

New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on the State of New Mexico \$129,195,000 Severance Tax Bonds, Series 2015A (the "Series 2015A Bonds") and the \$69,745,000 Supplemental Severance Tax Bonds, Series 2015B (the "Series 2015B Bonds" and, collectively with the Series 2015A 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.



\$198,940,000
THE STATE OF NEW MEXICO
\$129,195,000 SEVERANCE TAX BONDS, SERIES 2015A
\$69,745,000 SUPPLEMENTAL SEVERANCE TAX BONDS, SERIES 2015B

Dated: Delivery Date

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

Ratings on Series 2015A Bonds "Aa1" Moody's Investors Service, Inc.

"AA" Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business

Ratings on Series 2015B Bonds "Aa2" Moody's Investors Service, Inc.

"AA-" Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

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 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"), interest on the 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, and interest on the Bonds is exempt from income taxes imposed directly thereon by the State under New Mexico income tax laws in effect on the date of delivery of the Bonds as described herein. 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 Series 2015A 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. The 2015B Bonds will be on a parity with Supplemental Severance Tax Bonds now or hereafter outstanding and subordinate to Severance Tax Bonds now or hereafter outstanding.

Purposes

Net proceeds of the Series 2015A Bonds are being used to provide funds to finance capital improvements approved by the State Legislature. Net proceeds of the 2015B Bonds are being used to finance certain projects certified by the State Public School Capital Outlay Council as authorized by the State Legislature.

Interest Payment Dates

January 1 and July 1, commencing January 1, 2016.

Closing/Settlement

On or about August 12, 2015.

Denominations

\$5,000 or integral multiples thereof

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: Jeff Primm, Acting Director, 505-827-3936; jeff.primm@state.nm.us

Dated: July 21, 2015

SERIES 2015A BONDS

<u>CUSIP</u>⁽¹⁾	<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield at</u> <u>Issuance</u>⁽²⁾	<u>Price at</u> <u>Issuance</u>⁽²⁾
647310T76	2016	\$ 3,000,000	5.000%	0.250%	104.201
647310T84	2017	5,000,000	5.000	0.700	108.042
647310T92	2018	10,980,000	5.000	0.980	111.411
647310U25	2019	13,475,000	5.000	1.140	114.630
647310U33	2020	14,175,000	5.000	1.400	116.943
647310U41	2021	14,900,000	5.000	1.680	118.530
647310U58	2022	15,665,000	5.000	1.990	119.278
647310U66	2023	16,470,000	5.000	2.160	120.489
647310U74	2024	17,320,000	5.000	2.300	121.585
647310U82	2025	18,210,000	5.000	2.440	122.364

SERIES 2015B BONDS

<u>CUSIP</u>⁽¹⁾	<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield at</u> <u>Issuance</u>⁽²⁾	<u>Price at</u> <u>Issuance</u>⁽²⁾
647310U90	2016	\$3,400,000	5.000%	0.300%	104.155
647310V24	2017	5,300,000	5.000	0.740	107.963
647310V32	2018	6,470,000	5.000	1.020	111.289
647310V40	2019	7,280,000	5.000	1.200	114.384
647310V57	2020	6,930,000	5.000	1.480	116.531
647310V65	2021	7,285,000	5.000	1.780	117.916
647310V73	2022	7,660,000	5.000	2.140	118.219
647310V81	2023	8,055,000	5.000	2.260	119.687
647310V99	2024	8,465,000	5.000	2.400	120.692
647310W23	2025	8,900,000	5.000	2.540	121.384

(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

DIANNA J. DURAN <i>Secretary of State</i>	SUSANA MARTINEZ <i>Governor</i> JOHN A. SANCHEZ <i>Lieutenant Governor</i>	TIM EICHENBERG <i>State Treasurer</i>
TIM KELLER <i>State Auditor</i>	HECTOR BALDERAS <i>Attorney General</i>	AUBREY DUNN <i>Commissioner of Public Lands</i>
<u>Public Regulation Commissioners:</u>		
KAREN L. MONTOYA <i>District I</i>	PATRICK H. LYONS <i>District II</i>	VALERIE ESPINOZA <i>District III</i>
LYNDA LOVEJOY <i>District IV</i>		SANDY JONES <i>District V</i>

STATE BOARD OF FINANCE
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President

LT. GOVERNOR
JOHN A. SANCHEZ
Member

STATE TREASURER
TIM EICHENBERG
Member

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ROBERT J. ARAGON
Member
ADELMO ARCHULETA
Member

MICHAEL BRASHER
Member
JOHN KORMANIK
Member

THOMAS E. CLIFFORD, PhD
Executive Officer

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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

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:	FORM OF CONTINUING DISCLOSURE UNDERTAKING

SUMMARY OF INFORMATION

\$129,195,000 SEVERANCE TAX BONDS, SERIES 2015A **\$69,745,000 SUPPLEMENTAL SEVERANCE TAX BONDS, SERIES 2015B**

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 Series 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, 2016.
<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>	<p>The State Board of Finance is prohibited by State statute from issuing Senior Severance Tax Bonds unless the aggregate amount of Senior Severance Tax Bonds outstanding, including the bonds to be issued, can be serviced with not more than 50 percent of the annual deposits into the Severance Tax Bonding Fund, as determined by the deposits during the fiscal year preceding the issuance of the bonds.</p> <p>The State Board of Finance is prohibited by State statute from issuing Supplemental Severance Tax Bonds unless the aggregate amount of Senior and Supplemental Severance Tax Bonds outstanding, including the bonds to be issued, can be serviced with not more than 62.5 percent of the annual deposits into the Severance Tax Bonding Fund, as determined by the deposits during the fiscal year preceding the issuance of the bonds</p>

THE STATE OF NEW MEXICO
\$129,195,000 SEVERANCE TAX BONDS, SERIES 2015A
\$69,745,000 SUPPLEMENTAL SEVERANCE TAX BONDS, SERIES 2015B

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 \$129,195,000 State of New Mexico Severance Tax Bonds, Series 2015A (the “Series 2015A Bonds”) and the \$69,745,000 State of New Mexico Supplemental Severance Tax Bonds, Series 2015B (the “Series 2015B Bonds” and collectively with the Series 2015A 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, Sections 7-27-1 through 7-27-27 NMSA 1978, as amended (the “Severance Tax Bonding Act”), and pursuant to resolutions of the Board adopted on June 24, 2015 for each of the Series 2015A Bonds and the Series 2015B Bonds, and additional resolutions for each of the Series 2015A Bonds and the Series 2015B Bonds adopted on July 21, 2015 (each, a “Bond Resolution”) and sometimes referred to separately as the Series 2015A Bond Resolution or Series 2015B 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:

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Changes from Preliminary Official Statement

This Official Statement includes certain information which was not available for inclusion in the Preliminary Official Statement dated July 7, 2015, including the interest rates, prices, and other final terms relating to the sale of the Bonds. In addition, the opinion of Co-Bond Counsel has been revised by the addition and revision of paragraphs 3 and 4 describing the subordinate status of the Series 2015B Supplemental Severance Tax Bonds.

TABLE 1

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

(Dollars in thousands)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Projected Bonding Fund Receipts	\$394,932	\$429,939	\$447,095	\$443,129	\$430,695
Senior Bond Debt Service(1) (2)	142,085	143,062	130,433	121,928	108,396
Senior Bond Debt Service Coverage Ratio	2.78x	3.01x	3.43x	3.63x	3.97x
Supplemental Bond Debt Service (2)	13,842	19,026	20,474	21,142	21,413
Supplemental Bond Debt Service Coverage Ratio	2.53x	2.65x	2.96x	3.10x	3.32x
	<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	\$102,901	\$121,367	\$127,951	126,397	137,412
Senior Bond Debt Service Coverage Ratio	3.87x	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

(1) Includes estimated debt service on the Bonds.

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

Source: Financial Advisors.

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THE SENIOR SEVERANCE TAX BONDS AND SUPPLEMENTAL 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, 2016. 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 State Board of Finance wherein the money in the Severance Tax Bonding Fund (the “Bonding Fund”) is pledged for their retirement. Those bonds are referred to in the Severance Tax Bonding Act as “New Mexico Severance Tax Bonds” and as “New Mexico Supplemental Severance Tax Bonds” but, for clarity, are referred to herein as “Senior Severance Tax Bonds” and “Supplemental Severance Tax Bonds,” respectively. Where appropriate, Senior Severance Tax Bonds and Supplemental Severance Tax Bonds are collectively referred to herein as “Severance Tax Bonds.”

Security for the Series 2015A Bonds

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

The Series 2015A Bonds, all currently outstanding Senior Severance Tax Bonds, and any Senior Severance Tax Bonds issued on a parity with the Series 2015A Bonds will have a pledge and lien senior to any Supplemental Severance Tax Bonds now outstanding or hereafter issued.

The Series 2015A Bonds are special obligations of the State secured by and payable solely from, on a parity basis to Senior Severance Tax Bonds now or hereafter outstanding and on a prior lien basis to Supplemental Severance Tax Bonds now or hereafter outstanding, deposits to the Bonding Fund into which are deposited, pursuant to the Severance Tax Bonding Act, the net receipts from taxes levied in accordance with the Severance Tax Act Sections 7-26-1 through 7-26-11 NMSA 1978, as amended (the “Severance Tax Act”) and the Oil and Gas Severance Tax Act Sections 7-32-1 through 7-32-28, as amended (the “Oil and Gas Severance Tax Act”) upon certain natural resource products severed and saved from the soil of the State (“Severance Taxes”), investment earnings on such deposits and on unused bond proceeds in certain accounts, and such other moneys as the Legislature in its sole discretion may from time to time determine. On June 30 and December 31 of each year, the excess money in the Bonding Fund over the amount necessary to meet all principal and interest payments on all outstanding

Severance Tax Bonds on the next two ensuing semiannual payment dates must be transferred to the Severance Tax Permanent Fund.

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

The State Treasurer keeps separate accounts for all money collected as Severance Taxes, and is directed by State statute to pay Severance Tax Bonds from moneys on deposit in the Bonding Fund. The Series 2015A 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 Series 2015A 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 Series 2015A 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 Series 2015A 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.

Security for the Series 2015B Bonds

The Board also is prohibited by State statute from issuing Supplemental Severance Tax Bonds unless the aggregate amount of total Senior Severance Tax Bonds and Supplemental Severance Tax Bonds outstanding, including the bonds to be issued, can be serviced with not more than 62.5 percent of the annual deposits into the Bonding Fund, as determined by the deposits during the fiscal year preceding the issuance of the bonds. The total aggregate principal amount of outstanding Severance Tax Bonds issued by the State does not now, nor will such amount upon the issuance of the Bonds, exceed any applicable limit prescribed by the Constitution or laws of the State.

