT/2007 01/JUL/2015 5.5%	500,075.00	0.06%
SANTA FE CNTY N MEX IMPT 04/JUN/2013 01/JUL/2015	275,013.75	0.03%
TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8	300,858.00	0.04%
Repurch	95,813,923	11.94%
Certificate of Deposit	10,200,000	1.27%
Cash Miscellaneous	19,997,860	2.49%
LGIP	5,312,665	0.66%
Grand Total	<u>\$ 802,651,788</u>	<u>100.00%</u>

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

Securities	Fair Value	Percentage of Portfolio
U.S. Treasury Obligations:		
U.S. Treasuries	\$ 275,236,220	42.18%
U.S. Government Agency Obligations:		
FFCB	23,053,660	3.53%
FHLMC	75,638,350	11.59%
FNMA	59,038,775	9.05%
FHLB	4,501,485	0.69%
Finance Corp	28,757,984	4.41%
Municipal Bonds		
ALAMOGORDO N MEX TAXABLE-SER A 24/DEC/2014	46,421.10	0.01%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	1,567,590.00	0.24%
ALBUQUERQUE N MEX GROSS RCPTS TAX REV	1,120,000.00	0.17%
ALBUQUERQUE N MEX GROSS RCPTS TAX REV	600,120.00	0.09%
ALBUQUERQUE N MEX GROSS RCPTS TAX REV IMPT	900,045.00	0.14%
ALBUQUERQUE N MEX MET ARROYO FLOOD CTL AUTH	308,133.00	0.05%
ALBUQUERQUE N MEX MUN SCH DIST NO 012 ED	550,874.50	0.08%
ALBUQUERQUE N MEX MUN SCH DIST NO 012 EDUCATION	502,090.00	0.08%
CLOUDCROFT N MEX MUN SCH DIST NO 11 RFDG	550,814.00	0.08%

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

Securities	Fair Value	Percentage of Portfolio
GADSDEN N MEX INDPT SCH DIST NO 016 29/OCT/2014	\$ 3,264,983	0.50%
GADSDEN N MEX INDPT SCH DIST NO 016 29/OCT/2014	482,742.50	0.07%
GRANT CNTY N MEX RFDG 11/DEC/2014 01/SEP/2015 2%	340,969.00	0.05%
GRANT CNTY N MEX RFDG 11/DEC/2014 01/SEP/2016 2%	320,052.60	0.05%
HOBBS N MEX MUN SCH DIST NO 16 26/MAY/2015	1,736,401.00	0.27%
HOBBS N MEX MUN SCH DIST NO 16 26/MAY/2015	401,949.60	0.06%
LOS ALAMOS N MEX PUB SCH DIST SCH BLDG 17/AUG/2010	200,294.00	0.03%
NEW MEXICO EDL ASSISTANCE FNDTN ED LN-SR-SER B	503,240.00	0.08%
NEW MEXICO ST SEVERANCE TAX SER A-1 06/DEC/2011	1,350,175.50	0.21%
RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG	670,455.60	0.10%
RIO RANCHO N MEX WTR & WASTEWTR SYS REV RFDG	1,248,389.40	0.19%
ROSWELL N MEX INDPT SCH DIST SCH BLDG-SER A	255,947.50	0.04%
SAN JUAN CNTY N MEX GROSS RCPTS TAX REV RFDG-SER A	767,850.00	0.12%
SAN JUAN CNTY N MEX GROSS RCPTS TAX REV RFDG-SER A	741,769.00	0.11%
SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2017 3%	391,338.75	0.06%
SANTA FE CNTY N MEX SER A 06/DEC/2005 01/JUL/2015	500,055.00	0.08%
SANTA FE N MEX GROSS RCPTS TAX REV RFDG-SER A	1,243,742.50	0.19%
SANTA FE N MEX PUB SCH DIST FORMERLY SANTA FE N	2,720,200.00	0.42%
TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8	401,836.00	0.06%
TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8	202,202.00	0.03%
UNIVERSITY N MEX VALENCIA CNTY BRANCH CMNTY	746,057.90	0.11%
UNIVERSITY N MEX VALENCIA CNTY BRANCH CMNTY	630,093.60	0.10%
Repurch	151,001,612	23.14%
Mutual Funds	7,021,569	1.08%
Certificate of Deposits	3,000,000	0.46%
Grand Total	<u>\$ 652,516,487</u>	<u>100.00%</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

1. Relative Yield to Maturity: Comparison of return available from alternative 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.
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:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Maturities</u>	
		<u>Less than 1 Year</u>	<u>1-5 Years</u>
AAA:			
Municipals	\$ 3,198,170	\$ 2,512,034	\$ 686,136
AA+:			
Treasuries	517,175,996	-	517,175,996
Gov Agency	984,510,587	240,220,860	744,289,727
Municipals	4,127,649	2,401,940	1,725,709
Aa1:			
Municipals	3,963,548	3,154,720	808,828
Aa2:			
Municipals	3,514,087	1,804,759	1,709,329

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

Securities by Quality Rating	Fair Value	Maturities	
		Less than 1 Year	1-5 Years
Aa3:			
Municipals	\$ 753,060	\$ -	\$ 753,060
AA:			
Municipals	5,202,190	4,826,572	375,618
AA-:			
Municipals	963,628	963,628	-
A+:			
Municipals	202,674	-	202,674
A:			
Municipals	5,375,950	5,054,648	321,302
A-:			
Municipals	300,045	-	300,045
A1:			
Municipals	207,544	207,544	-
NR:			
Municipals	2,852,678	1,072,214	1,780,464
Inv in LGIP	46,358	46,358	-
Fiscal Agent Account	85,318,980	85,318,980	-
Cash Miscellaneous	8,691,000	8,691,000	-
Repurchase Agreements	359,184,465	359,184,465	-
CD's	64,750,178	64,750,178	-
Bank of the West	200,484,840	200,484,840	-
Grand Total	\$ 2,250,823,628	\$ 980,694,740	\$ 1,270,128,888

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

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

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Maturities</u>	
		<u>Less than 1 Year</u>	<u>1-5 Years</u>
AA+:			
Gov Agency	\$ 364,212,149	\$ 364,212,149	\$ -
NR:			
Cash	33,093,848	33,093,848	-
Discounted Notes	284,515,353	284,515,353	-
	21,643,746	21,643,746	-
Grand Total	\$ 703,465,095	\$ 703,465,095	\$ -

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

AA+:			
Treasuries	344,836,150	117,519,870	227,316,280
Gov Agency	318,289,861	174,100,103	144,189,758
Municipals	275,014	275,014	-
AA:			
Municipals	604,999	376,340	228,659
Aa1:			
Municipals	5,236,440	3,109,922	2,126,519
Aaa:			
Municipals	500,075	500,075	-
A+:			
Municipals	400,592	400,592	-

Maturities

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Maturities</u>	
		<u>Less than 1 Year</u>	<u>1-5 Years</u>
NR:			
Municipals	\$ 150,020	\$ 150,020	\$ -
Repurch	95,813,923	95,813,923	-
CD's	10,200,000	10,200,000	-
Cash Miscellaneous	19,997,860	19,997,860	-
LGIP	5,312,665	5,312,665	-
Grand Total	\$ 802,651,788	\$ 428,790,573	\$ 373,861,215

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

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Maturities</u>	
		<u>Less than 1 Year</u>	<u>1-5 Years</u>
AAA:			
Municipals	\$ 2,928,298	\$ 900,045	\$ 2,028,253
AA+:			
Treasury	275,236,220	125,793,950	149,442,270
Gov Agency	190,990,254	72,545,463	118,444,791
Municipals	2,811,333	1,243,743	1,567,590
Aaa:			
Municipals	1,003,295	1,003,295	-
Aa1:			
Municipals	10,887,825	6,824,783	4,063,042
Aa2:			
Municipals	391,339	-	391,339
Aa3:			
Municipals	46,421	-	46,421
AA:			
Municipals	1,052,965	1,052,965	-
AA-:			
Municipals	1,248,389	1,248,389	-
A+:			
Municipals	1,509,619	767,850	741,769

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Maturities</u>	
		<u>Less than 1 Year</u>	<u>1-5 Years</u>
A1:			
Municipals	\$ 630,094	\$ -	\$ 630,094
A2:			
Municipals	320,053	-	320,053
NR:			
Municipals	2,437,202	2,437,202	-
Repurch	151,001,612	151,001,612	-
Mutual Funds	7,021,569	7,021,569	-
Certificate of Deposits	3,000,000	3,000,000	-
Grand Total	\$ 652,516,487	\$ 374,840,866	\$ 277,675,621

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, 2015 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, 2015**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Securities Collateralizing Repurchase Agreements (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:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
AA+:		
U.S. Government Agency Obligations	\$ 619,939,444	100.00%
Grand Total	<u>\$ 619,939,444</u>	<u>100.00%</u>

Maturities on collateral are as follows:

Securities by Quality Rating	Fair Value	Maturities				
		Less than 1 Year	1-5 Years	6-10 Years	11-20 Years	Over 20 Years
AA+:						
U.S. Government Mortgage Backed Securities	\$ 619,939,444	\$ -	\$ -	\$ 305,365,000	\$ 127,825,731	\$ 186,748,713
Grand Total	<u>\$ 619,939,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 305,365,000</u>	<u>\$ 127,825,731</u>	<u>\$ 186,748,713</u>

Schedule 10 discloses collateral pledged for repurchase agreements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balance, June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2015</u>
Governmental Activities:				
Depreciable Assets:				
Equipment	\$ 263,731	\$ -	\$ -	\$ 263,731
Total Capital Assets	263,731	-	-	263,731
Less Accumulated Depreciation:				
Equipment	231,189	15,003	-	246,192
Total	<u>\$ 32,542</u>	<u>\$ (15,003)</u>	<u>\$ -</u>	<u>\$ 17,539</u>

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

Governmental activities:	
General government	<u>\$ 15,003</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, 2015:

	<u>Balance, June 30, 2014</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance, June 30, 2015</u>	<u>Amounts Due within One Year</u>
Compensated Absences	<u>\$ 121,634</u>	<u>\$ 96,014</u>	<u>\$ (119,857)</u>	<u>\$ 97,791</u>	<u>\$ 97,791</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015 are as follows:

ASSETS

Investments	\$ 4,397,076,407
Due from Broker	18,958
Interest and Other Receivables	11,482,147
Total Assets	<u>\$ 4,408,577,512</u>

LIABILITIES

Due to Broker	\$ 16,592,613
Other Liabilities	28,307

NET POSITION

External Participant Account Balances	676,957,496
Other Internal Participant Account Balances:	
Primary Government	3,714,999,096
Total Liabilities And Net Position	<u>\$ 4,408,577,512</u>

At June 30, 2015, the State Treasurer's investment income earnings were as follows:

Local Government Investment Pool	\$ 978,879
Consolidated Investment Pool	7,256,865
State Funds Investment Pool	17,846,675
Total	<u>\$ 26,082,419</u>

NOTE 10 APPROPRIATIONS

The State Treasurer received the following appropriations for the year ended June 30, 2015:

<u>General Fund</u>	
General Appropriation (General Appropriation Act)	\$ 3,729,300
Appropriation from LGIP to the Office's General Fund for Management of LGIP assets	178,100
Total Appropriations	<u>\$ 3,907,400</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, 2015**

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	\$ 95,525,278	Tax & Revenue Dept. of Finance & Administration	83300	\$ 95,525,278
G.O. 2009 Series Debt Service	10630	4,684,353	Dept. of Finance & Administration	80000	4,684,353
G.O. 2011 Series Debt Service	11630	463,024	Dept. of Finance & Administration	80000	463,024
G.O. 2013 Series Debt Service	11680	2,376,782	Dept. of Finance & Administration	80000	2,376,782
G.O. 2007 Series Debt Service	28800	1,657,670	Dept. of Finance & Administration	80000	1,657,670
G.O. 2015 Series Debt Service	35170	6,265,727	Dept. of Finance & Administration	80000	6,265,727
Severance Tax Bonding Fund	41000	<u>1,266,535</u>	Board of Finance	34103	<u>1,266,535</u>
		<u>\$ 112,239,369</u>			<u>\$ 112,239,369</u>

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

NOTE 13 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 Bond Fund	\$ 19,404,512	10750	2009-A Series - Debt Service	\$ 19,404,512
41000	Severance Tax Bond Fund	16,944,759	10950	2010-A Series - Debt Service	16,944,759
41000	Severance Tax Bond Fund	12,737,022	10960	2010-B Series - Debt Service	12,737,022
41000	Severance Tax Bond Fund	10,409,945	11190	2010-C Series - Debt Service	10,409,945
41000	Severance Tax Bond Fund	32,502,584	11280	Series 2011A-1 Refunding	32,502,584
41000	Severance Tax Bond Fund	8,209,915	11480	2010-D Series - Debt Service	8,209,915
41000	Severance Tax Bond Fund	19,145,237	11770	Series 2013A	19,145,237
41000	Severance Tax Bond Fund	10,625,793	12160	Series 2014A	10,625,793
41000	Severance Tax Bond Fund	17,458,761	30820	Series 2012A - Refunding	17,458,761
41000	Severance Tax Bond Fund	6,218,585	30830	Series 2011A-2 Refunding	6,218,585
11980	2013 S-C Maturity	2,510	41000	Severance Tax Bond Fund	3,277
49200	2004-A Series Debt Service	767			
		<u>\$153,660,390</u>			<u>\$ 153,660,390</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 13 TRANSFERS (CONTINUED)

General Obligation Bonds:

SHARE			SHARE		
Fund	Transfer from	Amount	Fund	Transfer to	Amount
10630	Series 2009 Debt Service	4,000,000	03200	2005 Series Debt Service	4,000,000
03100	2003 Series-Debt Service	787,199	10630	Series 2009 Debt Service	380,134
03200	2005 Series Debt Service	388,663	11630	2011 Series-Debt Service	380,134
41400	2001 Series-Debt Service	341,528	11680	2013 Series-Debt Service	380,134
73010	2008A Series - Debt Service	3,146	28800	2007 Series Debt Service	380,134
		<u>\$ 5,520,536</u>			<u>\$ 5,520,536</u>

Interagency Transfers

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>\$ 1,347,785</u>	Severance Tax Bonding Fund	41000	<u>\$ 1,347,785</u>
		<u>\$ 1,347,785</u>			<u>\$ 1,347,785</u>

Transfers Out to Other State Agencies

Transfers from (Purpose)	Fund No.	Amount	Transfers to (Purpose)	Fund No.	Amount
STB Bond Fund	41000	<u>\$ 97</u>	Sev Tax Perm Fd.	60200	<u>\$ 97</u>
Total - Severance Tax Bond Funds		<u>\$ 97</u>			<u>\$ 97</u>

NOTE 14 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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 14 PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

PERA, PO 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 16.99% 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 ended June 30, 2015, 2014 and 2013 were \$334,242, \$332,687 and \$287,778, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 15 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.

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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

**NOTE 15 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1, and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary, and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The State Treasurer's contributions to the RHCA for the years ended June 30, 2015, 2014 and 2013 were \$39,361, \$40,179 and \$38,166, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 16 RISK MANAGEMENT

The State Treasurer is exposed to various risks of loss for which the State Treasurer carries insurance (auto; employee fidelity bond; general liability; civil rights and foreign jurisdiction; money and securities; property, and workers' compensation) with the State of New Mexico Risk Management Division. Public employee fidelity bonding coverage is self-insured by the State of New Mexico. The current policy year is July 1, 2014 to June 30, 2015. 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, 2015, 2014 and 2013, there were no settlements that exceeded insurance coverage.

NOTE 17 MEMORANDUMS OF UNDERSTANDING

The Office is party to the following Memorandums of Understanding, both of which may be terminated by either party upon thirty days' written notice to the other party.

- (a) New Mexico State Personnel Office (NMSPO) dated April 21, 2015. Under this agreement, the NMSPO assumes the human resource functions of the Office to include oversight of day-to-day operations, the payroll process, and maintenance and housing of the Office's personnel files and position records. Compensation to NMSPO was waived from April 1, 2015 through June 30, 2015; the standard reimbursement would have been \$6,000 for a total of 30 FTE positions. This Memorandum of Understanding was terminated by NMSPO subsequent to the end of fiscal year 2015.
- (b) New Mexico Educational Retirement Board (NMERB) dated June 17, 2015. Under this agreement, the Office invests certain monies belonging to NMERB within the Local Government Investment Pool (LGIP) in accordance with the Office's investment policies. The parties agree that the management fee on the LGIP is 0.05% (five basis points); the Office agrees to notify NMERB should the rate of return on LGIP assets fall below the management fee.

NOTE 18 REVERSION TO THE STATE GENERAL FUND

Under State Statute 6-5-10 NMSA, 1978, all unassigned 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, 2015 is \$180,681.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 18 REVERSION TO THE STATE GENERAL FUND (CONTINUED)

Amounts reverted to the State General Fund during 2015 were as follows:

	<u>Appropriation</u>	<u>Reversion</u>
Reversion to State General Fund Fiscal Year 2015	\$ 3,729,300	\$ 180,681
Special Appropriations	<u>178,100</u>	<u>-</u>
Total Due to State General Fund	<u>\$ 3,907,400</u>	<u>\$ 180,681</u>

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	12/30/2014	12/31/2014	\$ 10,705,350	\$ 62	\$ 10,705,412
Sponge Bond - Supplemental Not	12/30/2014	12/31/2014	154,580,500	902	154,581,402
Sponge Bond - Senior Note	6/29/2015	6/30/2015	117,511,200	768	117,511,968
Sponge Bond - Supplemental Not	6/29/2015	6/30/2015	<u>59,890,100</u>	<u>391</u>	<u>59,890,491</u>
Total			<u>\$ 342,687,150</u>	<u>\$ 2,123</u>	<u>\$ 342,689,273</u>

Short-term debt activity for the year ended June 30, 2015 was as follows:

	<u>Balance, June 30, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Issuance Costs</u>	<u>Balance, June 30, 2015</u>
Sponge Bonds	<u>\$ -</u>	<u>\$ 342,687,150</u>	<u>\$ 342,687,150</u>	<u>\$ -</u>	<u>\$ -</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 20 BOND ISSUANCE ACTIVITY

During fiscal year 2015, there was one new bond issue as noted below:

- \$141,635,000 GO Bond Series 2015

Total activity related to the bonds was approximately as follows: costs - \$403,649; premiums - \$26,119,851; and total capital project deposits - \$142,038,649.

Rather than being recorded in the financial statements of a specific component unit, the long-term debt associated with this issuance is only recorded in the State of New Mexico Comprehensive Annual Financial Report.

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, 2015 follows:

	General Fund	General Obligation Bond Fund	Severance Tax Bond Fund
Fund Balances:			
Restricted for:			
Debt Service	\$ -	\$ 47,122,341	\$ 112,548,495
Unrestricted, Unassigned	8,884	-	-
Total Fund Balances	\$ 8,884	\$ 47,122,341	\$ 112,548,495

NOTE 22 SUBSEQUENT ACCOUNTING PRONOUNCEMENTS

GASB has issues the following statements, which are applicable in future years. At this time, management has not determined the impact, if any on the Agency.

**Statement No. 72
*Fair Value Measurement and Application***

Effective Date: The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 22 SUBSEQUENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 73

Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

Effective Date: The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 22 SUBSEQUENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
3. Timing of employer recognition of revenue for the support of nonemployer contributing entities *not* in a special funding situation.

Statement No. 74

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective Date: The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

Establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 22 SUBSEQUENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

GASB Statement No. 76

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective Date: The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

**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, 2015**

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
GOVERNMENTAL FUNDS				
CAPITAL ASSETS				
Equipment, Furniture and Fixtures	<u>\$ 263,731</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 263,731</u>
TOTAL GOVERNMENTAL FUNDS				
CAPITAL ASSETS				
BY SOURCE	<u><u>\$ 263,731</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 263,731</u></u>
INVESTMENTS IN GOVERNMENTAL				
FUNDS CAPITAL ASSETS				
General Fund Revenues	<u>\$ 263,731</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 263,731</u>
TOTAL GOVERNMENTAL FUNDS				
CAPITAL ASSETS	263,731	-	-	263,731
Less Accumulated Depreciation Equipment	<u>231,189</u>	<u>15,003</u>	<u>-</u>	<u>246,192</u>
Total	<u><u>\$ 32,542</u></u>	<u><u>\$ (15,003)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,539</u></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, 2015

	SHARE Fund	Assets				Total Assets
		Repurchase Agreements	Bond Interest Receivable	Due From Other Agencies	Accrued Interest Receivable	
2003 Series - Debt Service	03100	\$ 141	\$ -	\$ -	\$ -	\$ 141
2005 Series - Debt Service	03200	140	-	1	-	141
2007 Series - Debt Service	28800	2,075,894	1,174	1,657,670	-	3,734,738
2001 Series - Debt Service	41400	117	-	-	-	117
2003B Series - Refunding	41800	3,980	2	-	-	3,982
2009 Series - Debt Service	10630	14,355,265	8,399	4,684,352	-	19,048,016
2011 Series - Debt Service	11630	4,014,553	2,503	463,024	-	4,480,080
2013 Series - Debt Service	11680	5,654,347	42,249	2,376,782	-	8,073,378
2008A Series - Redemption	73030	220,699	-	-	-	220,699
2008A Series - Debt Service	73010	-	-	-	-	-
2015 Series - Debt Service	35170	4,420,940	105,954	6,265,727	-	10,792,621
Total Debt Service		30,746,076	160,281	15,447,556	-	46,353,913
2003 Series - Rebate	41300	4,816	-	-	-	4,816
2001 Series - Rebate	41500	56	-	-	-	56
2003 Refunding Series - Rebate	41900	9	-	-	-	9
2005 Series - Rebate	42600	642,681	544	-	-	643,225
911 - Rebate	48800	-	-	-	-	-
Total Rebate Accounts		647,562	544	-	-	648,106
2009 Series - Cost of Issuance	10650	-	-	-	-	-
2011 Series - Cost of Issuance	11320	(650)	-	-	-	(650)
2013 Series - Cost of Issuance	11620	13,826	-	-	-	13,826
2015 Series - Cost of Issuance Fund	40130	107,146	-	-	-	107,146
Total Cost of Issuance		120,322	-	-	-	120,322
COMBINED TOTAL		\$ 31,513,960	\$ 160,825	\$ 15,447,556	\$ -	\$ 47,122,341

Liabilities			Fund Balance		Total Liabilities & Fund Equity
Due to Other Agencies	Accounts Payable	Total Liabilities	Balance Restricted for Debt Service	Total Fund Balance	
\$ -	\$ -	\$ -	\$ 141	\$ 141	\$ 141
-	-	-	141	141	141
-	-	-	3,734,738	3,734,738	3,734,738
-	-	-	117	117	117
-	-	-	3,982	3,982	3,982
-	-	-	19,048,016	19,048,016	19,048,016
-	-	-	4,480,080	4,480,080	4,480,080
-	-	-	8,073,378	8,073,378	8,073,378
-	-	-	220,699	220,699	220,699
-	-	-	-	-	-
-	-	-	10,792,621	10,792,621	10,792,621
-	-	-	46,353,913	46,353,913	46,353,913
-	-	-	4,816	4,816	4,816
-	-	-	56	56	56
-	-	-	9	9	9
-	-	-	643,225	643,225	643,225
-	-	-	-	-	-
-	-	-	648,106	648,106	648,106
-	-	-	-	-	-
-	-	-	(650)	(650)	(650)
-	-	-	13,826	13,826	13,826
-	-	-	107,146	107,146	107,146
-	-	-	120,322	120,322	120,322
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,122,341</u>	<u>\$ 47,122,341</u>	<u>\$ 47,122,341</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, 2015**

	SHARE Fund	Revenues		Expenditures	
		Interest Income	State Property Tax Levy	Principal and Interest on Long-Term Debt	Other Charges
2003 Series - Debt Service	03100	\$ 2,241	\$ -	\$ -	\$ -
2005 Series Debt Service	03200	25,308	3,323,263	14,490,000	2,103
2007 Series - Debt Service	28800	36,756	13,364,918	17,468,250	683
2001 Series - Debt Service	41400	1,028	-	-	-
2003-B Series - Refunding	41800	11	-	-	-
2009 Series - Debt Service	10630	101,458	32,382,260	25,882,500	683
2011 Series - Debt Service	11630	20,802	3,059,611	2,247,550	683
2013 Series - Debt Service	11680	473,517	15,383,349	15,322,948	683
2008A Series - Redemption	73030	-	-	-	-
2008A Series - Debt Service	73010	5	-	-	-
2015 Series - Debt Service	35170	299,338	10,493,283	-	-
Total Debt Service		960,464	78,006,684	75,411,248	4,835
2003 Series - Rebate	41300	25	-	-	-
2001 Series - Rebate	41500	-	-	-	-
2003 Series - Refunding	41900	-	-	-	-
2005 Series - Rebate	42600	34,522	-	-	-
911 - Rebate	48800	-	-	-	-
Total Rebate Accounts		34,547	-	-	-
2009 Series - Cost of Issuance	10650	-	-	-	-
2011 Series - Cost of Issuance	11320	-	-	-	-
2013 Series - Cost of Issuance	11620	-	-	-	325
2015 Series - Cost of Issuance Fund	40130	-	-	-	296,503
Total Cost of Issuance		-	-	-	296,828
COMBINED TOTAL		\$ 995,011	\$ 78,006,684	\$ 75,411,248	\$ 301,663

Total Expenditures	Excess (Deficiency) of Revenues Over (Under) Expenditures	Other Financing Sources (Uses)			
		Transfers (to) from Other State Agencies	Bond Proceeds	Capital Projects Reversions	Interfund Transfers
\$ -	\$ 2,241	\$ -	\$ -	\$ -	\$ (787,199)
14,492,103	(11,143,532)	-	-	-	3,611,337
17,468,933	(4,067,259)	-	-	-	380,134
-	1,028	-	-	-	(341,528)
-	11	-	-	-	-
25,883,183	6,600,535	-	-	-	(3,619,866)
2,248,233	832,180	-	-	-	380,134
15,323,631	533,235	-	-	-	380,134
-	-	-	-	-	-
-	5	-	-	-	(3,146)
-	10,792,621	-	-	-	-
75,416,083	3,551,065	-	-	-	-
-	25	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	34,522	-	-	-	-
-	-	-	-	-	-
-	34,547	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
325	(325)	-	-	-	-
296,503	(296,503)	-	403,649	-	-
296,828	(296,828)	-	403,649	-	-
<u>\$ 75,712,911</u>	<u>\$ 3,288,784</u>	<u>\$ -</u>	<u>\$ 403,649</u>	<u>\$ -</u>	<u>\$ -</u>

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**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, 2015**

	SHARE Fund	Net Change in Fund Balance	Beginning Fund Balances	Fund Balances June 30, 2015
2003 Series - Debt Service	03100	\$ (784,958)	\$ 785,099	\$ 141
2005 Series Debt Service	03200	(7,532,195)	7,532,336	141
2007 Series - Debt Service	28800	(3,687,125)	7,421,863	3,734,738
2001 Series - Debt Service	41400	(340,500)	340,617	117
2003-B Series - Refunding	41800	11	3,971	3,982
2009 Series - Debt Service	10630	2,980,669	16,067,347	19,048,016
2011 Series - Debt Service	11630	1,212,314	3,267,766	4,480,080
2013 Series - Debt Service	11680	913,369	7,160,009	8,073,378
2008A Series - Redemption	73030	-	220,699	220,699
2008A Series - Debt Service	73010	(3,141)	3,141	-
2015 Series - Debt Service	35170	10,792,621	-	10,792,621
		<u>3,551,065</u>	<u>42,802,848</u>	<u>46,353,913</u>
Total Debt Service		3,551,065	42,802,848	46,353,913
2003 Series - Rebate	41300	25	4,791	4,816
2001 Series - Rebate	41500	-	56	56
2003 Series - Refunding	41900	-	9	9
2005 Series - Rebate	42600	34,522	608,703	643,225
911 - Rebate	48800	-	-	-
		<u>34,547</u>	<u>613,559</u>	<u>648,106</u>
Total Rebate Accounts		34,547	613,559	648,106
2009 Series - Cost of Issuance	10650	-	-	-
2011 Series - Cost of Issuance	11320	-	(650)	(650)
2013 Series - Cost of Issuance	11620	(325)	14,151	13,826
2015 Series - Cost of Issuance Fund	40130	107,146	-	107,146
		<u>106,821</u>	<u>13,501</u>	<u>120,322</u>
Total Cost of Issuance		106,821	13,501	120,322
COMBINED TOTAL		<u>\$ 3,692,433</u>	<u>\$ 43,429,908</u>	<u>\$ 47,122,341</u>

**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, 2015**

	SHARE Fund	Assets				
		Repurchase Agreements	Bond Interest Receivable	Due From Other Agencies	Accrued Interest Receivable	Prepaid Expense
2009-A Series - Debt Service	10750	\$ 17,339,125	\$ 4,620	\$ -	\$ -	\$ -
2010-A Series - Debt Service	10950	14,824,250	3,144	-	-	-
2010-B Series - Debt Service	10960	11,231,775	251	-	-	-
2010-C Series - Debt Service	11190	10,162,875	213	-	-	-
2010-D Series - Debt Service	11280	30,660,125	642	-	-	-
Series 2013A	11770	16,564,500	54,286	-	-	-
2013 S-C Maturity	11980	-	-	-	-	-
Series 2014A	12160	7,534,250	82,734	-	-	-
Series 2011A-1	30830	5,638,519	9,468	-	-	-
Series 2011A-2 Refunding	30820	15,912,625	333	-	-	-
2012-A Series - Debt Service	11480	6,961,000	8,183	-	-	-
2004-A Series Debt Service	49200	-	-	-	-	-
2004-B Series Debt Service	18300	92	-	-	-	-
2005-B1 Series Debt Service	38800	2,016	-	-	-	-
Severance Tax Bonding	41000	14,970,901	331,058	96,791,813	-	-
2005-A Series Debt Service	41200	107,101	67	-	-	-
2003-B Series-Debt Service	48400	218	-	-	-	-
2007-A Debt Service	53700	59,427	134	-	-	-
2005-B2 Series Debt Service	57100	1,484	1	-	-	-
2008A-1 Series - Debt Service	72010	112,197	4,598	-	-	-
2008A-2 Series - Debt Service	72070	1,496	4	-	-	-
2006-A Series Debt Service	96300	2,484	2	-	-	-
Total Debt Service		152,086,460	499,738	96,791,813	-	-
2004-B Series-Rebate	41100	294	-	-	-	-
2003-B Supp-Rebate	42000	12,831	8.00	-	-	-
2005-A Series-Rebate	48300	45,574	29.00	-	-	-
2005-B1 Series-Rebate	57000	11,230	7.00	-	-	-
2005-B2 Series-Rebate	96000	6,590	4.00	-	-	-
2006-A Series-Rebate	96400	39,253	25.00	-	-	-
Total Rebate Accounts		115,772	73	-	-	-
COMBINED TOTAL		\$ 152,202,232	\$ 499,811	\$ 96,791,813	\$ -	\$ -