The Series 2015B Bonds, all currently outstanding Supplemental Severance Tax Bonds, and any Supplemental Severance Tax Bonds issued on a parity with the Series 2015B Bonds, will have a pledge and lien subordinate to any Senior Severance Tax Bonds now outstanding or hereafter issued.

The Series 2015B Bonds are special obligations of the State secured by and payable solely from, on a basis subordinate to Senior Severance Tax Bonds now or hereafter outstanding and on a parity 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 Severance, 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 of, premium, if any, or interest on any Supplemental Severance Tax Bonds. Supplemental 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 Supplemental 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 Bond from moneys on deposit in the Bonding Fund. The Series 2015B 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 Series 2015B 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 Series 2015B 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 160 percent of the amount of the principal and interest scheduled to be due in each fiscal year on all Senior Severance Tax Bonds, the Series 2015B Bonds and other Supplemental Severance Tax Bonds. However, the Board does not have the power to levy or impose Severance Taxes, and no assurance exists that the 160 percent requirement will be met.

USE OF PROCEEDS

Purpose

The proceeds of the Series 2015A 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 Series 2015B Bonds are being used to finance certain public educational facilities projects certified by the State Public School Capital Outlay Council as authorized by the State Legislature.

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

	<u>Series 2015A Bonds</u>	<u>Series 2015B Bonds</u>
SOURCES:		
Par Amount	\$129,195,000.00	\$69,745,000.00
Original Issue Premium/Discount	23,120,533.95	11,427,758.45
TOTAL SOURCES	152,315,533.95	81,172,758.45
USES:		
Deposit to Capital Project Account	\$151,861,220.00	\$80,961,202.00
Underwriters' Discount	448,306.65	209,932.45
Additional Proceeds	6,007.30	1,624.00
TOTAL USES	\$152,315,533.95	\$81,172,758.45

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 Code (defined below) and applicable Treasury Regulations relating to the market price and the existence of an established market.

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

Issuance of Severance Tax Bonds

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

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

revenues are held in the Extraction Taxes Suspense Fund until the substantial risk of protest or litigation is no longer present.

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

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

State Capital Program

State general fund balances and proceeds from General Obligation Bonds, Senior Severance Tax Bonds, Supplemental Severance Tax Bonds and Transportation Bonds are important sources of capital financing for the State. The following table summarizes the capital funding administered by the Board and certain other sources for Fiscal Year 2010 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	<u>\$ 19.7</u>	<u>\$ --</u>	<u>\$139.3</u>	<u>\$ --</u>	<u>\$ 167.0</u>
Proceeds from Severance Tax Bonding Program⁽¹⁾					
Severance Tax Bond	\$ --	\$121.2	\$ --	\$339.7	\$ --
Severance Tax Funding Notes ⁽²⁾	27.3	76.2	112.0	90.5	117.5
Supplemental Severance Tax Bonds	--	--	--	--	--
Supplemental Severance Tax Funding Notes ⁽²⁾	<u>206.1</u>	<u>148.7</u>	<u>167.8</u>	<u>175.2</u>	<u>59.9</u>
Subtotal	<u>\$233.4</u>	<u>\$346.2</u>	<u>\$279.8</u>	<u>\$605.4</u>	<u>\$177.4</u>
Proceeds From Other Sources					
General Fund ⁽³⁾	\$ --	\$ --	\$ --	\$ --	\$ --
Transportation Bonds ⁽⁴⁾	--	--	--	70.1	--
Lease Appropriation Bonds	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Subtotal	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$70.1</u>	<u>\$ --</u>
Total⁽⁵⁾	<u>\$253.1</u>	<u>\$346.2</u>	<u>\$419.1</u>	<u>\$675.5</u>	<u>\$344.4</u>

- (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) The Board issues short-term Severance Tax funding notes and Supplemental Severance Tax funding notes to fund authorized projects. The notes are sold to the State Treasurer and retired within the same fiscal year.
- (3) In Fiscal Year 2010, due to budgetary constraints, \$259.2 million previously appropriated for Capital Project Funding was reappropriated for purposes other than Capital Project Funding.
- (4) In July 2008, the New Mexico Finance Authority entered into a \$200,000,000 line of credit which was drawn upon for transportation related capital expenditures in Fiscal Years 2009-2011. In Fiscal Year 2011, the New Mexico Finance Authority refunded the line of credit through the issuance of State Transportation Revenue and Refunding Bonds (Senior Lien) Series 2010A-1 and State Transportation Revenue and Refunding Bonds (Subordinate Lien) Series 2010A-2, the proceeds of which are available for transportation related capital expenditures. All subsequent bonds or notes issued by the New Mexico Finance Authority for transportation purposes, 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 Series 2015A 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 Series 2015A 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	33,250,000
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	132,210,000
Severance Tax Bonds, Series 2014A	139,770,000	139,770,000
Severance Tax Bonds, Series 2015A	0	129,195,000
	<u>\$588,620,000</u>	<u>\$717,815,000</u>

Source: New Mexico State Board of Finance.

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

Outstanding and Additional Supplemental Severance Tax Bonds

Supplemental Severance Tax Bonds are authorized pursuant to an amendment to the Severance Tax Bonding Act enacted in 1999. Long-term Supplemental Severance Tax Bonds may be issued if all outstanding Senior Severance Tax Bonds and Supplemental Severance Tax Bonds, including the proposed bonds, can be serviced with not more than 62.5 percent of the annual deposits into the Bonding Fund as determined by the deposits during the fiscal year preceding the date of issuance of such Supplemental Severance Tax Bonds. In addition, short-term supplemental Severance Tax Funding Notes may be issued with a term that does not extend beyond the then current fiscal year if the debt service on such Supplemental Severance Tax Funding Notes, when added to the debt service previously paid or scheduled to be paid during that fiscal year on Severance Tax Bonds and Supplemental Severance Tax Bonds and Severance Tax Funding Notes and Supplemental Severance Tax Funding Notes, does not exceed 95 percent of the deposits into the Bonding Fund during the preceding year. The 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.

The Series 2015B Bonds will be secured on a parity with the following Supplemental Severance Tax Bonds currently outstanding. The Series 2015B Bonds will be issued with a lien subordinate to the Senior Severance Tax Bonds currently outstanding as well as the Series 2015A Bonds. See “Outstanding and Additional Senior Severance Tax Bonds” under this caption.

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	0	69,745,000
	<u>\$52,795,000</u>	<u>\$122,540,000</u>

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	\$19,571
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	\$366,727	\$462,831	\$414,375	\$530,668	\$486,039
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	\$10,551	\$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⁾	142,392
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⁾	12,739
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	\$498,451
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	\$15,641

(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	\$134,036	\$134,951	\$135,579	\$135,941	\$127,770
Oil	<u>237,896</u>	<u>271,988</u>	<u>288,516</u>	<u>284,189</u>	<u>\$279,926</u>
Subtotal-Oil & Gas Severance Tax	\$371,932	\$406,939	\$424,095	\$420,129	\$407,695
Coal	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Other Minerals	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>\$2,000</u>
Subtotal-Other Severance Tax	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
Investment Earnings	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000
Other Income	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
Total Receipts	\$394,932	\$429,939	\$447,095	\$443,129	\$430,695

(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**

<u>Fiscal Year Ending 6/30</u>	<u>Projected STBF Revenues</u>	<u>Scheduled Senior Debt Service⁽¹⁾</u>	<u>Projected Senior Debt Service Coverage</u>	<u>Scheduled Supplemental Debt Service⁽¹⁾</u>	<u>Projected Supplemental Coverage</u>
2016	394,932,386	142,085,219	2.78x	13,841,891	2.53x
2017	429,939,157	143,062,288	3.01x	19,025,925	2.65x
2018	447,095,328	130,433,288	3.43x	20,474,425	2.96x
2019	443,129,127	121,928,288	3.63x	21,141,675	3.10x
2020	430,695,403	108,395,600	3.97x	21,413,175	3.32x
2021	418,802,859	89,181,056	4.70x	20,591,400	3.82x
2022	407,423,239	72,637,000	5.61x	9,121,125	4.98x
2023	396,529,840	66,703,025	5.94x	9,122,500	5.23x
2024	386,097,422	58,489,625	6.60x	9,124,625	5.71x

(1) Includes (estimated) 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 97.7 percent of total Fiscal Year 2014 Bonding Fund tax receipts. This percentage is calculated net of Intergovernmental Tax Credits.

The State's Energy, Minerals, and Natural Resources Department ("EMNRD") records and generates data on mineral resources in the State. EMNRD produces annual reports on the State's mineral resources. The TRD compiles reports of taxable volume, value, deductions and tax receipts by commodity and land type. The State Consensus Revenue Estimating Group (the "Consensus Group") is composed of economists from the executive and legislative branches of New Mexico state government. The Consensus Group's annual production estimates 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: FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER](#)" for a discussion of pending litigation and other proceedings concerning the collection of Severance Taxes.

Severance Tax Collections and Reporting

Operators, purchasers and working interest owners are required to submit monthly reports to the TRD showing the total value, volume and kind of products sold from every production unit each month. Taxes must be paid at the same time and are due 55 days after the month of production. Each production report must be accompanied by a company identification number, which facilitates automated processing of return information. Production and associated tax liability are reported by "production unit" and a designation for a well or group of wells that is assigned by the TRD based on the master operation, property name identification and pool. A suffix is added to the production unit number to designate the specific land type and taxing authority including county, school district, and municipality. During calendar year 2014, the TRD received an average of 595 oil and natural gas returns per month containing an average of 127,886 lines of detailed information about production from different production units.

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

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

capabilities to compare and evaluate production, tax and royalty reports, and to issue automated exception reports.

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

Severance Tax on Indian Land

The State can tax non-Indian oil and natural gas production on tribal land, according to United States Supreme Court precedent in *Cotton Petroleum Co. v. State of New Mexico*, 490 U.S. 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 (1989). The State's authority to impose severance taxes on Indian oil and natural gas production on tribal land was upheld by the United States District Court in New Mexico in *Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922. In 2009, 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 0.5 percent, respectively, of total statewide production in Fiscal Year 2014. The TRD estimates that oil and natural gas production on Indian land generated \$7.9 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2014. Coal production on Indian land was 18.6 percent of total statewide production in Fiscal Year 2014. No potash, copper or carbon dioxide (CO₂) is produced on Indian land.

Section 7-29C-1 NMSA 1978, enacted by the 1995 Legislature, authorized a credit against state production and property taxes for similar taxes imposed by tribal governments. The credit applies to crude oil and natural gas from new wells drilled on or after July 1, 1995 on land within Indian reservation boundaries on March 1, 1995. The amount of the credit is 75 percent of the lesser of state taxes or tribal taxes imposed. If the applicable tribal taxes were raised after March 1, 1995, then the amount of the State's credit is lowered. The ONGARD website reports that total credits claimed under this provision were about \$3.4 million in Fiscal Year 2014. About \$1.4 million of these credits were applied against oil and natural gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

The 2001 Legislature enacted Sections 7-29C-2, 7-9-88.2 and 9-11-12.2 NMSA 1978, which provided a similar 75 percent intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo Nation. The TRD reports that this credit reduced Bonding Fund revenue by \$1.4 million in Fiscal Year 2014.

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 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 Cnty.*, No. CIV14-0035JB/SCY 2015 WL 365923 (D.N.M. Jan. 19, 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.

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 2004 to 2013. 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 14,567 billion cubic feet (bcf) at the end of calendar year 2013, down from 19,687 bcf at the end of calendar year 2004, a decade earlier. Reserves decreased by about 5,120 bcf during the period, and production was about 13,691 bcf. Additions through new discoveries and revised estimates have offset 73.3 percent of the production during the decade. The current reserve estimate represents a New Mexico reserve-to-current-production ratio of 12.5:1 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 and hydraulic fracturing have advanced the discovery of new reserves and the production capability for reserves. The reserve-to-current production ratio increased from 12.7:1 in 2004, peaked at 12.8:1 in 2011 and returned to 12.5:1 in 2013. 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>
2004	18,226	3,011	1,550	19,687
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

(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: Taxation and Revenue Department, U.S. Energy Information Administration.

Information on oil and gas drilling activity published by the Baker Hughes Company is presented in the following graph. Baker Hughes reports the number of drilling rigs actively exploring for oil and gas in the United States. Over the last decade, drilling activity in New Mexico has generally followed trends in the United States as a whole. Since 2004, drilling activity in the United States and New Mexico climbed steadily until the sharp decrease of energy prices in 2009. Since then oil drilling has rebounded strongly, but further growth appears to have slowed since 2012. 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.

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 2014, the Raton Basin produced approximately 24.6 million cubic feet of natural gas. Historically, natural gas prices from production in the Raton Basin exceeded prices in the San Juan Basin due to differences in pipeline access to markets. In Fiscal Year 2014 production from the

Raton Basin was approximately 2.1 percent of total natural gas production in the State, the San Juan Basin 56.8 percent and the Permian Basin 41.1 percent.

In May 2008, EMNRD (Oil Conservation Division) adopted new “pit rules” regulating the maintenance of open pits. In June 2013, the Oil Conservation Commission executed an order amending the pit rules relating to, among other things, waste pit permits, siting, design, construction and closures. The Commission has stated that the amendments streamline and clarify the rules making it easier for oil and gas operators, especially small-scale operators, to comply. Both the 2008 and 2013 pit rule actions were appealed and both appeals are currently before the New Mexico Court of Appeals.

Table 9 presents information on the number of natural gas well completions in New Mexico. Natural gas well completions have fallen from 1,775 in 2005 to 134 in 2014. 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

2005	1,775
2006	1,759
2007	1,483
2008	1,197
2009	860
2010	512
2011	528
2012	411
2013	249
2014	134

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 26 tcf in 2013. 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-1970’s, annual production of natural gas declined in response to falling prices to a low of 16.8 tcf in 1986. Since then production has increased steadily in response to rising prices and technological innovations that have lowered production costs. Total production was 25.7 tcf in 2014 according to EIA.

The gap between domestic production and domestic consumption has been met by growing imports, which increased from 0.8 tcf in 1986 to 4.0 tcf in 2007, falling to 2.7 tcf in 2014. 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 2004 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 satisfy any increase in demand driven by the economic recovery.

TABLE 10

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

	<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>
Henry Hub Spot Price	\$8.69	\$6.73	\$6.97	\$8.86	\$3.94	\$4.37	\$4.00	\$2.75	\$3.73	\$4.39
New Mexico Producers	\$6.91	\$6.18	\$6.88	\$8.40	\$4.38	\$5.43	\$5.87	\$4.12	\$4.64	\$5.23
NM as a percentage of Henry Hub	79.5%	91.8%	98.7%	94.8%	111.2%	124.3%	148.6%	149.8%	124.4%	119.1%

Sources: Taxation and Revenue Department (U.S. Energy Information Administration).

New Mexico average wellhead values, which are calculated from sales values reported on severance tax returns, 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 primarily used in gasoline blends and to some degree compete with crude oil products. As such, they are priced at a premium to dry gas and tend to track oil prices closely. New Mexico producers’ wellhead prices in 2014 were \$5.23 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. This production was stimulated by federal income tax credits that expired at the end of calendar year 2002. Total statewide production began to decline in 2002, falling below 1,600 bcf in Fiscal Year 2003. Fiscal Year 2014 production totaled 1,186 bcf. Gross sales revenue increased steadily from 2003 to 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 \$4.00 to \$5.50 since then, resulting in gross sales revenue of approximately \$6.1 billion in Fiscal Year 2014. Taxable production volume, sales revenue, and average price per thousand cubic feet for Fiscal Years 2005 through 2014 are presented in the following table.

TABLE 11

**Natural Gas Subject to Taxation
Production, Revenues and Average Price
Fiscal Years 2005-2014**

	<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>
Sales										
Volume (bcf)	1,547	1,523	1,516	1,428	1,390	1,282	1,224	1,229	1,173	1,186
Gross Sales										
Revenues (millions)	\$9,030	\$11,462	\$9,935	\$12,002	\$7,797	\$6,657	\$6,805	\$6,145	\$5,177	\$6,086
Gross Average										
Price per mcf	\$5.84	\$7.53	\$6.56	\$8.40	\$5.61	\$5.20	\$5.50	\$5.50	\$4.37	\$5.13
Net Taxable Value ⁽¹⁾ (millions)	\$7,451	\$9,514	\$8,074	\$9,700	\$6,083	\$5,098	\$5,223	\$4,689	\$3,929	\$4,707

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

Source: Taxation and Revenue Department (the "ONGARD System").

The following table sets forth the production levels of the State's largest natural gas producers in calendar year 2014.

TABLE 12

Ten Largest Natural Gas Producers in New Mexico and 2014 Production

	Thousand Cubic Feet
BURLINGTON RESOURCES OIL & GAS COMPANY LP	249,653,378
CONOCOPHILLIPS COMPANY	146,869,302
DEVON ENERGY PRODUCTION COMPANY, LP	77,860,298
COG OPERATING LLC	66,419,309
BP AMERICA PRODUCTION COMPANY	61,766,359
ENERGEN RESOURCES CORPORATION	56,124,572
XTO ENERGY, INC	50,245,412
WPX ENERGY PRODUCTION, LLC	42,005,406
APACHE CORP	38,605,050
CHEVRON USA INC	38,274,114

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 2014. 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.

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 2014 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⁾

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

Source: Sections 7-29A and 7-29B NMSA 1978.

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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 and incorporates in part analysis by the Consensus Group, comprised of economists from the Taxation and Revenue Department, Department of Transportation and Legislative Finance Committee, as well as forecasts by the U.S. Energy Information Administration, the IHS Global Insight and Moody's Analytics economic forecasting services, and public information about NYMEX futures contracts.

For Fiscal Year 2014, New Mexico producers received an estimated weighted average price of \$5.13 per mcf, up from \$4.40 per mcf in Fiscal Year 2013. In the February 2015 severance tax revenue forecast, the Department of Finance and Administration assumed an average price for Fiscal Year 2015 of \$4.30 per mcf and \$4.10 per mcf for Fiscal Year 2016. Continued oversupply of natural gas has depressed prices nationally. Prices are expected to increase to \$4.30 per mcf in Fiscal Year 2017 and \$4.50 and \$4.70 per mcf for Fiscal Years 2018 and 2019, respectively. The forecast of gradual price increases is based on increased demand as the national economic recovery gathers steam. In addition, some fuel-switching to natural gas is expected as natural gas-fired power plants become the preferred source for new electricity generation facilities due to environmental concerns with alternative power sources. These prices reflect the full value of all natural gas products, including natural gas liquids. The latter have been adding significantly more value to natural gas production in recent years, offsetting the decrease of prices for "dry" natural gas.

Natural gas volume production increased by 0.93 percent in Fiscal Year 2014, from 1,175 bcf in Fiscal Year 2013 to 1,186 bcf in Fiscal Year 2014. Because of higher prices and production, gross revenue for New Mexico producers increased 17.8 percent in Fiscal Year 2014. In February 2015, the Department of Finance and Administration's severance tax revenue forecast assumed that natural gas production would decline by approximately 0.5 percent in Fiscal Year 2015, by 3.0 percent in Fiscal Year 2016, and by 4.0 percent per year in Fiscal Year 2017 through Fiscal Year 2019.

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 24.0 percent in Fiscal Year 2013. For the February 2015 severance tax revenue forecast, the Department of Finance and Administration assumed deductions of 23.9 percent for Fiscal Years 2015 through 2019. Rates for the pipeline transportation have been increasing in the San Juan Basin. Since the deductions percentage is a ratio of deductions to gross value, lower prices and volumes would also result in a higher deductions percentage, assuming the absolute value of deductions does not change.

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. Severance tax revenues, however, have not been negatively impacted by this decline due to the recent increase of oil production in response to technological advances and higher prices. In fact, in Fiscal Year 2014 oil production constituted roughly 65.8 percent of total taxable value, an increase from 24.2 percent in Fiscal Year 2005.

In Fiscal Year 2014, severance tax revenues from natural gas were \$172 million, net of the Intergovernmental Production Tax Credit.

TABLE 14

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Natural gas sales (bcf)	1,181	1,146	1,100	1,056	1,014
Average sales price (\$ per mcf)	\$4.30	\$4.10	\$4.30	\$4.50	\$4.70
Severance Taxes on Natural Gas (in thousands)	\$144,922	\$134,036	\$134,951	\$135,579	\$135,940

Source: New Mexico Department of Finance and Administration, February 2015.

OIL PRODUCTION AND SEVERANCE TAX REVENUE

Oil Reserves and Production

The table below presents the EIA's estimate of oil "proven reserves" from 2004 to 2013. This is the latest data available from the EIA. Proved reserves are those a company believes with reasonable certainty can be produced with current technology at current prices. They represent the narrowest measurement of the country's energy resources. Each year the EIA updates its estimates to reflect new information, new discoveries and production during the year. The EIA reports on proven reserves of crude oil in the State on the basis of company surveys. Accounting rules in place for 2008 and prior years required companies to calculate proved reserves based on end-of-year prices. New accounting standards adopted by the Securities and Exchange Commission will now require companies to use an annual average price.

Production declined gradually from 67 million barrels in 2003 to approximately 60 million barrels in Fiscal Year 2006 through Fiscal Year 2008. Beginning in Fiscal Year 2009, production began to increase steadily, reaching a new high of nearly 113 million barrels in Fiscal Year 2014. In 2013, New Mexico reserves represented approximately 11.3 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 2013 prices. As is the case for other industries, oil producers have to balance their need for adequate inventories with the cost of exploring and developing the reserves.