Liabilities						
Total Assets	Due to Other Funds	Due to Other Agencies	Accounts Payable	Other Liabilities	Deferred Revenue	Total Liabilities
\$ 17,343,745	\$ -	\$ -	\$ -	\$ 17,339,125	\$ -	\$ 17,339,125
14,827,394	-	-	-	14,824,250	-	14,824,250
11,232,026	-	-	-	11,231,775	-	11,231,775
10,163,088	-	-	-	10,162,875	-	10,162,875
30,660,767	-	-	-	30,660,125	-	30,660,125
16,618,786	-	-	-	16,564,500	-	16,564,500
-	-	-	-	-	-	-
7,616,984	-	-	-	7,534,250	-	7,534,250
5,647,987	-	-	-	5,638,519	-	5,638,519
15,912,958	-	-	-	15,912,625	-	15,912,625
6,969,183	-	-	-	6,961,000	-	6,961,000
-	-	-	-	-	-	-
92	-	-	-	-	-	-
2,016	-	-	-	-	-	-
112,093,772	-	-	115,101	1	-	115,102
107,168	-	-	-	-	-	-
218	-	-	-	-	-	-
59,561	-	-	-	-	-	-
1,485	-	-	-	-	-	-
116,795	-	-	-	-	-	-
1,500	-	-	1,215	-	-	1,215
2,486	-	-	-	-	-	-
249,378,011	-	-	116,316	136,829,045	-	136,945,361
294	-	-	-	-	-	-
12,839	-	-	-	-	-	-
45,603	-	-	-	-	-	-
11,237	-	-	-	-	-	-
6,594	-	-	-	-	-	-
39,278	-	-	-	-	-	-
115,845	-	-	-	-	-	-
\$ 249,493,856	\$ -	\$ -	\$ 116,316	\$ 136,829,045	\$ -	\$ 136,945,361

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**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, 2015**

	Fund Equity		Total Liabilities & Fund Equity
	Restricted for Debt Service	Total Fund Equity	
2009-A Series - Debt Service	\$ 4,620	\$ 4,620	\$ 17,343,745
2010-A Series - Debt Service	3,144	3,144	14,827,394
2010-B Series - Debt Service	251	251	11,232,026
2010-C Series - Debt Service	213	213	10,163,088
2010-D Series - Debt Service	642	642	30,660,767
Series 2013A	54,286	54,286	16,618,786
2013 S-C Maturity	-	-	-
Series 2014A	82,734	82,734	7,616,984
Series 2011A-1	9,468	9,468	5,647,987
Series 2011A-2 Refunding	333	333	15,912,958
2012-A Series - Debt Service	8,183	8,183	6,969,183
2004-A Series Debt Service	-	-	-
2004-B Series Debt Service	92	92	92
2005-B1 Series Debt Service	2,016	2,016	2,016
Severance Tax Bonding	111,978,670	111,978,670	112,093,772
2005-A Series Debt Service	107,168	107,168	107,168
2003-B Series-Debt Service	218	218	218
2007-A Debt Service	59,561	59,561	59,561
2005-B2 Series Debt Service	1,485	1,485	1,485
2008A-1 Series - Debt Service	116,795	116,795	116,795
2008A-2 Series - Debt Service	284	284	1,500
2006-A Series Debt Service	2,487	2,487	2,486
Total Debt Service	112,432,650	112,432,650	249,378,011
2004-B Series-Rebate	294	294	294
2003-B Supp-Rebate	12,839	12,839	12,839
2005-A Series-Rebate	45,603	45,603	45,603
2005-B1 Series-Rebate	11,237	11,237	11,237
2005-B2 Series-Rebate	6,594	6,594	6,594
2006-A Series-Rebate	39,278	39,278	39,278
Total Rebate Accounts	115,845	115,845	115,845
COMBINED TOTAL	\$ 112,548,495	\$ 112,548,495	\$ 249,493,856

**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, 2015**

	Revenues			Expenditures	
	SHARE Fund	Interest Income	Severance Taxes	Principal and Interest on Long-Term Debt	Other Charges
2009-A Series - Debt Service	10750	\$ 40,143	\$ -	\$ 19,448,250	\$ -
2010-A Series - Debt Service	10950	30,521	-	16,978,500	-
2010-B Series - Debt Service	10960	797	-	12,738,550	-
2010-C Series - Debt Service	11190	257	-	10,410,750	-
2010-D Series - Debt Service	11280	957	-	32,505,250	-
Series 2013A	11770	565,858	-	19,764,000	-
2013 S-C Maturity	11980	-	-	-	-
Series 2014A	12160	647,491	-	11,205,943	-
2011A-1 Series	30830	88,071	-	6,312,038	-
2011A-2 Series Refunding	30820	595	-	17,460,250	-
2012A - Series	11480	85,763	-	8,307,000	-
2004-A Series Debt Service	49200	71	-	-	-
2004-B Series Debt Service	18300	-	-	-	-
2005-B1 Series Debt Service	38800	10	-	-	-
Severance Tax Bonding	41000	4,036,699	426,330,559	342,689,273	459,350
2005-A Series -Debt Service	41200	639	-	-	-
2003-B Series-Debt Service	48400	-	-	-	-
2007-A Series-Debt Service	53700	4,471	-	-	-
2005-B2 Series Debt Service	57100	8	-	-	-
2008A-1 Debt Service	72010	49,957	-	-	-
2008A-2 Debt Service	72070	8	-	-	-
2006-A Series Debt Service	96300	13	-	-	-
Total Debt Service		5,552,329	426,330,559	497,819,804	459,350
2004-B Series-Rebate	41100	4	-	-	728
2003-B Supp-Rebate	42000	67	-	-	-
2005-A Series-Rebate	48300	237	-	-	-
2005-B1 Series-Rebate	57000	58	-	-	-
2005-B2 Series-Rebate	96000	34	-	-	-
2006-A Series-Rebate	96400	204	-	-	-
Total Rebate Accounts		604	-	-	728
COMBINED TOTAL		\$ 5,552,933	\$ 426,330,559	\$ 497,819,804	\$ 460,078

Other Financing Sources (Uses)						
Total	Excess					
Expenditures	(Deficiency) of	Bond	Transfers	Interfund	Payment to	Severance Tax
	Revenues Over	Proceeds	(to) from	Transfers	Escrow Agent	Permanent
	(Under)		Other State			Fund Reversions
	Expenditures		Agencies			
\$ 19,448,250	\$ (19,408,107)	\$ -	\$ -	\$ 19,404,512	\$ -	\$ -
16,978,500	(16,947,979)	-	-	16,944,759	-	-
12,738,550	(12,737,753)	-	-	12,737,022	-	-
10,410,750	(10,410,493)	-	-	10,409,945	-	-
32,505,250	(32,504,293)	-	-	32,502,584	-	-
19,764,000	(19,198,142)	-	-	19,145,237	-	-
-	-	-	-	(2,510)	-	-
11,205,943	(10,558,452)	-	-	10,625,793	-	-
6,312,038	(6,223,967)	-	-	6,218,585	-	-
17,460,250	(17,459,655)	-	-	17,458,761	-	-
8,307,000	(8,221,237)	-	-	8,209,915	-	-
-	71	-	-	(767)	-	-
-	-	-	-	-	-	-
-	10	-	-	-	-	-
343,148,623	87,218,635	-	1,347,785	(153,653,836)	-	-
-	639	-	-	-	-	-
-	-	-	-	-	-	-
-	4,471	-	-	-	-	-
-	8	-	-	-	-	-
-	49,957	-	-	-	-	-
-	8	-	-	-	-	-
-	13	-	-	-	-	-
498,279,154	(66,396,266)	-	1,347,785	-	-	-
728	(724)	-	-	-	-	-
-	67	-	-	-	-	-
-	237	-	-	-	-	-
-	58	-	-	-	-	-
-	34	-	-	-	-	-
-	204	-	-	-	-	-
728	(124)	-	-	-	-	-
<u>\$ 498,279,882</u>	<u>\$ (66,396,390)</u>	<u>\$ -</u>	<u>\$ 1,347,785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**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, 2015**

	SHARE	Total Other Financing Sources (Uses)	Net Change in Fund Balance	Beginning Fund Balance	Fund Balances June 30, 2015
	Fund				
2009-A Series - Debt Service	10750	\$ 19,404,512	\$ (3,595)	\$ 8,215	\$ 4,620
2010-A Series - Debt Service	10950	16,944,759	(3,220)	6,364	3,144
2010-B Series - Debt Service	10960	12,737,022	(731)	982	251
2010-C Series - Debt Service	11190	10,409,945	(548)	761	213
2010-D Series - Debt Service	11280	32,502,584	(1,709)	2,351	642
Series 2013A	11770	19,145,237	(52,905)	107,191	54,286
2013 S-C Maturity	11980	(2,510)	(2,510)	2,510	-
Series 2014A	12160	10,625,793	67,341	15,393	82,734
2011A-1 Series	30830	6,218,585	(5,382)	14,850	9,468
2011A-2 Series Refunding	30820	17,458,761	(894)	1,227	333
2012A - Series	11480	8,209,915	(11,322)	19,505	8,183
2004-A Series Debt Service	49200	(767)	(696)	696	-
2004-B Series Debt Service	18300	-	-	92	92
2005-B1 Series Debt Service	38800	-	10	2,006	2,016
Severance Tax Bonding	41000	(152,306,051)	(65,087,416)	177,066,086	111,978,670
2005-A Series -Debt Service	41200	-	639	106,529	107,168
2003-B Series-Debt Service	48400	-	-	218	218
2007-A Series-Debt Service	53700	-	4,471	55,090	59,561
2005-B2 Series Debt Service	57100	-	8	1,477	1,485
2008A-1 Debt Service	72010	-	49,957	66,838	116,795
2008A-2 Debt Service	72070	-	8	276	284
2006-A Series Debt Service	96300	-	13	2,474	2,487
Total Debt Service		1,347,785	(65,048,481)	177,481,131	112,432,650
2004-B Series-Rebate	41100	-	(724)	1,018	294
2003-B Supp-Rebate	42000	-	67	12,772	12,839
2005-A Series-Rebate	48300	-	237	45,366	45,603
2005-B1 Series-Rebate	57000	-	58	11,179	11,237
2005-B2 Series-Rebate	96000	-	34	6,560	6,594
2006-A Series-Rebate	96400	-	204	39,074	39,278
Total Rebate Accts.		-	(124)	115,969	115,845
COMBINED TOTAL		\$ 1,347,785	\$ (65,048,605)	\$ 177,597,100	\$ 112,548,495

**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, 2015**

Issue	SHARE Fund	Date of Issue	Issue Amount	Interest Rate	Unpaid Balance June 30, 2014
General Obligation and Revenue Bonds:					
Series 2005 Debt Service	3200	3/1/05	\$ 111,850,000	5.00%	\$ 13,800,000
Series 2007 Debt Service	28800	3/1/07	134,870,000	5.00%	47,565,000
Series 2009 Debt Service	10630	5/28/09	196,330,000	5.00%	112,050,000
Series 2011 Debt Service	11630	5/26/11	18,645,000	2.00-4.00%	13,530,000
Series 2013 Debt Service	11680	4/23/13	137,220,000	2.00-2.40%	124,325,000
Series 2015 Debt Service	35170	2/17/15	<u>141,635,000</u>	5.00%	<u>-</u>
Total General Obligation Bonds			740,550,000		311,270,000
Severance Tax Bonds:					
Series 2009A Refunding	10750	7/30/09	218,450,000	2.00-5.00%	84,365,000
Series 2010A	10950	3/24/10	132,265,000	3.00-5.00%	86,170,000
Series 2010B Supplemental	10960	3/24/10	100,000,000	4.00-5.00%	62,520,000
Series 2010C Refunding	11190	6/30/10	43,780,000	4.00-5.00%	9,915,000
Series 2010D Refunding	11280	12/8/10	140,520,000	3.00-5.00%	73,805,000
Series 2011A-1	30830	12/6/11	47,790,000	3.00-5.00%	38,215,000
Series 2011A-2 Refunding	30820	12/6/11	75,715,000	4.00-5.00%	61,905,000
Series 2012A	11480	6/21/12	57,990,000	3.00-5.00%	53,840,000
Series 2013A	11770	6/21/12	157,560,000	2.00-5.00%	145,575,000
Series 2014A	12160	6/21/12	<u>143,770,000</u>	3.00-5.00%	<u>143,770,000</u>
Total Severance Tax Bonds			<u>1,117,840,000</u>		<u>760,080,000</u>
TOTAL GENERAL LONG-TERM DEBT			<u>\$ 1,858,390,000</u>		<u>\$ 1,071,350,000</u>
			<u>Premium/Discount</u>		
Current Year Bond Premiums: GOB, Series 2015			<u>\$ 26,119,851</u>		
TOTAL CURRENT YEAR BOND PREMIUMS			<u>\$ 26,119,851</u>		

New Bonds	Reductions			Unpaid Balance June 30, 2015	Interest to Maturity	Debt Service Requirements
	Refunded Debt	Principal Payments	Total Reductions			
\$ -	\$ -	\$ 13,800,000	\$ 13,800,000	\$ -	\$ -	\$ -
-	-	15,090,000	15,090,000	32,475,000	2,455,500	34,930,500
-	-	20,280,000	20,280,000	91,770,000	11,751,250	103,521,250
-	-	1,725,000	1,725,000	11,805,000	1,666,500	13,471,500
-	-	12,740,000	12,740,000	111,585,000	11,012,193	122,597,193
141,635,000	-	-	-	141,635,000	41,492,383	183,127,383
141,635,000	-	63,635,000	63,635,000	389,270,000	68,377,826	457,647,826
-	-	15,230,000	15,230,000	69,135,000	8,857,750	77,992,750
-	-	12,670,000	12,670,000	73,500,000	11,383,750	84,883,750
-	-	9,725,000	9,725,000	52,795,000	7,519,500	60,314,500
-	-	9,915,000	9,915,000	-	-	-
-	-	28,815,000	28,815,000	44,990,000	2,985,750	47,975,750
-	-	4,965,000	4,965,000	33,250,000	3,448,963	36,698,963
-	-	14,365,000	14,365,000	47,540,000	4,831,250	52,371,250
-	-	5,615,000	5,615,000	48,225,000	10,126,000	58,351,000
-	-	13,365,000	13,365,000	132,210,000	25,885,100	158,095,100
-	-	4,000,000	4,000,000	139,770,000	39,034,750	178,804,750
-	-	118,665,000	118,665,000	641,415,000	114,072,813	755,487,813
\$ 141,635,000	\$ -	\$ 182,300,000	\$ 182,300,000	\$ 1,030,685,000	\$ 182,450,639	\$ 1,213,135,639