TABLE 15

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

<u>Year</u>	<u>Beginning Reserves</u>	<u>Additions/ Adjustments</u>	<u>Estimated Production</u>	<u>Ending Reserves</u>
2004	677	57	65	669
2005	669	82	61	690
2006	690	75	60	705
2007	705	90	60	735
2008	735	(20)	61	654
2009	654	99	53	700
2010	700	181	58	823
2011	823	107	64	866
2012	866	175	76	965
2013	965	310	104	1,171

(1) Barrels in millions.

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

Potential new development of oil resources is indicated by exploration and drilling activity. Secondary or tertiary recovery projects (water or carbon dioxide injection) typically require new development wells. The following chart presents oil well completions during the period 2005 through 2014. 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

2005	907
2006	1,143
2007	923
2008	1,289
2009	1,055
2010	1,409
2011	1,591
2012	1,432
2013	1,367
2014	1,274

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 2014.

TABLE 17

Ten Largest Oil Producers in New Mexico and 2014 Production

	<u>Barrels</u>
COG OPERATING LLC	18,606,458
DEVON ENERGY PRODUCTION COMPANY, LP	11,539,198
APACHE CORP	7,923,856
BOPCO, L.P.	7,034,550
MEWBOURNE OIL CO	6,772,693
CHEVRON U S A INC	5,779,202
YATES PETROLEUM CORPORATION	4,662,304
CIMAREX ENERGY CO. OF COLORADO	4,370,754
CONOCOPHILLIPS COMPANY	3,985,392
EOG RESOURCES INC	3,840,179

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

Severance Taxes on Oil

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

TABLE 18

**Oil Subject to Taxation
Production, Revenues and Average Prices
Fiscal Years 2004-2013**

	<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>
Sales Volume (bbl in millions)	63.1	60.5	60.1	60.0	62.3	62.9	67.0	79.7	93.8	113.5
Gross Sales Revenues (millions)	\$2,859	\$3,634	\$3,553	\$5,628	\$4,037	\$4,470	\$5,547	\$7,144	\$8,047	\$10,795
Gross Average Price per bbl	\$45.34	\$60.08	\$59.11	\$93.74	\$64.84	\$71.29	\$84.20	\$89.64	\$85.82	\$95.13
Net Taxable Value ⁽¹⁾ (millions)	\$2,595	\$3,290	\$3,189	\$5,049	\$3,618	\$4,007	\$4,958	\$6,380	\$7,211	\$9,580

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

Source: Taxation and Revenue Department (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"). During Fiscal Year 1999, 100,000 barrels of oil had qualified for the restoration tax exemption and 500,000 barrels had qualified for the recompletion rate reduction. Combined, these volumes represented less than 1 percent of annual production of oil in Fiscal Year 2009. 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 February 2015 severance tax revenue forecast by the Department of Finance and Administration assumes that the incentives will not apply through Fiscal Year 2019.

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 1990's, producers prevented a decline in total production through a combination of new well drilling, well maintenance activity and EOR investment. Production has increased in recent years, due to new technologies that facilitate access to oil deposits in tight shale, reaching 113.5 million barrels in Fiscal Year 2014. The Department of Finance and Administration's volume projection includes an annual increase in production of 10.2 percent for Fiscal Year 2015, 1.6 percent for Fiscal Year 2016, and an annual decline in production of 1.5 percent in Fiscal Year 2017 through 2019.

Prices: Over the past 10 Fiscal Years weighted average annual oil prices received by New Mexico producers have ranged from \$66.65 in Fiscal Year 2004 to a high of \$95.14 in Fiscal Year 2014. The severance tax revenue forecast by the Department of Finance and Administration released in February 2015 assumes a price per barrel of \$72.70 in Fiscal Year 2015, \$56 in Fiscal Year 2016, \$65 in Fiscal Year 2017, and \$70 in Fiscal Year 2018 and 2019. The Fiscal Year 2015 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 2014, severance tax revenues from oil were \$348.7 million, net of the Intergovernmental Production Tax Credit. The five-year forecast by the Department of Finance, 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.

TABLE 19

Department of Finance and Administration, February 2015
Fiscal Years Ending June 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Oil sales (million barrels)	125.0	127.0	125.0	123.0	121.0
Average price (\$/barrel)	\$72.70	\$56.00	\$65.00	\$70.00	\$70.00
Severance Taxes on Oil (in thousands)	\$303,977	\$237,896	\$271,988	\$288,516	\$284,189

Source: New Mexico Department of Finance and Administration, February 2015.

COAL PRODUCTION AND SEVERANCE TAX REVENUE

Coal Reserves and Production

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

According to the EIA, as of January 1, 2014, the State had the following estimated recoverable reserves for 2013: 2,758 million short tons of underground coal and 4,060 million short tons of surface coal for a total of 6,818 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: 6,061 million short tons of underground coal and 5,799 million short tons of surface coal for a total of 11,860 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 2014, there were four mining companies producing coal in New Mexico: BHP Navajo Coal Company; El Segundo Coal Company, LLC; Lee Ranch Coal Company; and San Juan Coal Company. BHP Navajo Coal Company and the San Juan Coal Company are owned by BHP Billiton Marketing, Inc. The El Segundo Coal Company and the Lee Ranch Coal Company are operated by Peabody Natural Resources, a subsidiary of Peabody Energy Corporation.

All of the coal produced in the BHP Navajo Mine goes to the Four Corners Power Plant in New Mexico, which is a mine-mouth power plant. It is the largest power producing plant by generation capacity in New Mexico and transmits electricity throughout New Mexico, as well as Arizona and California. The Arizona Public Service Company operates the plant. Output from the BHP Navajo Coal Company was 3.4 million tons in Fiscal Year 2014, down 56 percent from Fiscal Year 2013. The Fiscal Year 2014 output figure does not account for output following the December 2013 sale of the BHP Navajo Mine, discussed below, and is preliminary.

In December 2013, 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. The parties announced that the mine would continue to supply coal to the Four Corners Power Plant and BHP would remain as manager and operator of the Mine through 2016 on behalf of NTEC. The owners of the Four Corners Power Plant, the Arizona Public Service Company (APS), executed a long term coal supply agreement with NTEC to extend coal supply to the power plant from 2016, when the current coal supply agreement ends, to 2031. APS also decommissioned Units 1, 2 and 3 at the power plant and acquired ownership of Units 4 and 5 from Southern California Edison. Units 4 and 5 will require the installation of additional emission controls to comply with standards set by the U.S. Environmental Protection Agency.

Until 2007, Chevron operated two mines, McKinley North and South. The North Mine is on the Navajo Reservation. The South Mine is a checkerboard of Navajo allotment, federal, state, and private lands. Chevron closed its South Mine in 2007 and its North Mine in December 2009 when the price of coal was too low to be mined economically. The El Segundo Coal Company and the Lee Ranch Coal Company are owned by Peabody Natural Resources, which has acquired contracts to produce coal in mines formerly operated by Chevron. Output from the Lee Ranch Coal Company was 0.4 million tons in Fiscal Year 2014, down 66.7 percent from Fiscal Year 2013. The El Segundo Coal Company commenced operations in June 2008. In Fiscal Year 2014, the El Segundo Coal Company produced 8.2 million tons of coal, up 2.5 percent from Fiscal Year 2013. Peabody Natural Resources is preferentially pulling coal out of its El Segundo Mine, which partially explains why production from the El Segundo Mine has increased significantly while output from the Lee Ranch Coal Company has decreased significantly since Fiscal Year 2008 when it produced 5.4 million tons. In addition, 20 to 30 percent of Peabody's coal is sold to industrial customers, which were likely affected by the recent economic recession. Currently, the El Segundo has long-term coal agreements with Arizona Public Service Company and Tucson Electric Power. Arizona Electric Power Cooperative and Western Fuel Association are supplied coal under shorter-term contracts. Lee Ranch Mine supplied coal to Western Fuels Association and Tucson Electric Power under long-term contracts. Other customers include Arizona Public Service and Arizona Electric Power Cooperative. At the time that the El Segundo Mine commenced operations, the Tucson Electric Power Company expected to take 3 million tons per year for 20 years for its Springerville Generating Station and Arizona Public Service Company and as much as 4 million tons of coal per year for 19 years for its Cholla Generating Station in eastern Arizona.

All of the coal produced by San Juan Coal Company goes to the San Juan Generating Station, which is also a mine-mouth power plant owned by the Public Service Company of New Mexico and other utilities. The Public Service Company of New Mexico operates the plant. Output from the San Juan Coal Company was 5.9 million tons in Fiscal Year 2014, down 3.3 percent from Fiscal Year 2013. In May 2015, BHP announced an agreement in principle to sell the San Juan Mine to Westmoreland Coal Company of Englewood, Colorado. The transfer would occur on January 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.

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 brief stay while discussions are ongoing.

A plan to reduce air emissions at the San Juan Generating Station is currently before several regulatory bodies for approval. 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. In April 2014, the U.S. Environmental Protection Agency announced a public comment period on the proposal. The Public Service Company of New Mexico is also seeking approval from the New Mexico Public Regulation Commission to decommission the two 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. As reflected in the table, gross average prices have ranged from \$28.97 per ton in Fiscal Year 2010 to \$35.47 per ton in Fiscal Year 2014. Output in short tons over the same period has ranged from 23.2 million in Fiscal Year 2010 to 18.5 million in Fiscal Year 2014. 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 \$1.1 million in severance surtax was collected in Fiscal Year 2013 and \$6 million in Fiscal Year 2014.

The surtax rate for surface-mined coal in Fiscal Year 2010 was \$1.02 per ton and \$0.99 per ton for coal mined underground; in Fiscal Year 2011, the surface-mined tax rate was \$1.13 and the underground-mined tax rate was \$1.09 per ton; in Fiscal Year 2012, the surface-mined tax rate was \$1.17 and the underground-mined tax rate was \$1.13 per ton. All coal mined underground has always been exempt from the surtax. In Fiscal Year 2013, the surface-mined surtax rate was \$1.27 per short ton and the underground-mineral surtax rate was \$1.23. In Fiscal Year 2014, the surface-mined surtax rate was \$1.30 per short ton and the underground-mineral surtax rates was \$1.26.

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 resources excise tax collections were \$4.7 million in Fiscal Year 2014.