**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, 2015**

Issue	SHARE Fund	2016	2017
General Obligation Bonds:			
Series 2007	28800	\$ 17,463,750	\$ 17,466,750
Series 2009 Debt Service	10630	25,878,500	25,879,000
Series 2011	11630	2,243,550	2,246,950
Series 2013	11670	15,323,148	15,323,248
Series 2015	35170	17,209,633	18,436,750
Total General Obligation Bonds		78,118,581	79,352,698
Severance Tax Bonds:			
Series 2009A Refunding	10750	1,728,375	19,066,500
Series 2010A	10950	1,837,500	16,642,500
Series 2010B Supplemental	10960	1,263,650	12,223,675
Series 2010D Refunding	11280	1,124,750	31,757,875
Series 2011A-1 Refunding	30830	549,394	6,183,412
Series 2011A-2 Refunding	30820	1,188,500	17,080,000
Series 2012A	11480	1,205,625	8,163,750
Series 2013A	11770	2,865,375	19,410,000
Series 2014A	12160	3,494,250	15,373,500
Total Severance Tax Bonds		15,257,419	145,901,212
TOTAL DEBT SERVICE REQUIREMENTS		\$ 93,376,000	\$ 225,253,910

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Thereafter</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 34,930,500
25,881,250	25,882,500	-	-	103,521,250
2,246,000	2,244,200	2,244,400	2,246,400	13,471,500
15,323,147	15,327,747	15,326,848.00	45,973,055.00	122,597,193
<u>18,437,500</u>	<u>18,433,500</u>	<u>18,433,500.00</u>	<u>92,176,500.00</u>	<u>183,127,383</u>
61,887,897	61,887,947	36,004,748	140,395,955	457,647,826
19,065,500	19,067,375	19,065,000	-	77,992,750
16,625,875	16,610,125	16,593,500	16,574,250	84,883,750
11,989,675	11,781,175	11,586,425	11,469,900	60,314,500
15,093,125	-	-	-	47,975,750
6,176,163	6,256,788	5,857,750	11,675,456	36,698,963
17,062,125	17,040,625	-	-	52,371,250
8,166,125	8,163,000	8,163,625	24,488,875	58,351,000
19,395,875	19,375,750	19,439,100	77,609,000	158,095,100
<u>17,663,750</u>	<u>18,649,375</u>	<u>20,627,750</u>	<u>102,996,125</u>	<u>178,804,750</u>
<u>131,238,213</u>	<u>116,944,213</u>	<u>101,333,150</u>	<u>244,813,606</u>	<u>755,487,813</u>
<u>\$ 193,126,110</u>	<u>\$ 178,832,160</u>	<u>\$ 137,337,898</u>	<u>\$ 385,209,561</u>	<u>\$ 1,213,135,639</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS (CONTINUED) -
 ADDITIONAL INFORMATION
 JUNE 30, 2015**

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, 2015, including interest payments, are as follows (see details on Schedule 6):

Years Ending June 30:	Amount
2016	\$ 78,118,581
2017	79,352,698
2018	61,887,897
2019	61,887,947
2020	36,004,748
Thereafter	140,395,955
Total	\$ 457,647,826

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 annual requirements to amortize the combined Severance Tax Bond issues outstanding as of June 30, 2015, including interest payments, are as follows (see details on Schedule 6):

Years Ending June 30:	Amount
2016	\$ 15,257,419
2017	145,901,212
2018	131,238,213
2019	116,944,213
2020	101,333,150
Thereafter	244,813,606
Total	\$ 755,487,813

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
JUNE 30, 2015**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
GENERAL FUND INVESTMENT POOL:					
Repurchase Agreements	Various	Various	\$ 359,184,465	\$ 359,184,465	\$ -
Bank of The West	Various	Various	200,484,840	200,484,840	-
Certificates of Deposit	Various	Various	64,750,178	64,750,178	-
Cash Miscellaneous	Various	Various	8,691,000	8,691,000	-
Fiscal Agent Bank Account	0.000%	N/A	85,318,980	85,318,980	-
Mutual Funds (LGIP Participant)	Various	Various	46,358	46,358	-
Municipal Bonds:					
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	4.500%	7/1/2025	160,000	160,019	19
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	4.250%	7/1/2015	200,000	200,022	22
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	3.000%	7/1/2015	100,000	100,008	8
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	4.000%	7/1/2016	515,742	518,560	2,818
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	5.000%	7/1/2015	1,500,000	1,500,195	195
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	5.000%	7/1/2016	1,041,416	1,047,130	5,714
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV RFDG	2.000%	7/1/2015	115,000	115,006	6
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV RFDG	3.000%	7/1/2016	204,860	205,056	196
ALBUQUERQUE N MEX MET ARROYO FLOOD CTL AUTH	2.000%	8/1/2015	1,201,814	1,201,920	106
ALBUQUERQUE N MEX MUN SCH DIST NO 012 ED	2.000%	8/1/2015	3,505,329	3,505,565	236
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER	2.000%	8/1/2015	500,662	500,795	133
AZTEC N MEX MUN SCH DIST NO 002 14/OCT/2008	3.250%	10/1/2015	100,732	100,779	47
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	2.000%	8/1/2015	500,641	500,795	154
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	2.000%	8/1/2016	506,635	509,080	2,445
BERNALILLO N MEX MUN SCH DIST NO 1 RFDG-SCH	3.125%	8/1/2015	250,561	250,610	49
BERNALILLO N MEX MUN SCH DIST NO 1 RFDG-SER B	2.000%	8/1/2015	125,160	125,185	25
CHOCTAW CNTY MISS HOSP REV TAXABLE-CHOCTAW COUNTY	7.500%	8/1/2028	273,487	273,890	403
CORRALES N MEX HOLD HARMLESS GROSS RCPTS TAX REV	2.000%	5/1/2016	136,401	136,521	120
DONA ANA CNTY N MEX 26/NOV/2013 01/SEP/2015 2%	2.000%	9/1/2015	235,605	235,686	81
FARMINGTON N MEX MUN SCH DIST NO 005 RFDG-SER B	2.000%	9/1/2015	867,474	867,612	138
FARMINGTON N MEX MUN SCH DIST NO 005 SCH BLDG-SER	2.000%	9/1/2015	165,472	165,498	26
GALLUP N MEX POLLUTION CTL REV RFDG-TR-STATE	5.000%	8/15/2015	5,053,047	5,054,648	1,601
GRANTS / CIBOLA CNTY N MEX SCH DIST NO 1	2.000%	10/1/2015	130,535	130,554	19
GRANTS / CIBOLA CNTY N MEX SCH DIST NO 1	2.000%	10/1/2016	172,725	172,815	90
GUAM GOVT WTRWKS AUTH WTR & WASTEWTR SYS REV RFDG	5.875%	7/1/2035	300,000	300,045	45
KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006	5.800%	12/1/2019	187,362	187,135	(227)
KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006	5.875%	12/1/2036	364,376	364,069	(307)
LAS CRUCES N MEX JT UTIL REV RFDG & IMPT	2.000%	6/1/2016	1,059,300	1,059,233	(67)
LAS CRUCES N MEX JT UTIL REV RFDG & IMPT	2.000%	6/1/2017	1,105,628	1,104,602	(1,026)
LAS VEGAS N MEX GROSS RCPTS TAX REV RFDG & IMPT	2.000%	6/1/2016	207,721	207,544	(177)
LOS ALAMOS CNTY N MEX INC GROSS RCPTS TAX IMPT REV	5.750%	6/1/2016	167,641	167,859	218
LOS LUNAS N MEX GROSS RCPT TAX REV RFDG	2.000%	4/1/2016	727,914	727,942	28
LOVINGTON N MEX MUN SCH DIST NO 001 18/MAR/2014	2.000%	9/1/2015	300,832	300,933	101
MIDPENINSULA REGL OPEN SPACE DIST CALIF FING AUTH	0.000%	9/1/2015	249,802	249,950	148
NEW MEXICO EDL ASSISTANCE FNDTN RFDG-ED LN-SER A-1	4.000%	12/1/2015	761,628	761,963	335
NEW MEXICO FIN AUTH REV SUB LIEN PUB PROJ	3.000%	6/15/2016	332,804	333,229	425
NEW MEXICO FIN AUTH REV TAXABLE-SR LIEN PUB PROJ	2.500%	6/1/2016	127,078	126,504	(574)
NEW MEXICO FIN AUTH REV TAXABLE-SUB LIEN PUB PROJ	1.250%	6/15/2016	100,000	100,627	627
NEW MEXICO FIN AUTH ST TRANSN REV RFDG-SUB	5.000%	12/15/2015	102,125	102,212	87
NEW MEXICO FIN AUTH ST TRANSN REV SR LIEN-SER A	5.000%	12/15/2015	306,352	306,642	290
NEW MEXICO MILITARY INST AT ROSWELL SYS REV	1.182%	6/1/2016	100,000	100,545	545
NEW MEXICO ST SEVERANCE TAX SER A 21/JUN/2012	5.000%	7/1/2016	187,694	188,483	789
NEW MEXICO ST UNIV REVS TAXABLE-RFDG & IMPT-SER C	1.000%	4/1/2016	580,000	581,479	1,479
PASCO CNTY FLA SCH BRD CTFS PARTN SER A	5.000%	8/1/2030	321,289	321,302	13
PROSPER TEX INDPT SCH DIST CAP APPREC 15/AUG/2006	0.000%	8/15/2040	487,654	481,080	(6,574)
RUIDOSO N MEX MUN SCH DIST NO 3 RFDG 20/MAY/2014	2.000%	8/1/2015	225,326	225,351	25
RUIDOSO N MEX WASTERWATER REV RFDG 12/JUL/2013	2.000%	7/1/2016	202,384	202,674	290
SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2015 2%	2.000%	8/1/2015	315,436	315,460	24
SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2016 2%	2.000%	8/1/2016	375,977	375,986	9
SANDOVAL CNTY N MEX RFDG 13/DEC/2013 01/AUG/2015	2.000%	8/1/2015	200,258	200,308	50

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2015

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
Municipal Bonds (Continued)					
SANDOVAL CNTY N MEX RFDG 13/DEC/2013 01/AUG/2016	2.000%	8/1/2016	\$ 228,130	\$ 228,740	\$ 610
SANTA FE N MEX GROSS RCPTS TAX REV RFDG-SUB	5.000%	6/1/2016	104,111	104,176	65
SOUTHERN SANDOVAL CNTY N MEX ARROYO FLOOD CTL AUTH	2.000%	8/1/2015	25,028	25,037	9
SYLACAUGA ALA HEALTH CARE AUTH REV COOSA VALLEY	5.375%	8/1/2015	522,234	522,267	33
SYLACAUGA ALA HEALTH CARE AUTH REV COOSA VALLEY	6.000%	8/1/2035	793,850	793,800	(50)
TAOS N MEX SCH DIST FOR ISSUES DATED PRIOR TO	4.000%	9/1/2015	337,104	337,181	77
TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006	2.000%	8/1/2015	150,179	150,222	43
TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006	2.000%	8/1/2016	126,345	126,933	588
VOLUSIA CNTY FLA SCH BRD CTFS PARTN LEASE REV	5.000%	8/1/2027	753,022	753,060	38
WESTMORELAND CNTY PA MUN AUTH MUN SVC REV SER K	0.000%	7/1/2015	300,000	299,997	(3)
WILL CNTY ILL SCH DIST NO 122 PREREFUNDED-2013-SER	4.500%	10/1/2024	348,572	348,705	133
Total Municipal Bonds			<u>30,648,454</u>	<u>30,661,224</u>	<u>12,770</u>
US Government Securities:					
US Treasury Notes:					
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	5/31/2017	19,854,750	19,996,800	142,050
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	11/30/2017	19,785,830	19,914,000	128,170
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	4/30/2018	24,609,505	24,775,500	165,995
UNITED STATES OF AMERICA NOTES FIXED .75%	0.750%	6/30/2017	19,890,181	20,039,000	148,819
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	12/31/2016	25,036,437	25,146,500	110,063
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2017	20,009,206	20,111,000	101,794
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	2/28/2017	33,501,781	33,680,565	178,784
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2018	4,945,033	5,000,800	55,767
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	7/15/2017	29,945,238	30,124,200	178,962
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	9/15/2017	9,987,412	10,057,800	70,388
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	8/31/2016	20,016,315	20,143,800	127,485
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	3/31/2017	20,032,733	20,153,200	120,467
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	5/31/2018	24,837,270	25,007,750	170,480
UNITED STATES OF AMERICA NOTES FIXED 1.125%	1.125%	3/31/2020	33,345,027	33,016,950	(328,077)
UNITED STATES OF AMERICA NOTES FIXED 1.375%	1.375%	4/30/2020	5,010,729	4,945,300	(65,429)
UNITED STATES OF AMERICA NOTES FIXED 1.375%	1.375%	11/30/2018	19,980,917	20,154,600	173,683
UNITED STATES OF AMERICA NOTES FIXED 1.5%	1.500%	10/31/2019	24,437,540	24,513,475	75,935
UNITED STATES OF AMERICA NOTES FIXED 1.625%	1.625%	3/31/2019	34,848,988	35,418,250	569,262
UNITED STATES OF AMERICA NOTES FIXED 1.625%	1.625%	12/31/2019	26,209,840	26,007,226	(202,614)
UNITED STATES OF AMERICA NOTES FIXED 1.625%	1.625%	7/31/2019	14,234,351	14,119,280	(115,071)
UNITED STATES OF AMERICA NOTES FIXED 2.375%	2.375%	7/31/2017	20,514,567	20,695,400	180,833
UNITED STATES OF AMERICA NOTES FIXED 3%	3.000%	2/28/2017	20,705,231	20,814,000	108,769
UNITED STATES OF AMERICA NOTES FIXED 4.25%	4.250%	11/15/2017	21,478,315	21,626,600	148,285
UNITED STATES OF AMERICA NOTES FIXED 4.75%	4.750%	8/15/2017	21,560,504	21,714,000	153,496
Total US Treasury Notes			<u>514,777,700</u>	<u>517,175,996</u>	<u>2,398,296</u>
Federal Farm Credit Banks Cons Long:					
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	1.150%	9/18/2017	4,497,998	4,533,570	35,572
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	1.900%	9/18/2019	12,989,512	13,214,630	225,118
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	1.820%	1/8/2020	21,209,801	21,088,830	(120,971)
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.900%	6/9/2016	25,000,000	25,162,000	162,000
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	3.020%	7/14/2017	9,355,161	9,403,380	48,219
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	1.100%	1/26/2017	25,000,000	25,143,000	143,000
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.770%	8/1/2016	15,993,096	16,038,560	45,464
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.980%	4/10/2017	8,994,470	9,045,900	51,430
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.930%	5/1/2017	7,994,196	8,027,760	33,564
FEDERAL FARM CREDIT BANK BOND FIXED .52%	0.520%	6/17/2016	7,500,000	7,514,775	14,775
FEDERAL FARM CREDIT BANK BOND FIXED .64%	0.640%	1/28/2016	3,005,394	3,007,800	2,406
FEDERAL FARM CREDIT BANK BOND FIXED .875%	0.875%	8/18/2015	20,016,167	20,020,600	4,433
FEDERAL FARM CREDIT BANK BOND FIXED 1.8%	1.800%	11/12/2019	8,001,258	8,057,840	56,582
FEDERAL FARM CREDIT BANK BOND FIXED 5.125%	5.125%	8/25/2016	1,185,586	1,187,317	1,731
Total Federal Farm Credit Banks			<u>170,742,639</u>	<u>171,445,962</u>	<u>703,323</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2015

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
Federal Home Loan Banks:					
FEDERAL HOME LOAN BANKS BOND FIXED .875%	0.875%	3/10/2017	\$ 20,030,905	\$ 20,067,800	\$ 36,895
FEDERAL HOME LOAN BANKS BOND FIXED 1% 09/JUN/2017	1.000%	6/9/2017	23,031,983	23,102,810	70,827
FEDERAL HOME LOAN BANKS BOND FIXED 1% 13/FEB/2017	1.000%	2/13/2017	19,990,245	20,116,600	126,355
FEDERAL HOME LOAN BANKS BOND FIXED 4.75%	4.750%	12/16/2016	10,587,706	10,594,600	6,894
FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED 2.5%	2.500%	7/9/2019	<u>2,763,596</u>	<u>2,726,471</u>	<u>(37,125)</u>
Total Federal Home Loan Banks			76,404,435	76,608,281	203,846
Federal Home Loan Mortgage Corporation					
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM	1.110%	9/18/2017	4,957,136	4,957,425	289
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .875%	0.875%	10/14/2016	30,005,160	30,168,000	162,840
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .875%	0.875%	2/22/2017	19,982,741	20,091,000	108,259
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 0.875%	0.875%	3/7/2018	14,772,171	14,947,800	175,629
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	3/8/2017	39,987,367	40,252,000	264,633
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	6/29/2017	30,011,297	30,164,700	153,403
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	7/28/2017	25,547,384	25,618,830	71,446
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	9/29/2017	29,960,054	30,070,800	110,746
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1.75%	1.750%	9/10/2015	20,028,796	20,061,200	32,404
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2%	2.000%	8/25/2016	40,534,038	40,708,800	174,762
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2.5%	2.500%	5/27/2016	20,255,156	20,388,000	132,844
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 3.75%	3.750%	3/27/2019	21,433,797	21,728,600	294,803
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 5.125%	5.125%	10/18/2016	21,180,162	21,222,600	42,438
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 5.5%	5.500%	8/23/2017	<u>10,937,642</u>	<u>11,003,800</u>	<u>66,158</u>
Total Federal Home Loan Mortgage Corporation			329,592,901	331,383,555	1,790,654
Federal National Mortgage Association					
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	1.100%	3/13/2018	15,000,000	14,958,150	(41,850)
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	1.140%	9/22/2017	4,031,318	4,032,004	686
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	5.000%	3/15/2016	61,837,272	61,991,400	154,128
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	5.375%	7/15/2016	20,875,612	21,022,600	146,988
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	2.375%	4/11/2016	35,935,443	36,066,225	130,782
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.250%	9/28/2016	40,163,185	40,385,600	222,415
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.125%	7/20/2018	19,964,133	19,984,800	20,667
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.250%	1/30/2017	40,122,362	40,414,800	292,438
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.125%	4/27/2017	10,013,655	10,075,900	62,245
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.500%	7/2/2015	33,999,996	34,000,340	344
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.875%	10/26/2017	24,835,063	25,011,500	176,437
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.875%	9/18/2018	20,273,783	20,431,800	158,017
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.625%	11/27/2018	14,939,690	15,181,500	241,810
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.875%	2/19/2019	20,138,383	20,377,000	238,617
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.000%	9/27/2017	14,961,008	15,057,150	96,142
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.750%	11/26/2019	14,031,602	14,073,500	41,898
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.375%	12/21/2015	<u>12,005,688</u>	<u>12,008,520</u>	<u>2,832</u>
Total Federal National Mortgage Corporation			403,128,193	405,072,789	1,944,596
Total US Government Securities			1,494,645,868	1,501,686,583	7,040,715
Total General Fund Investment Pool (State Funds Investment Pool)			2,243,770,143	2,250,823,628	7,053,485

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2015**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
LOCAL GOVERNMENT INVESTMENT POOL:					
Bank Accounts:					
BANK OF THE WEST	Variable	12/31/2049	\$ 139,174,175	\$ 139,174,175	\$ -
US BANK	Variable	12/31/2049	30,157,499	30,157,499	-
WELLS FARGO CHECKING	0.15%	12/31/2049	112,818,975	112,818,975	-
WELLS FARGO SAVINGS	Variable	12/31/2049	2,364,704	2,364,704	-
Total Bank Accounts			284,515,353	284,515,353	-
Discounted Notes:					
FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN	0.000%	7/24/2015	12,643,793	12,644,836	1,043
FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN	0.000%	9/4/2015	3,998,980	3,999,560	580
FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN	0.000%	9/16/2015	4,997,899	4,999,350	1,451
Total Discounted Notes			21,640,672	21,643,746	3,074
US Government Securities:					
Federal National Mortgage Association:					
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	2.000%	3/10/2016	8,942,950	8,942,112	(838)
FEDERAL NATIONAL MORTGAGE ASSOCIATION DISCOUNT	0.000%	5/15/2016	2,492,017	2,491,450	(567)
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	5.000%	3/15/2016	5,166,086	5,165,950	(136)
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	4.375%	10/15/2015	7,327,547	7,327,169	(378)
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	2.250%	3/15/2016	9,824,532	9,824,013	(519)
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.500%	9/28/2015	5,003,949	4,999,050	(4,899)
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.500%	3/30/2016	15,026,400	15,020,850	(5,550)
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.625%	10/26/2015	12,829,216	12,829,397	181
Total Federal National Mortgage Association			66,612,697	66,599,991	(12,706)
Federal Farm Credit Bank:					
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	2.125%	9/15/2015	17,144,948	17,146,333	1,385
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	Floating	7/1/2015	20,000,000	20,000,000	-
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.140%	8/3/2015	5,000,000	5,000,050	50
FEDERAL FARM CREDIT BANK BOND FIXED .2%	0.200%	12/7/2015	2,499,990	2,499,575	(415)
FEDERAL FARM CREDIT BANK BOND FIXED .875%	0.875%	8/18/2015	10,008,200	10,010,300	2,100
FEDERAL FARM CREDIT BANK BOND VARIABLE 01/OCT/2015	Floating	10/1/2015	14,701,118	14,699,853	(1,265)
FEDERAL FARM CREDIT BANK BOND VARIABLE 02/DEC/2015	Floating	12/2/2015	14,999,684	14,998,350	(1,334)
FEDERAL FARM CREDIT BANK BOND VARIABLE 03/AUG/2015	Floating	8/3/2015	1,400,000	1,400,056	56
FEDERAL FARM CREDIT BANK BOND VARIABLE 22/OCT/2015	Floating	10/22/2015	15,002,525	15,002,100	(425)
FEDERAL FARM CREDIT BANK BOND VARIABLE 29/MAR/2016	Floating	3/29/2016	4,999,614	4,998,550	(1,064)
Total Federal Farm Credit Bank			105,756,079	105,755,167	(912)
Federal Home Loan Bank:					
FEDERAL HOME LOAN BANKS BOND FIXED .125%	0.125%	11/18/2015	9,996,666	9,998,500	1,834
FEDERAL HOME LOAN BANKS BOND FIXED .14%	0.001%	8/24/2015	4,999,896	5,000,050	154
FEDERAL HOME LOAN BANKS BOND FIXED .14%	0.001%	11/18/2015	10,000,078	9,997,910	(2,168)
FEDERAL HOME LOAN BANKS BOND FIXED .15%	0.002%	10/19/2015	9,998,700	9,999,500	800
FEDERAL HOME LOAN BANKS BOND FIXED .16%	0.160%	12/1/2015	6,998,163	6,998,740	577
FEDERAL HOME LOAN BANKS BOND FIXED .16%	0.002%	10/9/2015	4,999,682	5,000,050	368
FEDERAL HOME LOAN BANKS BOND FIXED .19%	0.190%	9/11/2015	4,999,773	5,000,400	627
FEDERAL HOME LOAN BANKS BOND FIXED .19%	0.190%	9/29/2015	9,999,920	10,002,200	2,280
FEDERAL HOME LOAN BANKS BOND FIXED .2% 01/FEB/2016	0.002%	2/1/2016	19,996,417	19,992,800	(3,617)
FEDERAL HOME LOAN BANKS BOND FIXED .2% 17/AUG/2015	0.200%	8/17/2015	5,000,013	5,000,700	687
FEDERAL HOME LOAN BANKS BOND FIXED .21%	0.210%	8/21/2015	10,000,000	10,001,500	1,500
FEDERAL HOME LOAN BANKS BOND FIXED .22%	0.220%	12/4/2015	4,999,936	5,001,150	1,214
FEDERAL HOME LOAN BANKS BOND FIXED .375%	0.375%	2/19/2016	10,007,488	10,005,700	(1,788)
FEDERAL HOME LOAN BANKS BOND FIXED 1.75%	1.750%	9/11/2015	9,494,063	9,494,909	846
FEDERAL HOME LOAN BANKS BOND VARIABLE 07/OCT/2015	Floating	10/7/2015	9,001,461	9,000,000	(1,461)
FEDERAL HOME LOAN BANKS BOND VARIABLE 07/OCT/2015	Floating	10/7/2015	26,506,436	26,503,975	(2,461)
FEDERAL HOME LOAN BANKS BOND VARIABLE 07/OCT/2015	Floating	10/7/2015	8,001,509	8,001,200	(309)
FEDERAL HOME LOAN BANKS BOND VARIABLE 19/AUG/2015	Floating	8/19/2015	13,101,583	13,101,048	(535)
Total Home Loan Bank			178,101,784	178,100,332	(1,452)

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2015**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
Federal Home Loan Mortgage Corp:					
FEDERAL HOME LOAN MORTGAGE CORP DISCOUNT NOTES	0.000%	7/15/2015	\$ 1,999,857	\$ 1,999,900	\$ 43
FEDERAL HOME LOAN MORTGAGE CORP MEDIUM TERM NOTE	0.000%	8/31/2015	4,999,068	4,997,650	(1,418)
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .4%	0.400%	3/15/2016	4,795,923	4,795,306	(617)
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .45%	0.450%	9/4/2015	5,002,962	5,003,550	588
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 0.5%	0.500%	8/28/2015	10,005,730	10,004,500	(1,230)
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1.75%	1.750%	9/10/2015	10,029,380	10,030,600	1,220
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 4.375%	4.375%	7/17/2015	10,018,599	10,019,000	401
Total Federal Home Loan Mortgage Corp			<u>46,851,519</u>	<u>46,850,506</u>	<u>(1,013)</u>
Total Governmental Bonds			<u>397,322,079</u>	<u>397,305,996</u>	<u>(16,083)</u>
Total Local Government Investment Pool (Short-term Investment Pool)			703,478,104	703,465,095	(13,009)