TABLE 20**Coal Production, Prices, Revenues, and Taxes
Fiscal Years 2010 to 2014**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Production:					
Total Sales Volume (tons)	23,213,759	24,202,247	23,024,642	22,634,537	18,466,917
Surface Mined Surtax Exempt	7,144,637	16,148,057	16,413,332	15,880,674	11,366,169
Surface Mined Non-Exempt	10,019,543	1,768,875	533,727	893,391	832,843
Underground Mined Surtax Exempt	6,049,579	6,285,315	6,077,582	5,860,472	6,267,905
Prices:					
Weighted Average Price per Ton for All Coal	\$28.97	\$29.55	\$33.65	\$34.11	\$35.47
Sales Revenue:					
Total Sales Revenue	\$672,551,118	\$715,148,886	\$774,782,796	\$772,134,654	\$654,998,911
Taxes Collected and Intergovernmental Tax Credits (ITC):					
Gross Severance Tax and Severance Surtax Due	\$ 23,330,785	\$ 15,668,404	\$ 13,626,955	\$ 13,919,087	\$11,483,480
Intergovernmental Tax Credit (ITC)	\$ 2,257,604	\$ 3,267,415	\$ 2,747,567	\$ 3,411,207	\$1,411,347
Net Severance Tax and Severance Surtax Liability (Net of ITC)	\$ 21,073,181	\$ 12,400,989	10,879,388	\$ 10,507,880	\$10,072,106
Effective Taxes (Net of ITC):					
Effective Tax Rate	3.13%	1.73%	1.40%	1.36%	1.54%
Effective Tax per Ton for all Coal (Net of ITC)	\$0.91	\$0.51	\$0.47	\$0.46	\$0.55

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, of which 7.0 to 10.6 trillion cubic feet 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 107.3 bcf in Fiscal Year 2014, a decrease of 7.3 percent from 115.8 bcf during Fiscal Year 2013. The weighted average wellhead price of CO₂ sales for Fiscal Year 2014 was \$1.47 per mcf reported at the production facility, an increase of 14 cents from \$1.33 per mcf during Fiscal Year 2013. 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 26.6 percent in Fiscal Year 2014.

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 2012⁽¹⁾ Collections</u>	<u>Fiscal Year 2013⁽¹⁾ Collections</u>	<u>Tax Rate</u>	<u>Gross Value as Percent of Full Value</u>
Potash	\$1,960,646	\$1,884,858	2.500%	not fixed
Copper	571,012	747,503	0.500	16.67%
Timber, Pumice, Gypsum, Clay, Fluorspar, Other	52,561	58,242	0.125	not fixed
Molybdenum	4,601	17,020	0.125	50.00
Lead, Zinc	Not detailed	Not detailed	0.125	16.67
Gold	19,461	13,732	0.200	50.00
Silver	6,013	5,439	0.200	30.00
Uranium	Not detailed	Not detailed	3.500	50.00 ⁽²⁾
Other than Potash, Copper, Molybdenum	\$87,118	244,239		

(1) Collections for Fiscal Years 2012 and 2013 is the most recent data available.

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

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

Severance tax revenue from potash was \$1.4 million in Fiscal Year 2014, down from \$1.9 million in Fiscal Year 2013. Severance tax revenue from copper, which is limited because of the statutorily defined narrow tax base, was \$777,519 in Fiscal Year 2014, up from \$747,503 in Fiscal Year 2013 after peaking at \$760,288 in Fiscal Year 2008. Weighted average copper prices were \$3.21 per pound in Fiscal Year 2014.

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 2014 and reflect an average sales price of \$95.14 per barrel for oil and \$5.13 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 2014**

<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		\$95.14		\$5.13
Oil and Gas School Tax	2.79%	\$2.65	3.06%	\$0.16
Oil and Gas Severance Tax	3.32%	\$3.16	2.88%	\$0.15
Oil and Gas Conservation Tax (General Fund only)	0.21%	\$0.20	0.15%	\$0.01
Natural Gas Processors Tax	N/A	N/A	0.27%	\$0.01
Oil and Gas Production <i>ad valorem</i> Tax	1.00%	\$0.95	0.93%	\$0.05
Oil and Gas Production Equipment <i>ad valorem</i> Tax	0.15%	\$0.14	0.26%	\$0.01
Total	7.46%	\$7.10	7.53%	\$0.39
Subtotal: State Tax Only (excludes <i>ad valorem</i> taxes)	6.32%	\$6.01	6.08%	\$0.31

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 price for all quarters in Fiscal Year 2014 exceeded \$70.00. *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 \$20.4 million in Fiscal Year 2014, down from approximately \$23.5 million in Fiscal Year 2013. Coal production, also, decreased from approximately 22.6 million tons in Fiscal Year 2013 to approximately 18.5 million tons in

Fiscal Year 2014. Thus, the average effective tax per ton remained flat at approximately \$1.03 per ton in Fiscal Year 2013 to approximately \$1.11 per ton for Fiscal Year 2014. With total sales revenue of approximately \$665.1 million in Fiscal Year 2014, the average effective tax was 3.11 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 2014 is shown in Table 23.

TABLE 23

Tax Burden on Coal for Fiscal Year 2014⁽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)	\$0.55	1.54%	\$ 10,072,106
Resource Excise Tax	\$0.26	0.72%	\$ 4,704,565
Conservation Tax	<u>\$0.06</u>	<u>0.18%</u>	<u>\$ 1,188,391</u>
Total Production Taxes	<u>\$0.87</u>	<u>2.44%</u>	<u>\$ 15,965,062</u>
Property Tax ⁽²⁾	\$0.24	0.67%	\$ 4,410,567
Gross Receipts Tax	<u>\$2.30</u>	<u>6.48%</u>	<u>\$ 42,414,698</u>
Total Production and Non-Production Taxes	<u>\$3.41</u>	<u>9.59%</u>	<u>\$ 62,790,327</u>
Price per Ton			\$35.47
Total Production (Short Tons)			18,466,917
Total Value			\$654,998,911

(1) The figures reported in this table come from the New Mexico Taxation and Revenue Department's GenTax System. They reflect only the information contained in all tax returns and amendments filed during Fiscal Year 2014. These figures differ from actual distributions made by the Taxation and Revenue Department's Financial Services Bureau, as the distributions include penalties, interest, and other modifications such as previously unallocated or unidentified receipts. Total production is based on volumes reported on severance tax returns, which differ from the volumes reported on resource excise tax returns.

(2) Property taxes were billed for tax year 2013.

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 2013, the most recent year for which data is available, 65.2 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 2014 is 6.483 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 3.6 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).

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

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

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

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

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

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by State statute, regulation or otherwise on

behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the State does not have responsibility for distributing such notices to the Beneficial Owners.

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

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following summarizes certain provisions of the Bond Resolution relating to the Series 2015A Bonds and the Bond Resolution relating to the Series 2015B Bonds. This summary does not purport to be complete and reference is made to each Bond Resolution for a full and complete statement of its provisions.

Covenants

So long as any Bonds are outstanding, the State and the Board have covenanted and agreed with the owners of Bonds that: (a) the State will use its best efforts to collect and deposit in the Bonding Fund proceeds from Severance Taxes as set forth in the Severance Tax Bonding Act which, when combined with other amounts the State Legislature, in its sole discretion, may from time to time deposit in the Bonding Fund, will equal (i) at least two hundred percent (200 percent) of the amount of the principal of and interest scheduled to be due in each fiscal year of the State on the Senior Severance Tax Bonds, including the Series 2015A Bonds, and (ii) at least one hundred sixty percent (160 percent) of the amount of principal and interest scheduled to be due in each fiscal year of the State on the Senior Severance Tax Bonds and Supplemental Severance Tax Bonds, including the Series 2015B Bonds; (b) the State will promptly pay the principal of and the interest on the Bonds, at the places, on the dates and in the manner specified in the Bond Resolution and in the Bonds; (c) the State will keep proper books of record and account, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to Severance Taxes, the Bonding Fund and each project account; (d) any registered owner or Beneficial Owner of any of the Bonds or any duly authorized agent of such registered owner or Beneficial Owner, shall have the right, at all reasonable times, to inspect all records, accounts and data relating to the Bonds, the collection of Severance Taxes and the Bonding Fund; provided, however, that pursuant to Section 6-14-10E NMSA 1978, records with regard to the ownership of or pledges of the Bonds are not subject to inspection or copying; (e) the State will prepare annual statements or audits of collections and disbursements of Severance Taxes in sufficient detail to show compliance with requirements of the Bond Resolution and the State will furnish a copy of such audit to any owner of Bonds upon written request therefor; (f) in order to prevent any accumulation of claims for interest after maturity, the State will not directly or indirectly extend or assent to the extension of time for the payment of interest on any of the Bonds; (g) the State will make no use of the proceeds of the Bonds or any funds reasonably expected to be used to pay the Bonds which will cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), or which would result in the loss of the exclusion from gross income for federal income tax purposes of the interest on the Bonds; (h) the State (i) will take or cause to be taken such actions which may be required of it for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes, and (ii) will not take or permit to be taken any actions which would adversely affect that exclusion, and the State or persons acting for it, will, if necessary to maintain such exclusion, among other acts of compliance, (1) apply, or cause to be applied, the proceeds of the Bonds to the purpose of the borrowing,

(2) restrict the yield on investment-type property acquired with those proceeds, (3) make timely rebate payments to the federal government in accordance with Section 148 of the Code and the Bond Resolution, (4) maintain books and records and make calculations and reports, and (5) refrain from certain uses of proceeds, all in such manner and to the extent necessary to assure such exclusion of that interest under the Code.

Defeasance

If the State shall pay all of the outstanding 2015A 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 2015A 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 Series 2015A Bond Resolution shall be released, discharged and satisfied.

If the State shall pay all of the outstanding 2015B 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 2015B 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 Series 2015B Bond Resolution shall be released, discharged and satisfied.

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

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

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

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

(iii) obligations described in Section 103(a) of the Code (a) provisions for the payment of the principal of, premium, if any, and interest on which (1) shall have been made by the irrevocable deposit, with a bank or trust company acting as a trustee or escrow agent for holders of such obligations, of non-callable securities described in clauses (i) and (ii) above, the maturing principal of and interest on which,

when due and payable, without further investment or reinvestment, will provide sufficient moneys to pay when due the principal of and interest on such obligations, and (2) which securities described in clause (i) and (ii) are not available to satisfy year any other claim, including any claim of such trustee or escrow agent or of any person claiming through such trustee or escrow agent or to whom such trustee or escrow agent may be obligated, including claims in the event of the insolvency of such trustee or escrow agent or proceedings arising out of such insolvency or (b) rated by either Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business or Moody's Investors Service, Inc., or similar rating agency in its highest rating category (without regard to any refinement or gradation by numerical modifier or otherwise).

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

Notwithstanding that Bonds may be deemed to have been paid, any provisions of the Bond Resolution which relates to the maturity of Bonds, interest payments and dates thereof, exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Registrar/Paying Agent in connection with all of the foregoing, shall remain in effect and be binding upon the State and the Registrar/Paying Agent until final payment of all Bonds notwithstanding the release and discharge of the Bond Resolution. Notwithstanding any provision of the Bond Resolution to the contrary, any provisions of the Bond Resolution which relates to the exclusion of interest from gross income for federal tax purposes shall remain in effect and be binding upon the State and the Registrar/Paying Agent.