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
JUNE 30, 2015**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
BOND PROCEEDS INVESTMENT POOL #2 (TAXABLE):					
Repurchase Agreements	Various	Various	\$ 95,813,923	\$ 95,813,923	\$ -
Certificates of Deposit	Various	Various	10,200,000	10,200,000	-
Discounted Notes	Various	Various	19,995,407	19,997,860	2,453
Mutual Funds (LGIP Pool Participant)	Various	Various	5,312,665	5,312,665	-
Municipal Bonds:					
ALAMOGORDO N MEX MUN SCH DIST NO 001 26/MAR/2013	2.000%	8/1/2015	350,433	350,518	85
ALBUQUERQUE N MEX MUN SCH DIST NO 012 EDUCATION	3.500%	8/1/2015	175,480	175,504	24
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER	5.000%	8/1/2015	200,769	200,836	
BERNALILLO N MEX MUN SCH DIST NO 1 RFDG	3.000%	8/1/2016	164,413	164,285	(128)
COLFAX CNTY N MEX GROSS TAX RCPTS IMPT 24/FEB/2015	2.000%	8/1/2016	228,820	228,659	(161)
GALLUP MC KINLEY CNTY N MEX SCH DIST NO 001	2.000%	8/1/2016	253,477	254,320	843
LAS CRUCES N MEX SCH DIST NO 002 SCH 23/DEC/2013	2.000%	8/1/2015	550,727	550,841	114
LAS CRUCES N MEX SCH DIST NO 002 SCH 23/DEC/2013	3.000%	8/1/2016	487,041	488,191	1,150
LOS LUNAS N MEX SCH DIST NO 1 SCH BLDG-SER A	2.000%	7/15/2016	198,132	198,001	(131)
NEW MEXICO FIN AUTH REV SR LIEN-PUB PROJ REVOLVING	4.000%	6/1/2016	1,031,354	1,034,190	2,836
NEW MEXICO ST SEVERANCE TAX SER A-1 06/DEC/2011	5.000%	7/1/2015	150,000	150,019	19
RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG	2.000%	8/1/2015	1,101,455	1,101,716	261
RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG	2.000%	8/1/2016	608,737	610,434	1,697
RUIDOSO N MEX MUN SCH DIST NO 3 12/FEB/2013	2.000%	7/1/2015	405,000	405,020	20
RUIDOSO N MEX WASTERWATER REV RFDG 12/JUL/2013	2.000%	8/1/2015	400,492	400,592	100
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	3.000%	8/1/2015	400,871	400,968	97
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	3.000%	8/1/2016	410,144	411,288	1,144
SANTA FE CNTY N MEX 16/OCT/2007 01/JUL/2015 5.5%	5.500%	7/1/2015	500,000	500,075	75
SANTA FE CNTY N MEX IMPT 04/JUN/2013 01/JUL/2015	2.000%	7/1/2015	275,000	275,014	14
TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8	2.000%	9/1/2015	300,862	300,858	(4)
Total Municipal Bonds			<u>8,193,207</u>	<u>8,201,329</u>	<u>8,122</u>
US Government Securities:					
US Treasury Notes:					
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	12/15/2016	\$ 19,988,433	\$ 20,040,600	\$ 52,167
UNITED STATES OF AMERICA NOTES FIXED 3.125%	3.125%	10/31/2016	20,672,994	20,714,000	41,006
UNITED STATES OF AMERICA NOTES FIXED 1.75%	1.750%	7/31/2015	10,010,734	10,014,100	3,366
UNITED STATES OF AMERICA NOTES FIXED 1.375%	1.375%	11/30/2015	15,063,636	15,080,850	17,214
UNITED STATES OF AMERICA NOTES FIXED 2.125%	2.125%	12/31/2015	15,126,499	15,146,550	20,051
UNITED STATES OF AMERICA NOTES FIXED 2.125%	2.125%	2/29/2016	15,168,897	15,190,950	22,053
UNITED STATES OF AMERICA NOTES FIXED 1.75%	1.750%	5/31/2016	15,167,987	15,195,750	27,763
UNITED STATES OF AMERICA NOTES FIXED 1.5%	1.500%	6/30/2016	30,288,718	30,346,800	58,082
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	9/30/2016	15,060,095	15,113,700	53,605
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	10/31/2016	15,073,139	15,113,700	40,561
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	11/30/2016	20,034,714	20,117,200	82,486
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2017	15,041,337	15,083,250	41,913
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	2/28/2017	5,007,163	5,026,950	19,787
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	3/31/2017	20,052,327	20,153,200	100,873
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	5/31/2017	24,861,971	24,996,000	134,029
UNITED STATES OF AMERICA NOTES FIXED .75%	0.750%	6/30/2017	4,974,697	5,009,750	35,053
UNITED STATES OF AMERICA NOTES FIXED .5%	0.500%	7/31/2017	4,958,220	4,982,400	24,180
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	8/31/2017	10,917,693	10,981,080	63,387
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2018	19,832,810	20,003,200	170,390
UNITED STATES OF AMERICA NOTES FIXED .75%	0.750%	2/28/2018	14,818,222	14,940,300	122,078
UNITED STATES OF AMERICA NOTES FIXED .25%	0.250%	4/15/2016	16,525,910	16,544,869	18,959
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	7/15/2016	15,014,641	15,040,950	26,309
Total US Treasury Notes			<u>343,660,837</u>	<u>344,836,149</u>	<u>1,175,312</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
JUNE 30, 2015**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
Federal Farm Credit Banks Cons Long:					
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.430%	7/31/2014	15,497,301	15,517,050	19,749
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.650%	1/8/2016	7,966,069	7,992,640	26,571
FEDERAL FARM CREDIT BANK BOND FIXED .875%	0.875%	8/18/2015	20,016,401	20,020,600	4,199
Total Federal Farm Credit Banks			43,479,771	43,530,290	50,519
Federal Home Loan Banks:					
FEDERAL HOME LOAN BANKS BOND FIXED .3% 01/MAR/2016	0.300%	3/1/2016	13,450,655	13,449,193	(1,462)
FEDERAL HOME LOAN BANKS BOND FIXED 1% 09/JUN/2017	1.000%	6/9/2017	15,050,345	15,067,050	16,705
FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED 1%	1.000%	12/29/2017	10,000,000	9,980,860	(19,140)
Total Federal Home Loan Banks			38,501,000	38,497,103	(3,897)
Federal Home Loan Mortgage Corporation					
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE NOTES	0.500%	2/27/2018	10,000,000	10,000,400	400
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 0.5%	0.500%	8/28/2015	15,001,335	15,006,750	5,415
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	3/8/2017	10,040,846	10,063,000	22,154
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1.75%	1.750%	9/10/2015	15,040,825	15,045,900	5,075
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2%	2.000%	8/25/2016	25,206,016	25,443,000	236,984
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2.5%	2.500%	5/27/2016	10,182,287	10,194,000	11,713
Total Federal Home Loan Mortgage Corporation			85,471,309	85,753,050	281,741
Federal National Mortgage Association					
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	1.750%	11/24/2017	7,587,480	7,589,948	2,468
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	5.000%	5/11/2017	10,785,422	10,791,700	6,278
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	5.000%	3/15/2016	12,892,302	12,914,875	22,573
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	2.250%	3/15/2016	8,822,697	8,829,446	6,749
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.125%	7/20/2018	14,964,157	14,988,600	24,443
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.375%	12/21/2015	19,992,843	20,014,200	21,357
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.500%	3/30/2016	14,995,883	15,020,850	24,967
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.750%	9/12/2019	20,074,507	20,160,200	85,693
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.750%	11/26/2019	20,019,777	20,105,000	85,223
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.625%	10/26/2015	20,048,867	20,094,600	45,733
Total Federal National Mortgage Corporation			150,183,935	150,509,419	325,484
Total US Government Securities			661,296,852	663,126,011	1,829,159
Total Bond Proceeds Investment Pool #2 (Tax Exempt) (Part 1 of the Consolidated Investment Pool)			800,812,054	802,651,788	1,839,734

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2015**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
BOND PROCEEDS INVESTMENT POOL #1 (TAX EXEMPT):					
Certificates of Deposit	Various	Various	\$ 3,000,000	\$ 3,000,000	\$ -
Repurchase Agreements	Various	Various	151,001,612	151,001,612	-
Mutual Funds (LGIP Pool Participant)	Various	Various	7,021,569	7,021,569	-
Municipal Bonds:					
ALAMOGORDO N MEX TAXABLE-SER A 24/DEC/2014	4.000%	8/1/2016	46,426	46,421	(5)
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	5.000%	7/1/2026	1,567,127	1,567,590	463
ALBUQUERQUE N MEX GROSS RCPTS TAX REV	0.550%	7/1/2016	1,120,000	1,120,000	-
ALBUQUERQUE N MEX GROSS RCPTS TAX REV	1.050%	7/1/2017	600,000	600,120	120
ALBUQUERQUE N MEX GROSS RCPTS TAX REV IMPT	2.000%	7/1/2015	900,000	900,045	45
ALBUQUERQUE N MEX MET ARROYO FLOOD CTL AUTH	2.000%	8/1/2017	307,728	308,133	405
ALBUQUERQUE N MEX MUN SCH DIST NO 012 ED	2.000%	8/1/2015	550,662	550,875	213
ALBUQUERQUE N MEX MUN SCH DIST NO 012 EDUCATION	5.000%	8/1/2015	502,029	502,090	61
CLOUDCROFT N MEX MUN SCH DIST NO 11 RFDG	2.000%	8/1/2015	550,709	550,814	105
GADSDEN N MEX INDPT SCH DIST NO 016 29/OCT/2014	4.000%	8/15/2015	3,264,898	3,264,982	84
GADSDEN N MEX INDPT SCH DIST NO 016 29/OCT/2014	2.000%	8/15/2016	482,163	482,742	579
GRANT CNTY N MEX RFDG 11/DEC/2014 01/SEP/2015 2%	2.000%	9/1/2015	340,962	340,969	7
GRANT CNTY N MEX RFDG 11/DEC/2014 01/SEP/2016 2%	2.000%	9/1/2016	320,129	320,053	(76)
HOBBS N MEX MUN SCH DIST NO 16 26/MAY/2015	2.000%	9/15/2015	1,736,387	1,736,401	14
HOBBS N MEX MUN SCH DIST NO 16 26/MAY/2015	3.000%	9/15/2016	401,554	401,950	396
LOS ALAMOS N MEX PUB SCH DIST SCH BLDG 17/AUG/2010	2.000%	8/1/2015	200,295	200,294	(1)
NEW MEXICO EDL ASSISTANCE FNDTN ED LN-SR-SER B	4.000%	9/1/2015	503,151	503,240	89
NEW MEXICO ST SEVERANCE TAX SER A-1 06/DEC/2011	5.000%	7/1/2015	1,350,000	1,350,175	175
RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG	1.000%	8/1/2015	670,428	670,456	28
RIO RANCHO N MEX WTR & WASTEWTR SYS REV RFDG	3.000%	5/15/2016	1,245,965	1,248,389	2,424
ROSWELL N MEX INDPT SCH DIST SCH BLDG-SER A	2.000%	8/1/2017	255,656	255,947	291
SAN JUAN CNTY N MEX GROSS RCPTS TAX REV RFDG-SER A	3.000%	6/15/2016	768,105	767,850	(255)
SAN JUAN CNTY N MEX GROSS RCPTS TAX REV RFDG-SER A	4.000%	6/15/2017	742,339	741,769	(570)
SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2017 3%	3.000%	8/1/2017	391,834	391,339	(495)
SANTA FE CNTY N MEX SER A 06/DEC/2005 01/JUL/2015	4.000%	7/1/2015	500,000	500,055	55
SANTA FE N MEX GROSS RCPTS TAX REV RFDG-SER A	2.000%	6/1/2016	1,240,332	1,243,743	3,411
SANTA FE N MEX PUB SCH DIST FORMERLY SANTA FE N	5.000%	8/1/2017	2,711,085	2,720,200	9,115
TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8	1.000%	5/15/2016	401,558	401,836	278
TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8	1.500%	9/1/2016	202,322	202,202	(120)
UNIVERSITY N MEX VALENCIA CNTY BRANCH CMNTY	2.000%	8/1/2015	745,335	746,058	723
UNIVERSITY N MEX VALENCIA CNTY BRANCH CMNTY	2.000%	8/1/2016	629,195	630,094	899
Total Municipal Bonds			<u>25,248,374</u>	<u>25,266,832</u>	<u>18,458</u>
US Government Securities:					
US Treasury Notes/Securities:					
UNITED STATES OF AMERICA NOTES FIXED .25%	0.250%	9/15/2015	9,999,423	10,003,100	3,677
UNITED STATES OF AMERICA NOTES FIXED .25%	0.250%	4/15/2016	14,971,522	14,995,350	23,828
UNITED STATES OF AMERICA NOTES FIXED .375%	0.375%	3/31/2016	14,996,513	15,015,300	18,787
UNITED STATES OF AMERICA NOTES FIXED .375%	0.375%	1/15/2016	15,004,472	15,021,150	16,678
UNITED STATES OF AMERICA NOTES FIXED .5%	0.500%	7/31/2017	4,958,220	4,982,400	24,180
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	12/15/2016	14,977,833	15,030,450	52,617
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	11/30/2017	14,932,437	14,935,500	3,063
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	7/15/2016	15,014,549	15,040,950	26,401
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	11/15/2016	14,986,150	15,038,700	52,550

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2015

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
US Government Securities (Continued):					
UNITED STATES OF AMERICA NOTES FIXED .75%	0.750%	6/30/2017	\$ 4,974,697	\$ 5,009,750	\$ 35,053
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2017	15,038,918	15,083,250	44,332
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	2/28/2017	15,021,490	15,080,850	59,360
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	3/15/2018	25,067,651	25,058,500	(9,151)
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	9/30/2016	14,064,057	14,106,120	42,063
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	10/31/2016	10,075,844	10,075,800	(44)
UNITED STATES OF AMERICA NOTES FIXED 1.375%	1.375%	11/30/2015	15,063,636	15,080,850	17,214
UNITED STATES OF AMERICA NOTES FIXED 1.5%	1.500%	6/30/2016	15,147,497	15,173,400	25,903
UNITED STATES OF AMERICA NOTES FIXED 1.75%	1.750%	5/31/2016	15,167,987	15,195,750	27,763
UNITED STATES OF AMERICA NOTES FIXED 2.125%	2.125%	12/31/2015	15,126,499	15,146,550	20,051
UNITED STATES OF AMERICA NOTES FIXED 2.625%	2.625%	2/29/2016	10,148,148	10,162,500	14,352
Total US Treasury Notes/Securities			<u>274,737,543</u>	<u>275,236,220</u>	<u>498,677</u>
Federal National Mortgage Association:					
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	5.000%	5/11/2017	16,179,190	16,187,550	8,360
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	5.000%	3/15/2016	7,735,381	7,748,925	13,544
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.375%	11/15/2016	5,011,205	5,058,800	47,595
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.375%	12/21/2015	9,996,421	10,007,100	10,679
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.875%	5/21/2018	4,978,838	4,970,050	(8,788)
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.000%	9/27/2017	4,987,003	5,019,050	32,047
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.625%	10/26/2015	10,041,838	10,047,300	5,462
Total Federal National Mortgage Association			<u>58,929,876</u>	<u>59,038,775</u>	<u>108,899</u>
Federal Farm Credit Bank:					
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.675%	1/19/2016	3,004,850	3,005,760	910
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.650%	7/10/2017	4,978,793	4,995,400	16,607
FEDERAL FARM CREDIT BANK BOND FIXED 1% 25/SEP/2017	1.000%	9/25/2017	15,046,357	15,052,500	6,143
Total Federal Farm Credit Bank			<u>23,030,000</u>	<u>23,053,660</u>	<u>23,660</u>
Federal Home Loan Bank:					
FEDERAL HOME LOAN BANKS CALLABLE BOND STEP CPN	Floating	4/28/2017	4,500,000	4,501,485	1,485
Total Home Loan Bank			<u>4,500,000</u>	<u>4,501,485</u>	<u>1,485</u>
Federal Home Loan Mortgage Corp:					
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE NOTES	Floating	4/13/2018	10,000,000	10,001,200	1,200
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE NOTES	1.200%	6/28/2018	5,000,000	4,995,700	(4,300)
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 0.5%	0.500%	8/28/2015	15,001,335	15,006,750	5,415
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	3/8/2017	10,040,880	10,063,000	22,120
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	7/28/2017	5,021,429	5,023,300	1,871
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2%	2.000%	8/25/2016	20,195,433	20,354,400	158,967
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2.5%	2.500%	5/27/2016	10,182,287	10,194,000	11,713
Total Federal Home Loan Mortgage Corp			<u>75,441,364</u>	<u>75,638,350</u>	<u>196,986</u>
Miscellaneous Government Securities:					
EGYPT GOVERNMENT AID BONDS BOND FIXED 4.45%	4.450%	9/15/2015	16,543,768	16,535,628	(8,140)
TENNESSEE VALLEY AUTHORITY BOND FIXED 4.5%	4.500%	4/1/2018	5,468,088	5,453,100	(14,988)
TENNESSEE VALLEY AUTHORITY BOND FIXED 6.25%	6.250%	12/15/2017	6,764,135	6,769,256	5,121
Total Miscellaneous Government Securities			<u>28,775,991</u>	<u>28,757,984</u>	<u>(18,007)</u>
Total Governmental Bonds			<u>465,414,774</u>	<u>466,226,474</u>	<u>811,700</u>
Total Bond Proceeds Investment Pool #1 (Tax Exempt) (Part 2 of the Consolidated Investment Pool)			651,686,329	652,516,487	830,158

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2015**

Security Description	Book Value	Market Value	Unrealized Gain (Loss)
Local Government Investment Pool (Short-term Investment Pool)	\$ 703,478,104	\$ 703,465,095	\$ (13,009)
General Fund Investment Pool (State Funds Investment Pool)	2,243,770,143	2,250,823,628	7,053,485
Bond Proceeds Taxable (Consolidated Investment Pool)	800,812,054	802,651,788	1,839,734
Bond Proceeds Tax Exempt (Consolidated Investment Pool)	<u>651,686,329</u>	<u>652,516,487</u>	<u>830,158</u>
Grand Total of All Funds	<u><u>\$ 4,399,746,630</u></u>	<u><u>\$ 4,409,456,998</u></u>	<u><u>\$ 9,710,368</u></u>

Reconciliation to Financial Statements:

Per Schedule of Investments	\$ 4,409,456,998
Less: Interfund Investments in Local Government Investment Pool, General Fund Investment Pool*	(46,358)
Bond Proceeds Taxable*	(5,312,665)
Bond Proceeds Tax Exempt*	<u>(7,021,569)</u>
Total Interfund Investments	<u>(12,380,592)</u>
Total Cash and Investments, Statement of Fiduciary Net Position	<u><u>\$ 4,397,076,406</u></u>

* Amounts are deducted from respective pools.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 8 - COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	Investment Trust Funds			Total
	LGIP Short-term Investment Pool	Consolidated Investment Pool BPIP #1 and #2	General Fund Investment Pool	
ASSETS				
Cash and Investments:				
Fiscal Agent Bank Account	\$ -	\$ -	\$ 85,318,980	\$ 85,318,980
Cash in Banks	284,515,353	-	209,175,840	493,691,193
Certificates of Deposit	-	13,200,000	64,750,178	77,950,178
U.S. Government Securities	397,305,996	1,129,352,485	1,501,686,583	3,028,345,064
Municipal Bonds	-	33,468,161	30,661,224	64,129,385
Interfund Investments	(12,380,592)	12,334,234	46,358	-
Repurchase Agreements	-	246,815,535	359,184,465	606,000,000
Discounted Notes	21,643,746	19,997,860	-	41,641,606
Total Cash and Investments	691,084,503	1,455,168,275	2,250,823,628	4,397,076,406
Due from Broker	18,958	-	-	18,958
Accrued Interest Receivable	899,393	3,468,289	7,114,466	11,482,148
TOTAL ASSETS	\$ 692,002,854	\$ 1,458,636,564	\$ 2,257,938,094	\$ 4,408,577,512
LIABILITIES				
Due to Broker	\$ 15,045,358	\$ 1,374,530	\$ 172,725	\$ 16,592,613
Other Liabilities	-	-	28,307	28,307
TOTAL LIABILITIES	15,045,358	1,374,530	201,032	16,620,920
NET POSITION - HELD IN TRUST	676,957,496	1,457,262,034	2,257,737,062	4,391,956,592
TOTAL LIABILITIES AND NET POSITION	\$ 692,002,854	\$ 1,458,636,564	\$ 2,257,938,094	\$ 4,408,577,512

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 9 - COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2015**

	Investment Trust Fund			Total
	LGIP Short-term Investment Pool	Consolidated Investment Pool BPIP #1 and #2	General Fund Investment Pool	
Additions:				
Investment Income	\$ 978,879	\$ 7,256,865	\$ 17,846,675	\$ 26,082,419
Deposits	1,615,431,955	776,292,633	43,874,043,419	46,265,768,007
Deductions:				
Expenses - Management Fees	(297,173)	-	-	(297,173)
Withdrawals	(1,473,211,344)	(627,043,776)	(44,203,909,566)	(46,304,164,686)
Subtotal of Change in Net Position	142,902,317	156,505,722	(312,019,472)	(12,611,433)
Net Position, Held in Trust for Pool Participants, June 30, 2014	<u>534,055,179</u>	<u>1,300,756,312</u>	<u>2,569,756,534</u>	<u>4,404,568,025</u>
Net Position, Held in Trust for Pool Participants, June 30, 2015	<u>\$ 676,957,496</u>	<u>\$ 1,457,262,034</u>	<u>\$ 2,257,737,062</u>	<u>\$ 4,391,956,592</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
JUNE 30, 2015**

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required	Collateral Pledged		Excess (Under)
					Surety Bond Letter of Credit	Securities	
BANKS:							
Alamogordo							
(FHLB)	First National Bank	\$ 117,182	\$ 117,182	\$ -	\$ -	\$ 1,379,759	\$ 1,379,759
(FHLB)	Western Bank	3,600,000	250,000	1,675,000	-	2,143,440	468,440
Albuquerque							
(WFB)	Bank of America	1,087,552	250,000	418,776	-	701,687	282,911
(WFB)	Bank of the West	340,847,418	250,000	170,298,709	-	242,446,133	72,147,424
(WFB)	Compass Bank	2,124,898	250,000	1,912,396	2,500,000	-	587,604
(FHLB)	U.S. Bank N.A.	31,460,970	250,000	15,605,485	40,000,000	-	24,394,515
(WFB)	New Mexico Bank & Trust	144,030	144,030	-	-	269,850	269,850
(USB)	Wells Fargo Bank, N.A.	176,939,835	250,000	88,344,918	-	226,448,362	138,103,445
Artesia							
(FHLB)	First American Bank	67,175	67,175	-	-	-	-
Belen							
(USB)	My Bank	366,162	250,000	58,081	250,000	-	191,919
Carlsbad							
(FHLB)	Carlsbad National Bank	800	800	-	-	-	-
(FHLB)	Western Commerce Bank	4,158,756	250,000	1,954,378	-	3,792,326	1,837,948
Clayton							
(FHLB)	Farmers & Stockmens Bank	10,057,274	250,000	4,903,637	-	5,041,897	138,260
(FHLB)	First National Bank of NM	388,574	250,000	69,287	-	1,740,340	1,671,053
Clovis							
(TIB)	Bank of Clovis	451,616	250,000	100,808	-	788,501	687,693
	Citizens Bank	26,727	26,727	-	-	-	-
(FHLB)	Western Bank	3,100,000	250,000	1,425,000	-	2,519,913	1,094,913
Grants							
(TIB)	Grants State Bank	150	150	-	-	-	-
Hobbs							
(TIB)	Lea County State Bank	167,817	167,817	-	100,000	-	100,000
Las Cruces							
(TIB)	Citizens Bank	3,601	3,601	-	-	-	-
Las Vegas							
(FHLB)	Southwest Capital Bank	10,768,596	250,000	5,259,298	-	5,439,585	180,287
(FHLB)	Community First Bank LV	363,755	250,000	116,030	-	412,819	296,789
SUBTOTAL		586,242,888	4,027,482	292,141,803	42,850,000	493,124,612	243,832,809

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)
JUNE 30, 2015**

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	\$ 163,913	\$ 163,913	\$ -	\$ -	\$ -	\$ -
Los Alamos							
(FHLB)	Los Alamos National Bank	3,476	3,476	-	-	-	-
Portales							
(TIB)	James Polk Stone Community Bank	169,009	169,009	-	-	154,283	154,283
Raton							
(TIB)	International State Bank	105,930	105,930	-	-	148,000	148,000
Roswell							
(FHLB)	Bank of the Southwest	1,057,209	250,000	403,605	300,000	188,846	85,242
(TIB)	Valley Bank of Commerce	149,805	149,805	-	-	-	-
Santa Fe							
(FHLB)	Century Bank	3,001,023	250,000	1,375,512	-	1,823,678	448,167
(FHLB)	Community Bank	122,206	122,206	-	-	-	-
(WFB)	First National Bank	55,060,876	250,000	55,907,094	-	56,490,433	583,339
Socorro							
(BA)	First State Bank	58,341	58,341	-	-	-	-
Taos							
(TIB)	Centinel Bank	89,853	89,853	-	-	-	-
(FHLB)	Peoples Bank	47,094	47,094	-	-	-	-
SAVINGS AND LOANS:							
Alamogordo							
(FHLB)	BANK'34	2,000,000	250,000	1,785,000	-	2,439,255	654,255
Roswell							
(FHLB)	Washington Federal	34,651	34,651	-	-	-	-
CREDIT UNION:							
Santa Fe	Guadalupe Credit Union	250,000	250,000	-	-	-	-
SUBTOTAL		62,313,386	2,194,278	59,471,210	300,000	61,244,495	2,073,285

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, 2015

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required	Collateral Pledged		Excess (Under)
					Surety Bond Letter of Credit	Securities	
ANCILLARY RECEIVERSHIP ACCOUNTS:							
Santa Fe							
(WFB)	Century Bank	\$ 1,395,236	\$ 250,000	\$ 572,618	\$ -	\$ 994,319	\$ 421,701
FISCAL AGENT BANK:							
(USB)	Wells Fargo Bank N.A.	38,005,944	-	19,002,972	-	44,488,777	25,485,805
SUBTOTAL		<u>39,401,180</u>	<u>250,000</u>	<u>19,575,590</u>	<u>-</u>	<u>45,483,096</u>	<u>25,907,506</u>
TOTAL		<u>\$ 687,957,454</u>	<u>\$ 6,471,760</u>	<u>\$ 371,188,602</u>	<u>\$ 43,150,000</u>	<u>\$ 599,852,203</u>	<u>\$ 271,813,601</u>
Reconciliation to Note 3:							
	Fiscal Agent Account	\$ 38,005,944	\$ -	\$ 19,002,972	\$ -	\$ 44,488,777	\$ 25,485,805
	Certificates of Deposit	65,950,000	1,540,227	49,427,387	-	78,290,842	28,863,455
		<u>103,955,944</u>	<u>1,540,227</u>	<u>68,430,359</u>	<u>-</u>	<u>122,779,619</u>	<u>54,349,260</u>
Add:							
	Agency Deposits	581,983,059	4,680,670	301,601,844	43,150,000	477,005,148	218,553,304
	Ancillary Receivership Accounts	1,395,236	250,000	572,618	-	994,319	421,701
		<u>583,378,295</u>	<u>4,930,670</u>	<u>302,174,462</u>	<u>43,150,000</u>	<u>477,999,467</u>	<u>218,975,005</u>
		<u>\$ 687,334,239</u>	<u>\$ 6,470,897</u>	<u>\$ 370,604,821</u>	<u>\$ 43,150,000</u>	<u>\$ 600,779,086</u>	<u>\$ 273,324,265</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, 2015**

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	\$ 124,301,000	\$ 126,787,020	\$ 127,825,731	FHLMC	3128MMSV6	\$ 1,038,711
JP Morgan Chase	New York, NY	300,000,000	306,000,000	305,365,000	GOVT	912828WZ9	(635,000)
JP Morgan Chase	New York, NY	136,798,000	139,533,960	140,551,393	FHLMC	31300MUR2	1,017,433
JP Morgan Chase	New York, NY	44,901,000	45,799,020	46,197,320	FNMA	3138EBQJ7	398,300
Total		<u>\$ 606,000,000</u>	<u>\$ 618,120,000</u>	<u>\$ 619,939,444</u>			<u>\$ 1,819,444</u>

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 11 - SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
GAMING SUSPENSE FUND
YEAR ENDED JUNE 30, 2015**

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2015</u>
ASSETS				
Investment in State General Fund				
Investment Pool	\$ -	\$ 66,846,386	\$ 66,846,386	\$ -
Other Receivables	-	17,157,050	-	17,157,050
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 84,003,436</u>	<u>\$ 66,846,386</u>	<u>\$ 17,157,050</u>
LIABILITIES				
Due to State General Fund	\$ -	\$ 84,003,436	\$ 66,846,386	\$ 17,157,050
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 84,003,436</u>	<u>\$ 66,846,386</u>	<u>\$ 17,157,050</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 12 - SCHEDULE OF VENDOR INFORMATION FOR PURCHASES
 EXCEEDING \$60,000 (EXCLUDING GRT) - UNAUDITED
 YEAR ENDED JUNE 30, 2015**

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address, Per the Procurement Documentation, of <u>ALL</u> Vendor(s) That Responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the Vendor In-State and Chose Veteran's Preference (Y or N) - For Federal Funds, Answer N/A</i>	<i>Brief Description of the Scope of Work</i>
No purchases exceeding \$60,000								

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 13 - SCHEDULE OF ARBITRAGE ON TAX EXEMPT BONDS - UNAUDITED
YEAR ENDED JUNE 30, 2015**

	First Computation Date	First Payment Due to IRS	First Computation of Arbitrage Completed	Last / Next Payment Due to IRS
General Obligation Bonds Series 2007	3/1/2012	4/30/2012	X	3/1/2017
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	X	3/1/2021
General Obligation Bonds Series 2013	4/23/2018	6/22/2018	X	3/1/2023
General Obligation Bonds Series 2015	3/25/2020	5/26/2020		3/1/2025
Severance Tax Bonds Series 2009A	7/30/2014	9/29/2014	X	7/1/2019
Severance Tax Bonds Series 2010A	3/24/2015	5/26/2015	X	3/24/2020
Supplemental Severance Tax Bonds Series 2010B	3/24/2015	5/26/2015	X	3/24/2020
Severance Tax Bonds Refunding Series 2010D	12/8/2015	2/8/2016	X	7/1/2017
Severance Tax Bonds Series 2011A-1	12/6/2016	2/6/2017	X	7/1/2021
Severance Tax Bonds Refunding Series 2011A-2	12/6/2016	2/6/2017	X	7/1/2021
Severance Tax Bonds Series 2012A	6/21/2017	8/21/2017	X	6/21/2022
Severance Tax Bonds Series 2013A	7/23/2018	9/24/2018	X	7/1/2023
Severance Tax Bonds Series 2014A	6/24/2019	8/23/2019	X	6/24/2024



**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 GOVERNMENT AUDITING STANDARDS**

Honorable Susana Martinez, Governor
State Board of Finance
Honorable Tim Eichenberg, State Treasurer
Honorable Timothy Keller, State Auditor
State of New Mexico Office of the State Treasurer
Santa Fe, New Mexico

We have audited, in accordance with the 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, 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 supplementary information of the State of New Mexico, Office of the State Treasurer (the Office), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated November 25, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Audit Findings and Responses as 2007-04 to be a material weakness.

Honorable Susana Martinez, Governor
State Board of Finance
Honorable Tim Eichenberg, State Treasurer
Honorable Timothy Keller, State Auditor
State of New Mexico Office of the State Treasurer

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 Audit Findings and Responses as 2015-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Office's Response to Findings

The Office's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Responses. The Office's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 25, 2015

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2015**

SECTION I – FINANCIAL STATEMENT FINDINGS

Finding 2015-001 Accounts Payable (Significant Deficiency)

Condition: During our search for unrecorded liabilities, we encountered a payment to the Department of Information and Technology (DOIT) in the amount of \$11.5K that related to the Public Education Retirement Association (PERA) rather than the New Mexico State Treasurer’s Office (the Office). The amount was approved for payment by the CFO of the Office.

Criteria: Policies in place at the Office require CFO review and approval of all invoices prior to payment. In the case of the payment encountered during the search for unrecorded liabilities, the invoice was approved but the supporting documentation was not properly reviewed.

Cause: During the fiscal year the New Mexico State Treasurer’s Office had an employee transfer from the PERA. This employee received an invoice via email from the DOIT and set the invoice up for payment. The employee did not realize that the invoice did not relate to the Office. All supporting documentation was given to the CFO for approval.

Effect: The payment of this invoice suggests controls governing the review and approval process are not functioning as intended which could result in additional improper payments.

Recommendation: We recommend that Management carefully review all invoices before approving them for payment.

State Treasurer’s Office Response: The Budget and Finance Division has internal controls in place and, although this payment was completed erroneously, it was discovered by the CFO as a result of the internal controls and was corrected immediately. As a result of this erroneous payment, additional internal controls have since been put in place. All invoices are now reviewed by the respective Division Director to determine validity and to ensure services were rendered; invoices are also compared to the most recent previously paid invoice for any differences in charges or services. The additional controls are already in place, with ultimate responsibility delegated to the CFO.