Amendment of Bond Resolution

The Bond Resolution may be amended or supplemented from time to time without the consent of or notice to the holders of the Bonds for any of the following purposes: (a) before or after issuance of the Series 2015A Bonds to add to, subtract from, or amend or clarify the list of Projects; (b) to cure any ambiguity, omission, formal defect or inconsistency; or (c) to make any change that, in the judgment of the Board, in reliance upon an opinion of counsel, does not have a material adverse effect on the rights of the owners of any Bonds; or (d) to achieve compliance with any applicable federal securities or tax laws or to ensure the exclusion of interest on the Bonds from the gross income of the owners of the Bonds for federal income tax purposes.

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

Remedies of Holders of Bonds

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

Payment of Principal and Interest

The Bonds and the interest accruing on the Bonds shall be payable and collectible out of the Bonding Fund, which is pledged for such payment as provided in the Severance Tax Bonding Act. Interest on the Bonds shall be payable by check or draft mailed to their registered owners, as shown on the registration books for the Bonds maintained by the Registrar/Paying Agent at the address appearing in such books at the close of business on the fifteenth (15th) day of the calendar month next preceding each applicable interest payment date (the "Record Date"), or, if such date is not a business day, the first business day thereafter, or in such other manner as may be agreed upon by the Registrar/Paying Agent and the registered owner of a Bond. Interest which is not timely paid or duly provided for shall cease to be payable to the owners of the Bonds (or of one or more predecessor Bonds) as of the Record Date, but shall be payable to the registered owners of the Bonds (or of one or more predecessor Bonds) at the close of business on a special record date (the "Special Record Date") for the payment of that overdue interest to be fixed by the Registrar/Paying Agent. The Special Record Date shall be fixed by the Registrar/Paying Agent whenever moneys become available for payment of the overdue interest, and notice of the Special Record Date shall be given to owners of Bonds not less than ten (10) days prior to such date. The principal of and interest on the Bonds is payable upon presentation and surrender of the Bonds without deduction for exchange or collection charges at the office of the Registrar/Paying Agent. Principal of and interest on the Bonds are payable in lawful money of the United States of America.

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

TRANSCRIPT AND LEGAL OPINIONS

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

Legal matters incident to the issuance of the Bonds and the exclusion from gross income for Federal and State of New Mexico income tax purposes of interest on the Bonds (see "TAX MATTERS" below and the form of 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

In the opinions of Co-Bond Counsel, assuming continuous compliance with certain covenants described below, interest on the 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"), interest on the 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 Bonds is exempt from income taxes imposed directly thereon by the State under New Mexico income tax laws in effect on the date of delivery of the Bonds as described herein.

The Tax Code and New Mexico law impose several requirements which must be met with respect to the 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), New Mexico taxable income and New Mexico alternative minimum taxable income. Certain of these requirements must be met on a continuous basis throughout the term of the Bonds. These requirements include: (a) limitations as to the use of proceeds of the Bonds; (b) limitations on the extent to which proceeds of the 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 Bonds above the yield on the 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 New Mexico law (in effect on the date of delivery of the Bonds) to the extent necessary to maintain the exclusion of interest on the 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 New Mexico taxable income under such New Mexico income tax laws. Co-Bond Counsel's opinions as to the exclusion of interest on the Bonds from gross income, alternative minimum taxable income (to the extent described above), New Mexico taxable income and New Mexico 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 Bonds to be included in gross income, alternative minimum taxable income, New Mexico taxable income or New Mexico 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 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 Bonds.

The Tax Code contains numerous provisions which may affect an investor's decision to purchase the Bonds. Owners of the 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 New Mexico tax consequences. Under Section 3406 of the Tax Code, backup withholding may be imposed on payments on the 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. Certain of the Bonds may be sold at a premium, representing a difference between the original offering price of those 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 relates only to the exclusion of interest on the Bonds from gross income, alternative minimum taxable income, New Mexico taxable income and New Mexico alternative minimum taxable income as described above and will state that no opinion is expressed regarding other federal or New Mexico tax consequences arising from the receipt or accrual of interest on or ownership of the Bonds. Owners of the 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 Bonds, the exclusion of interest on the Bonds from gross income or alternative minimum taxable income or both from the date of issuance of the 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 Bonds. Owners of the 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 Bonds. If an audit is commenced, the market value of the 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 Bonds to lose its exclusion from gross income for federal income tax purposes or lose its exclusion from alternative minimum taxable income except to the extent described above for the owners thereof for federal income tax purposes. None of the State, the State Board of Finance, 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 Bond holder with respect to any audit or litigation costs relating to the 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 ownership of the Bonds. Prospective purchasers or owners should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability, inclusion of Social Security or other retirement payments in taxable income and the state and local tax rules in New Mexico and other states.

LITIGATION

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

The State is a party to various legal proceedings seeking damages or injunctive relief and generally incidental to its operations which proceedings are unrelated to the Bonds, and to the security therefor. The ultimate disposition of such proceedings is not presently determinable. Such proceedings are not, in the opinion of the State Attorney General, reasonably expected to have a material adverse effect on the Bonds or the security for the payment of the Bonds for the following reason: Severance Taxes are the primary source of payment for the Bonds which are limited obligations of the State. See Appendix C for a summary of litigation and administrative action or proceedings that impact Severance Taxes.

FINANCIAL ADVISORS

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

RATINGS

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

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

CONTINUING DISCLOSURE UNDERTAKING

The Board will agree, by means of a continuing disclosure undertaking (the substantial form of which appears in Appendix E) to be delivered to the purchaser of the Bonds at closing, for the benefit of owners of the Bonds, to provide certain annual financial information relating to the State by no later than 210 days after the end of each fiscal year of the State, commencing with the fiscal year ending June 30, 2015, and to provide notices of occurrence of certain enumerated events, if material. The Board will further agree in the continuing disclosure undertaking that if its audited financial statements are not provided as part of the annual financial information, the Board will provide such audited statements when available. The annual financial information and audited financial statements (when available) will be filed by the Board with the Municipal Securities Rulemaking Board and with any New Mexico State Information Depository. In the event of a failure of the Board to comply with any provision of the continuing disclosure undertaking, any owner of Bonds (including beneficial owners of the Bonds) may seek specific performance by court order from a State court in Santa Fe County, New Mexico.

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

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

MISCELLANEOUS

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

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.

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APPENDIX A

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

The State, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state, containing approximately 121,593 square miles. The estimated 2013 population of the State is 2,085,287. 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 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 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 slowed significantly 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. 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. 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 due to sequestration. 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 additional \$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. 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 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. Based on its February 2015 forecast, the consensus revenue group projects Fiscal Year 2015 general fund recurring revenue to increase by 1.2 percent over Fiscal Year 2014. Total recurring revenue is estimated to be approximately \$6.1 billion. Revenue growth is hampered by the rapid decline in crude oil prices, which have fallen 50 percent since the end of Fiscal Year 2014. The large decrease in mineral taxes, rents and royalties is expected to be offset by growth in sales and income taxes, as well as the recent strong investment performance of the state’s Permanent Funds. Insurance premiums tax revenue is forecast to increase due to the expansion of Medicaid and dissolution of the New Mexico high-risk insurance pool through implementation of the Affordable Care Act. Timing and magnitude of these changes is uncertain.

In the 2014 legislative session, the legislature and executive branch worked together to produce a budget and tax policy changes that will help build a stronger economy while funding essential public services. For the fourth straight year, spending growth was limited to just over 4 percent, a figure that is in line with the long-term growth of state revenue. Prudent spending restraint made it possible to fund targeted public school reforms, healthcare workforce initiatives and economic development funding that will have long-term benefits for the state’s economy. Other significant enacted legislation included reforming the judicial and magistrate retirement programs to improve solvency through a balanced approach, and improved targeting of capital outlay funds to meet essential water and wastewater infrastructure needs and stimulate the construction economy. General fund reserves are estimated to be \$478.7 million at the end of Fiscal Year 2015, or 7.8 percent of recurring appropriations.

Fiscal Year 2016. The consensus revenue group revised downward the General Fund revenue forecast in February 2015 in response to the sharp decline in oil prices seen in the first half of Fiscal Year 2015. Recurring revenue is expected to grow 2.0 percent in Fiscal Year 2016 to \$6.2 billion. Due to weaker oil and natural gas prices and volumes, mineral taxes, rents and royalties are projected to decrease by 11.7 percent to \$850 million. General sales taxes are estimated to grow by 4.6 percent, which is consistent with historical trends, while income taxes will grow at a slower pace, in part due to 2013 legislative changes. Investment income will continue to benefit from a larger fund corpus due to growing contributions and strong stock market gains.

New Mexico faced several challenges heading into the 2015 Legislative Session, not least of which was the reduction in “new money” – or Fiscal Year 2016 revenues less Fiscal Year 2015 recurring appropriations – resulting from the decline in oil prices. Based on the consensus revenue group’s February 2015 forecast, new money was projected to be \$83 million in Fiscal Year 2016 or 1.3 percent of Fiscal Year 2015 recurring appropriations, significantly less than the \$285 million that was projected in August 2014 before the fall in oil prices. This reduction limited budget growth to less than the 4 percent seen in previous Fiscal Years.

Pursuant to a decision from the New Mexico Supreme Court, the General Fund faced a potential \$20 million recurring reduction in Gross Receipts Tax revenue to partially hold local governments harmless for taxpayer refunds and other revenue distribution adjustments. *City of Eunice v. N.M. Taxation and Revenue Dep’t*, 2014-NMCA-085. During the regular legislative session, legislation was passed and signed into law that would allow the Taxation and Revenue Department to forgive certain amounts owed by local governments to the State General Fund if those local governments risked severe budget hardships under the repayment provisions. Another important administrative change includes the creation of an independent hearings office for tax disputes to ensure impartiality in proceedings.

Despite budget limitations, the Legislature and Governor were able to pass important economic development initiatives, providing funding for private enterprises through the Local Economic Development Act and job training assistance for New Mexico businesses. The 2015 General Appropriation Act prioritizes education funding, setting aside 44 percent of the “new money” for local schools and additional funding to better target at risk students. The FY 2016 budget also includes pay increases for the State Police, Protective Service employees, and Corrections Officers.

During the 1st Special Session, the Legislature and Executive reached a compromise to provide \$294 million of funding for statewide capital projects, including local and state road projects, and to enact a tax package designed to increase job growth in New Mexico and provide benefit to small businesses. The tax package includes the extension and expansion of several popular tax provisions, a single-sales factor corporate income tax election for headquarters operations, and an unreimbursed medical expense deduction that will benefit 1/3 of New Mexico taxpayers. The bill also provides a gross receipts tax deduction to certain contractors selling services to the U.S. Department of Defense.

Finally, the General Fund looks to gain up to \$20 million in Tribal Revenue Share receipts following federal approval of the 2015 gaming compact. The provisions of the new compact include increased revenue sharing rates relative to the expired compact and clarification of the treatment of “free play” and “complementaries.” As of July 1, 2015, seven pueblos and tribes have signed on to the 2015 compact and several others have contacted the governor’s office about joining the new compact.