Finding 2007-04 Reporting of Agency Interest in the State General Fund Investment Pool (Material Weakness) – Repeated and Modified

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:

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2015**

SECTION I – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2007-04 Reporting of Agency Interest in the State General Fund Investment Pool (Material Weakness) – Repeated and Modified (Continued)

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 GL and that each bank transaction reconciles to the system transaction. This is not the case for the current implementation of SHARE.

Management's Progress for Repeat Findings: Management continues to work with DFA and DoIT to rectify the issue, with the most recent iteration being the possibility of an independent subsidiary system put into operation for the purpose of tracking each State Agency's interest in the SGFIP.

Criteria: A Treasury system should allow for proper reconciliation of bank transactions against the general ledger.

Cause: When SHARE was first implemented in fiscal year 2007, the implementation was not thoroughly and properly planned by the State, nor was it implemented to incorporate the full functionality of the system.

Effect: Due to the change in business processes and system configuration, the Treasury application does not allow for proper reconciliation of bank transactions to the GL. Without this ability, verification of individual agency balances is not possible and there is a higher risk of fraudulent activity and misrepresentation of agency balances in the State General Fund Investment Pool.

Recommendation: We recommend that the State Treasurer continue efforts to address this issue as 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 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 made changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure.

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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2015**

SECTION I – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2007-04 Reporting of Agency Interest in the State General Fund Investment Pool (Material Weakness) - Repeated and Modified (Continued)

State Treasurer’s Office Response: The Financial Control Division of the New Mexico Department of Finance and Administration, in collaboration with the State Treasurer’s Office, successfully completed a cash remediation project initiated in February 2013 to address some of the issues concerning cash accounting, policies and procedures, business practices, bank account structure and the ability to properly reconcile bank transactions to the GL.

The issues concerning cash have been resolved, including monthly reconciliation by DFA of book to bank balances pursuant to section 6-5-2.1 (j) which requires the New Mexico Department of Finance and Administration to perform monthly reconciliations with the balances and accounts kept by the State Treasurer. In addition, the State Treasurer’s Office is now able to provide reporting on agency balances in the State General Fund Investment Pool (SGFIP). Claims on the Pool are reported as assets by the various agencies investing in the Pool. This reporting is extracted from the SHARE system and is reliant upon the accuracy and timing of the general ledger accounting.

The State Treasurer’s Office concurs with the significance of this condition and is committed to continued communication, collaboration and cooperation with DFA, DoIT and other agencies to improve the cash reconciliation process, with responsibility for completion delegated to the Deputy State Treasurer.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2015**

SECTION II – PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Finding 2014-001 Year End Accounts Payable (Control Deficiency) – Resolved

Condition: During our search for unrecorded liabilities, we encountered a payment in the amount of \$26.8K for fund 18200 that should have been accrued for at year end and was not.

Finding 2014-002 Interagency Transactions (Material Weakness) – Resolved

Condition: During the audit, it was identified that the Department is not recording interagency transactions in a consistent manner with other state agencies. As a result of these inconsistencies, a restatement of the Department's Severance Tax Bond revenue was required in the amount of approximately \$37.7m.

Finding 2007-04 Reporting of Agency Interest in the State General Fund Investment Pool (Material Weakness) – Repeated and Modified

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.

SECTION III – OTHER MATTERS

Finding 2014-003 Reported Earnings to the NM State General Fund (Material Non-Compliance) – Resolved

Condition: The earnings allocation from the State General Fund Investment Pool to the NM State General Fund was overstated by \$17.2 million. The \$17.2 million included investment earnings from the Bond Proceeds Investment Pools. The allocation was reduced by \$17.2 million, during the course of the audit.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
EXIT CONFERENCE
June 30, 2015**

An exit conference was held with the State Treasurer's Office on November 24, 2015. The conference was held at the State Treasurer's offices in Santa Fe, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

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

Tim Eichenberg, State Treasurer
Sam Collins, Deputy State Treasurer
Charmaine Cook, Chief Investment Officer, Investment Division Director
Clarence L. Smith, Chief Operations Officer, Operations Division Director
Leo Marquez, Chief Financial Officer, Budget and Finance Division Director
Christina Baca, Budget and Finance Bureau Chief
Edward Gallegos, State Cash Manager
Steve Vigil, Investment Accounting Bureau Chief

CLIFTONLARSONALLEN LLP

Georgie Ortiz, CPA, CGMA, Principal
Kimberly Clay, CPA, CGFM, Manager
Christopher W. Gregory, CPA, Senior Associate

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

FORMS OF ATTORNEY GENERAL'S NO LITIGATION LETTERS

[DATE]

State Board of Finance
State of New Mexico
Bataan Memorial Building, Suite 181
Santa Fe, NM 87501

Sherman & Howard L.L.C.
500 Marquette
Albuquerque, NM 87102

Rodey, Dickason, Sloan, Akin & Robb, P.A.
201 3rd Street NW, Ste. 2200
Albuquerque, NM 87102

Re: \$ 78,750,000 State of New Mexico Severance Tax Bonds, Series 2016A
\$ 181,395,000 State of New Mexico Severance Tax Bonds, Refunding Series 2016B

Ladies and Gentlemen:

This letter will serve as our certificate of litigation affecting New Mexico Severance Taxes. In 2009, the United States District Court for the District of New Mexico held that the State of New Mexico may not impose severance taxes on non-tribal operators extracting oil and natural gas on the tribal lands of the Ute Mountain Ute Tribe located within the state. *Ute Mountain Ute Tribe v. Homans*, 775 F. Supp. 2d 1259 (D.N.M. 2009). The Tenth Circuit Court of Appeals reversed the district court's decision and held that federal law does not preempt the State's assertion of jurisdiction to tax non-Indian operators' severance of oil and gas on the Ute Mountain Reservation because, among other things, the State has asserted sufficient justification for imposing the taxes. *Ute Mountain Ute Tribe v. Rodriguez*, 660 F.3d 1177 (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. *Ute Mountain Ute Tribe v. Padilla*, 132 S.Ct. 1557 (2012).

In addition, 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 the Taxation and Revenue Department (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 the Bonds.

Sincerely,

Sally Malavé
Assistant Attorney General

[DATE]

State Board of Finance
State of New Mexico
Bataan Memorial Building, Suite 181
Santa Fe, NM 87501

Sherman & Howard L.L.C.
500 Marquette
Albuquerque, NM 87102

Rodey, Dickason, Sloan, Akin & Robb, P.A.
201 3rd Street NW, Ste. 2200
Albuquerque, NM 87102

Re: \$ 41,925,000 State of New Mexico Taxable Severance Tax Bonds, Series 2016C

Ladies and Gentlemen:

This letter will serve as our certificate of litigation affecting New Mexico Severance Taxes.

In 2009, the United States District Court for the District of New Mexico held that the State of New Mexico may not impose severance taxes on non-tribal operators extracting oil and natural gas on the tribal lands of the Ute Mountain Ute Tribe located within the state. *Ute Mountain Ute Tribe v. Homans*, 775 F. Supp. 2d 1259 (D.N.M. 2009). The Tenth Circuit Court of Appeals reversed the district court's decision and held that federal law does not preempt the State's assertion of jurisdiction to tax non-Indian operators' severance of oil and gas on the Ute Mountain Reservation because, among other things, the State has asserted sufficient justification for imposing the taxes. *Ute Mountain Ute Tribe v. Rodriguez*, 660 F.3d 1177 (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. *Ute Mountain Ute Tribe v. Padilla*, 132 S.Ct. 1557 (2012).

In addition, 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 the Taxation and Revenue Department (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 the Bonds.

Sincerely,

Sally Malavé
Assistant Attorney General

APPENDIX D

FORM OF OPINION OF CO-BOND COUNSEL

**STATE OF NEW MEXICO SEVERANCE TAX BONDS
SERIES 2016A**

**STATE OF NEW MEXICO SEVERANCE TAX BONDS
REFUNDING SERIES 2016B**

**STATE OF NEW MEXICO TAXABLE SEVERANCE TAX BONDS
SERIES 2016C**

[DATE OF DELIVERY]

State Board of Finance
State of New Mexico

\$78,750,000
State of New Mexico
Severance Tax Bonds
Series 2016A

\$181,395,000
State of New Mexico
Severance Tax Bonds
Refunding Series 2016B

\$41,925,000
State of New Mexico
Taxable Severance Tax Bonds
Series 2016C

Ladies and Gentlemen:

We have acted as co-bond counsel to the New Mexico State Board of Finance (the “Board”) in connection with the issuance and sale of the State of New Mexico, \$78,750,000 Severance Tax Bonds, Series 2016A (the “2016A Bonds”), the State of New Mexico, \$181,395,000 Severance Tax Bonds, Refunding Series 2016B (the “2016B Bonds”) and the State of New Mexico, \$41,925,000 Taxable Severance Tax Bonds, Series 2016C (the “2016C Bonds” and together with the 2016A Bonds and 2016B Bonds, the “Bonds”).

In such capacity, we have examined the transcript of proceedings (the “Transcript”) relating to the Bonds and have also examined the provisions of the Constitution and laws of the State pursuant to which the Bonds were issued, the resolutions authorizing the issuance and sale of the Bonds adopted by the Board on April 19, 2016 and May 17, 2016 (collectively, the “Bond Legislation”), and the Tax Certificate of the State relating to the 2016A Bonds and 2016B Bonds (the “Tax Certificate”). We have also made such further inquiries and investigations and have examined such law of the United States of America and such further documents and matters as we have considered necessary in rendering this opinion letter. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them by the Bond Legislation.

Regarding questions of fact material to our opinions, we have relied upon the Board's certified proceedings relating to the Bonds and upon other representations and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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. This opinion letter is issued as of the date hereof and we assume no obligation to revise or supplement this opinion letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur. Our engagement with respect to the Bonds has concluded with their issuance.

In expressing the opinions herein, we are relying, in part, on a report of independent certified public accountants verifying (i) the mathematical computations of the adequacy of the maturing principal amounts of and interest on the investments and moneys included in the Escrow Account to pay when due, at stated maturity or upon prior redemption, all principal of, any prior redemption premiums, and interest on the Refunded Bonds and (ii) the mathematical calculations of the yield of the 2016B Bonds and the yield of certain investments made with the proceeds of the 2016B Bonds and other moneys deposited in the Escrow Account.

Furthermore, we have assumed the continued accuracy of the representations and the continuing 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 2016A Bonds and 2016B Bonds to be included in gross income for federal or State income tax purposes. The rights and obligations of the State and the Board pursuant to the Bonds, the Bond Legislation and the Tax Certificate and their enforceability may be subject to applicable bankruptcy, insolvency, reorganization, receivership, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors' rights generally, 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 and the Board. 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 any other statements made in connection with any offer or sale of the Bonds and express herein no opinion relating thereto, and we express no opinion upon any State or federal tax consequences arising from the receipt or accrual of interest on or the ownership or disposition of the Bonds, except those specifically addressed herein.

Based on our examination, we are of the opinion that, under the law existing on the date hereof:

1. The Bonds constitute valid and binding special limited 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, 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, all in accordance with the Act, on a parity with any Senior Obligations outstanding or hereafter issued and superior to any Supplemental Obligations outstanding or hereafter issued. Except as described in this paragraph, we express no opinion regarding the priority of the pledge or lien of the Bonds on the moneys on deposit in the Severance Tax Bonding Fund.

3. 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.

4. The Bond Legislation constitutes a valid and binding obligation of the Board and is enforceable in accordance with its terms.

5. Interest on the 2016A Bonds and 2016B Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Tax Code"), and interest on the 2016A Bonds and 2016B Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code, except that such interest is required to be included in calculating the adjusted current earnings adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations.

6. Interest on the 2016A Bonds and 2016B Bonds is exempt from income taxes imposed directly thereon by the State under State income tax laws.

7. Interest on the 2016C Bonds is included in gross income for federal income tax purposes.

8. The 2016C Bonds are exempt from taxation by the State and any political subdivision thereof.

Very truly yours,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING FOR THE 2016A BONDS AND 2016B BONDS

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 \$78,750,000 State of New Mexico Severance Tax Bonds, Series 2016A (the “2016A Bonds”) and \$181,395,000 State of New Mexico Severance Tax Bonds, Refunding Series 2016B (the “2016B Bonds”) (together, the “Bonds”). The Bonds are being issued pursuant to Bond Resolutions adopted by the Board on April 19, 2016 and May 17, 2016 (collectively, the “Resolution”).

BACKGROUND

1. The Bonds are being issued to finance capital projects approved by the State Legislature and certified by State agencies and to refund certain maturities of the State’s Severance Tax Bonds.

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 1300 I Street, Suite 1000, Washington, DC, 20005, phone (202) 838-1500, fax (202) 898-1500.

(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
1300 I Street, Suite 1000
Washington, DC 20005
www.emma.msrb.com
Phone: (202) 838-1500

(f) “Official Statement” means the Official Statement dated May 17, 2016 delivered in connection with the original issue and sale of the Bonds.

(g) “Repository” means (i) EMMA and (ii) 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, 2016 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 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: _____, 2016

STATE BOARD OF FINANCE

By _____
President

By _____

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)

[End form of Continuing Disclosure Undertaking for the 2016A Bonds and 2016B Bonds]

FORM OF CONTINUING DISCLOSURE UNDERTAKING FOR THE 2016C BONDS

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 \$41,925,000 State of New Mexico Taxable Severance Tax Bonds, Series 2016C (the “2016C Bonds” or “Bonds”). The Bonds are being issued pursuant to Resolutions adopted by the Board on April 19, 2016 and May 17, 2016 (collectively, the “Resolution”).

BACKGROUND

1. The Bonds are being issued to finance capital projects approved by the State Legislature and certified by State agencies.

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 1300 I Street, Suite 1000, Washington, DC, 20005, phone (202) 838-1500, fax (202) 898-1500.

(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
1300 I Street, Suite 1000
Washington, DC 20005
www.emma.msrb.com
Phone: (202) 838-1500

(f) “Official Statement” means the Official Statement dated May 17, 2016 delivered in connection with the original issue and sale of the Bonds.

(g) “Repository” means (i) EMMA and (ii) 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, 2016 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 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: _____, 2016

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

10. 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
11. SEVERANCE TAX REVENUE
 - All
12. 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
13. OIL PRODUCTION AND SEVERANCE TAX REVENUE
 - Severance Taxes on Oil
 - All
14. COAL PRODUCTION AND SEVERANCE TAX REVENUE
 - Severance Tax Revenue on Coal
 - All
15. OTHER MINERAL PRODUCTION AND SEVERANCE TAXES
 - Any statements therein relating to the severance tax collected and tax rates
16. OTHER TAXES OF NATURAL RESOURCES NOT PLEDGED
 - All
17. APPENDIX A - GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO
 - All
18. STATE OF NEW MEXICO FINANCIAL STATEMENTS (Audited)

[End form of Continuing Disclosure Undertaking for the 2016C Bonds]

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