After accounting for the 2015 General Appropriation Act and the revenue changes, the Fiscal Year 2016 ending balance is estimated to be \$452.5 million or 7.3 percent of prior year appropriations.

Recent Education Funding Litigation. Recently two lawsuits were filed challenging the funding of the State’s primary and secondary education system. 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, uniformly, 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 these violations. Neither lawsuit asks for a specific award of damages. Because these suits have been only recently filed, and because the allegations of violations have not been litigated or proven, the State believes it is premature to assess what effect, if any, these law suits might have on State budget matters.

Pension and Other Retirement Funds and Benefits

Legislative History. As with many other states, the State has experienced funding issues regarding its pension and other retirement funds. As set forth below, the Legislature has acted to reform pension programs and to better ensure the continued viability of the programs.

The Legislature enacted the Educational Retirement Act, Section 22-11-1 et seq. NMSA 1978, the Public Employees Retirement Act, Section 10-11-1 et seq. NMSA 1978, and the Retiree Health Care Act, Sections 10-7C-1 through 10-7C-19, NMSA 1978, which created the retirement plans that cover most employees of the State and its political subdivisions. These retirement plans are managed by the Educational Retirement Board (“ERB”), the Public Employees Retirement Association (“PERA”), and the New Mexico Retiree Health Care Authority (“NMRHCA”) and described below. The Legislature establishes all financing provisions of the plans and the provisions are not subject to negotiation. Financing provisions include employee and employer contributions, fund investment provisions and benefit provisions. In 1998, the voters amended the State Constitution, adopting Section 22 of Article XX, which states that upon meeting the minimum service requirements of an applicable retirement plan created by law for employees of the State or any of its political subdivisions or institutions, a member of a plan shall acquire a vested property right with due process protections under the applicable provisions of the New Mexico and United States Constitutions. The amendment also stated that nothing in Section 22 shall be construed to prohibit modifications to retirement plans that enhance or preserve their actuarial soundness.

Recent legislative changes enacted during the 2009, 2010, 2011, 2012 and 2013 legislative sessions also amended various provisions of the Educational Retirement Act, the Public Employees Retirement Act, and the New Mexico Retiree Health Care Act to improve the long-term stability of these funds.

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

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

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

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

House Bill 628 (Chapter 178, Laws 2011) extended the existing 1.5 percent shift made in House Bill 854 through Fiscal Year 2013 and shifted an additional 1.75 percent of the annual contribution rate from employers to employees for Fiscal Year 2012. The additional 1.75 percent of the annual contribution rate shifted back from the employees back to the employers for Fiscal Year 2013. The 1.5 percent contribution shift from the employers to the employees remains in place through Fiscal Year 2013. House Bill 628 also required an actuarial study by PERA and ERB prior to September 20, 2013 to analyze whether contribution rate changes have had an adverse actuarial effect on the retirement systems.

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

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.

Senate Bill 115 (Chapter 61, Laws 2013) amends the Educational Retirement Act. The law increases 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; keeps in place scheduled increases in employer contribution rates; creates a new tier membership for persons who become members of the ERB fund on or after July 1, 2013; creates certain actuarial limitations on benefits of new tier members; places limitations on future cost of living adjustments ("COLA") for current and future retirees which are tied to the future funded ratios of the plan; and makes certain other clarifying and technical changes. The projected actuarial funded ratio in 2043 with changes made by Senate Bill 115 is 100.7 percent.

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.

Educational Retirement Board-Historic Financial Information. The ERB had 140,008 members as of June 30, 2014, including active, retired, inactive vested and inactive non-vested members. The market value of Educational Retirement Fund (the “Fund”) as of March 31, 2015 was \$11.44 billion, which was up from a low of \$6.0 billion in February 2009. The ERB had net investment gains for the Fiscal Year 2014 of 14.2 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, 2014, the actuarial value of assets was \$10.7 billion and the unfunded accrued actuarial liability (“UAAL”) was \$6.3 billion based on the 7.75 percent assumed rate of return. Others changes were made to the ERB’s actuarial assumptions in April 2011, the most significant of which included: changing the funding method to traditional individual entry age normal; revising post-retirement mortality to reflect slightly longer life expectancy; changing retirement rates at ages 65 and 69 and with 25 or more years of service; decreasing salary increases for members with 10 or more years of service; and decreasing membership growth assumptions. The combined effect of the changes in actuarial assumptions, including to the assumed investment return rate, increased the UAAL by \$426.1 million 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. The funded ratio on June 30, 2014 was reduced from 63.1 percent to 62.0 percent.

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, 2014, the UAAL had an amortization period of 42.1 years based on the 7.75 percent assumed rate of return. The amortization period, also referred to as the funding period, is a calculation based on actuarial models of the period required to amortize the UAAL, assuming ERB’s experience exactly follows actuarial assumptions. The calculation is based on current contribution rates which are established by state statute and does not take into account the statutorily scheduled increases in those rates described below.

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: New Mexico Statutes Annotated 1978, Section 22-11-21, as amended.

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 successfully implemented Governmental Accounting Standards Board (“GASB”) Statement 67 requirements early 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 2010 through 2014.

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>
2010	\$357,220,043	--	65.7
2011	\$377,884,749	--	63.0
2012	\$400,461,343	--	60.7
2013	--	\$6,276,852,149	60.1
2014	--	\$5,705,730,813	62.0

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 49,288 members as of June 30, 2014. As of June 30, 2014, the total market value of PERA Fund was \$14.5 billion. The Fiscal Year 2014 PERA total fund investment return was 17.03 percent.

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, 2014. In May 2014, 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.

In 2013, the PERA Board lowered the interest rate on members' contributions from 5.25 percent to 2 percent. In 2014, the Board changed the accrual rate for service credit for non-vested members who regularly work part-time.

PERA member and employer contribution rates are established by State statute. In 2013, the Legislature amended the PERA Act, NMSA 1978 1-11-1 et seq. 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, 2014 is shown in Table 17.

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	92,732	285	151	9,129	319
<u>Actuarial Information</u>					
Accrued Liability ⁽²⁾	\$17,784,376	\$133,346	\$51,140	\$ 41,516	\$25,833
Actuarial Value of Assets ⁽³⁾	\$13,486,178	\$ 85,106	\$32,759	\$ 57,658	\$33,401
Unfunded (Overfunded) Accrued Liability	\$ 4,298,198	\$ 48,240	\$18,380	\$ (16,141)	\$ (7,568)
Present Value of Statutory Obligations	\$20,387,523	\$154,002	\$55,031	\$ 47,718	\$29,420

(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, 2014, PERA has an amortization or funding period of 40 years, based on the employer and member contribution rates in effect as of July 1, 2014. 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 75.8 percent as of June 30, 2014 and the UAAL of the PERA Fund has decreased \$321.0 million to approximately \$4.2 billion. The State's portion of the UAAL of the PERA Fund is 53.1 percent, or \$2.3 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 increase in the funded ratio and decrease in accrued actuarial liability is the investment gain from 2014 plan years and passage of SB27 during the 2013 legislative session. On a market value basis, PERA's funded ratio is approximately 81.05% as of June 30, 2014.

The PERA Board's reform proposal (Senate Bill 27) had an immediate impact of reducing the \$6.2 billion unfunded liability by \$1.55 billion, increased the funded ratio by 6.6 percent and is projected to restore the fund to approximately 100 percent funded status by 2042. Current 30-year projections indicate the PERA Fund will be 100 percent funded in 2031.

In 2014, significant pension reform measures for the Judicial and Magistrate Retirement Funds were passed by the Legislature and signed into law by the Executive. Due to severe underfunding of these Funds, in addition to significant benefit reductions for future and current judges and magistrates, cost-of-living adjustments (COLAs) for retired judges and magistrates were suspended for two consecutive years and future COLAs will only be paid every third year unless the Funds are projected to be 100 percent funded.

In 2014, PERA implemented the new GASB 67 Statement and is implementing the new GASB 68 Statement during 2015. PERA is diligently working with local governments to complete its schedule

of employer allocations as required under GASB 68 by late July 2015. Beginning with FY15, GASB 68 requires participating local governments to recognize their pro rata share of NPL on their balance sheets.

GASB Statement 25 requires PERA to report its ARC and the percentage of the ARC contributed. PERA meets 100 percent of its statutorily required employer contributions annually. The following tables list the funded ratios for each individual PERA fund for Fiscal Years 2010 through 2014.

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>
2010	78.5%	61.2%	65.8%	231.3%	82.9%
2011	70.5	56.0	59.8	173.4	89.2
2012	65.3	51.0	53.2	167.9	91.8
2013	72.9	55.7	58.38	138.16	115.2
2014	75.8	64.2	64.5	139.7	129.3

Source: Public Employees Retirement Association.

New Mexico Retiree Health Care Authority-Historic Financial Information. The RHCA was enacted for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service positions in the State and their eligible dependents. NMRHCA offers both pre Medicare and Medicare plans, as well as dental, vision and life insurance plans to eligible retirees. There were approximately 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 7.99 percent. In addition, NMRHCA has added over \$158 million to its trust fund over the past five years. NMRHCA’s trust fund balance as of May 31, 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 of enrolled participants, investment income, and amounts distributed annually from the Taxation Administration Suspense Fund (“TAA Fund”). Employer and employee contribution rates are established in statute as is the amount distributed from the TAA Fund. Respective employer/employee contribution rates were 2 percent and 1 percent of the participating employee’s salary for Fiscal Year 2015.

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. The NMRHCA continues to look for additional opportunities to further strengthen the financial standing of the NMRHCA. The NMRHCA Board of Directors has passed a five-year solvency plan to ensure the long term financial stability of the program through a series of targeted benefit reductions and increases to contribution levels from participating employees and their employers. In addition to increased retiree cost sharing through plan design changes, the solvency plan calls for proportionately higher premiums for

retirees who retired younger (decreased premium subsidies to pre-Medicare retirees), didn't work or pay into the system as long (increasing years of service required to receive maximum subsidy) and decreased subsidies for family members. Taken as a whole, the plan is projected to extend the life of the NMRHCA's trust fund into 2040.

As recently as 2007, the NMRHCA was projected to be insolvent as early as 2014. However, actions taken by the NMRHCA decreasing subsidy levels, increasing premiums and modifying plan designs, coupled with increases in employer/employee contribution rates have extended the NMRHCA's solvency 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 2010 through 2014.

NMRHCA Annual Required Contribution

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$309,919,743	34.1%
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 March 31, 2015 was approximately \$4.74 billion, an overall asset increase of approximately \$230 million year over year. Investment performance for the one year period ended March 31, 2015 was 6.17 percent, 1.15 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 Section 19-1-1 NMSA 1978, the State Land Office is charged with the custody and disposition of the land granted to the State. The Commissioner of Public Lands sells or leases these properties in accordance with the provisions of the appropriate statutes. The SIC invests the corpus and income of the LGPF. As of March 31, 2015, the market value of the LGPF was approximately \$14.77 billion, an asset increase of approximately \$1.06 billion year over year. Investment performance for the year ended March 31, 2015 was 6.21 percent, 1.12 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 was distributed in fiscal years 2013 through 2015. An additional 0.5 percent will be distributed in fiscal year 2016, which will decrease to the base 5 percent distribution in fiscal year 2017 and subsequent years.

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. Trial is currently scheduled for November 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 investing agencies. The findings and recommendations of the Review were reported to the Board at a meeting on January 13, 2010. In order to address certain recommendations of the Review, during the 2010 legislative session the Legislature, among other things, modified the composition of the SIC, clarified the authority of the SIC and the State Investment Officer, provided for the appointment of the State Investment Officer by the SIC and changed the method of appointment of public members of the SIC. 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.

Financial Processes and Procedures

State Auditing and Accounting System. The financial affairs of every agency in the State are examined and audited annually by the State Auditor. Audits are conducted by personnel from the State Auditor’s office, or by 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 the 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 cashiering system, and 114 additional systems then in place at various State agencies. Since July 2006, 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 inconsistent and suboptimal business processes. A material weakness finding related to the completion of an accurate and timely book to bank reconciliation was reported in the DFA Fiscal Year 2012 and 2013 annual financial statement; DFA has statutory responsibility for completion of the book to bank reconciliation.

Because the book to bank reconciliation had not been completed, as of June 30, 2012, the balance sheet of the General Fund Operating Reserve Fund recorded a contingent liability for potential loss of \$70 million with a corresponding loss provision. The potential loss was reported as a special item on the statement of revenues, expenditures 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 June 2012, an independent expert diagnostic report revealed that State General Fund Investment Pool (the “Pool”) balances had not been reconciled at the business unit/fund level since the inception of SHARE. The Fiscal Year 2012 Comprehensive Annual Financial Report (“CAFR”) for the State noted that the loss provision could be as high as \$100 million. The allowance for potential loss was increased to \$100M in FY2014 when an incremental loss contingency of \$30 million was recorded as a special item and applied against the General Fund Operating Reserve Fund.

Fiscal Year 2013 was the first year that the State’s CAFR was audited, the audited reported was submitted to the State Auditor in June 2014 and released by the State Auditor 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 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. DFA has implemented corrective actions to address each of these findings, some of which have been completed. The Fiscal Year 2014 CAFR has been prepared and delivered to the State Auditor for review.

DFA has taken aggressive action to address the book to bank reconciliation issue. One such action was the initiation of the Cash Management Remediation Project, the purpose of which was to design and implement the changes necessary to complete timely and accurate book to bank reconciliations. The first phase of the Remediation Project was completed in Fiscal Year 2013 and resulted in the implementation of monthly cash reconciliation of statewide cash activity on a go-forward basis beginning February 1, 2013. A project to progress an historical reconciliation of statewide cash from July 1, 2006 through January 31, 2013 concluded that it is not possible to reliably determine the dollar amount of adjustments to SHARE State General Fund Investment Pool balances at the State agency level. In light of the fact that DFA will not be able to determine the final loss provision to be booked from the results of the historical reconciliation, DFA anticipates using the State agencies' audited balances since they are the most accurate information available. The final phase of the Cash Management Remediation Project, which began in December 2014 and is expected to be completed in the spring of 2016 will provide further reconciliation process enhancements. Although additional testing remains, a process was implemented in April 2015 to reconcile actual investment pool balances to the participant claims on that pool, initial results are encouraging.

In September 2014, the DFA wrote to the former outside auditor of the State's General Fund Operating Reserve fund, alleging a material breach of certain of the auditor's contracts with the DFA, in that the auditor failed to identify and/or report that balances had not been reconciled at the agency level after the implementation of the SHARE System. The DFA requested a return of all fees paid to the auditor for compensation for audit and review work in order to avoid litigation. In October 2014, the former auditor responded that it was its belief that all of the pertinent information regarding its audit services may not have been considered, and that the former auditor was gathering information to provide what it considered a more complete perspective. To date, no litigation has been filed in this matter.

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. On December 6, 2013, a notice from the Primary Liquidating Fund (Primary Fund-In Liquidation, formerly known as the RPF) indicated that Form 1099-DIV (the "Form") relating to calendar year 2013 was expected to be distributed on or about January 31, 2014. The Form was to, among other things, report a shareholder's proportionate share of each Fund's income and expense. The State Treasurer's Office received the final distribution of Primary Fund-In Liquidation Assets for the general fund and the State Bond Proceeds Investment Pool 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 reviewed 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, Torrance and Valencia Counties; the Las Cruces MSA is comprised of Doña Ana County; the Santa Fe MSA is comprised of Santa Fe County; and the Farmington MSA is comprised of San Juan County. The fastest growing counties in the State are Sandoval, Doña Ana, Bernalillo, Santa Fe, Valencia and San Juan. The following table sets forth information on population growth in New Mexico and nationally.

TABLE A-5

**Population
New Mexico and the United States
2003-2014**

<u>Year</u>	<u>Population</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
2003	1,868,121	290,242,027	1.0%	0.9%
2004	1,890,215	292,936,109	1.2	0.9
2005	1,914,699	295,618,454	1.3	0.9
2006	1,940,631	298,431,771	1.4	1.0
2007	1,966,357	301,393,632	1.3	1.0
2008	1,984,179	304,177,401	0.9	0.9
2009	2,007,315	306,656,290	1.2	0.8
2010	2,059,179	308,745,538	2.6	0.7
2011 (est.)	2,078,407	311,721,632	0.9	1.0
2012 (est.)	2,084,594	314,112,078	0.3	0.8
2013 (est.)	2,086,895	316,497,531	0.2	0.8
2014 (est.)	2,085,572	318,857,056	(0.1)	0.7

Source: U.S. Census Bureau, Population Division. Released: December 2014.

Major industries in the State include oil and natural gas production, manufacturing, service, tourism, services, arts and crafts, agribusiness, government and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State’s economy. The following table sets forth information on employment by industry over the period of 2004 through 2013.

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TABLE A-6**Total New Mexico Full-time and Part-time Employment by North American Industry Classification System 2004-2013**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Growth 2012-2013	Growth 2004-2013
Total employment	1,025,878	1,049,639	1,079,061	1,104,526	1,107,002	1,074,126	1,059,188	1,062,869	1,067,241	1,079,067	1.1%	5.2%
Wage and salary employment	830,075	845,476	868,518	878,592	881,856	849,122	837,320	837,281	842,188	849,701	0.9%	2.4%
Proprietors employment	195,803	204,163	201,543	225,934	225,146	225,004	221,868	225,588	225,053	229,366	1.9%	17.1%
Farm proprietors employment	15,632	15,588	15,255	18,193	17,745	17,752	18,664	19,791	20,332	20,424	0.5%	30.7%
Nonfarm proprietors employment	180,171	188,575	195,288	207,741	207,401	207,252	203,204	205,797	204,721	208,942	2.1%	16.0%
Farm employment	22,618	23,262	22,829	25,804	24,406	24,710	25,211	26,399	27,461	28,310	3.1%	25.2%
Nonfarm employment	1,003,260	1,026,377	1,056,232	1,078,722	1,082,596	1,049,416	1,033,977	1,036,470	1,039,780	1,050,757	1.1%	4.7%
Private employment	785,654	807,678	841,900	868,783	869,301	833,198	816,542	822,659	827,901	839,397	1.4%	6.8%
Forestry, fishing, related activities and other ⁽¹⁾	5,171	5,229	5,135	5,172	5,311	5,307	5,215	5,237	5,156	5,219	1.2%	0.9%
Mining ⁽²⁾	19,059	21,116	23,528	24,891	28,295	24,432	27,022	28,356	34,188	36,824	7.7%	93.2%
Utilities	4,042	4,074	4,122	4,451	4,564	4,801	4,565	4,508	4,542	4,612	1.5%	14.1%
Construction ⁽³⁾	68,299	73,895	79,675	80,478	77,887	67,177	61,238	59,293	58,116	59,519	2.4%	-12.9%
Manufacturing	40,611	41,175	42,745	42,810	40,595	36,422	34,537	35,613	35,670	35,431	-0.7%	-12.8%
Durable goods manufacturing ⁽⁴⁾	27,903	28,502	29,863	29,772	28,038	24,371	23,033	23,610	23,108	22,401	-3.1%	-19.7%
Nondurable goods manufacturing ⁽⁵⁾	12,708	12,673	12,882	13,038	12,557	12,051	11,504	12,003	12,562	13,030	3.7%	2.5%
Wholesale trade	26,800	27,878	28,863	28,749	28,606	26,582	26,801	26,373	26,100	26,392	1.1%	-1.5%
Retail trade ⁽⁶⁾	113,899	115,813	116,478	118,682	117,897	113,809	110,226	111,331	111,781	113,064	1.1%	-0.7%
Transportation and warehousing ⁽⁷⁾	24,888	25,271	25,875	27,380	26,629	24,279	23,351	24,281	25,336	25,419	0.3%	2.1%
Information ⁽⁸⁾	17,151	17,289	18,424	18,805	18,942	17,457	17,114	16,469	16,477	16,035	-2.7%	-6.5%
Finance and insurance ⁽⁹⁾	31,532	31,907	32,185	33,693	34,628	35,848	34,550	35,451	35,053	35,651	1.7%	13.1%
Real estate and rental and leasing ⁽¹⁰⁾	34,836	38,266	40,436	42,998	42,557	40,380	39,916	39,833	38,407	39,024	1.6%	12.0%
Professional and technical services	65,996	66,766	74,267	81,912	82,032	80,366	78,331	77,473	76,106	75,906	-0.3%	15.0%
Management of companies and enterprises	5,347	6,349	6,428	6,073	5,906	5,587	5,406	5,504	5,456	5,553	1.8%	3.9%
Administrative and waste services ⁽¹¹⁾	54,534	55,159	58,410	60,352	60,260	55,817	54,266	54,742	53,420	54,433	1.9%	-0.2%
Educational services	14,862	15,349	15,869	15,714	15,908	16,263	16,734	16,208	16,101	16,002	-0.6%	7.7%
Health care and social assistance ⁽¹²⁾	103,494	104,958	107,797	111,692	114,683	118,041	119,378	121,489	123,288	124,570	1.0%	20.4%
Arts, entertainment and recreation ⁽¹³⁾	20,933	21,404	21,792	22,840	23,229	23,212	22,981	23,007	23,592	24,247	2.8%	15.8%
Accommodation and food services ⁽¹⁴⁾	80,463	81,317	84,409	85,075	83,953	81,660	81,122	82,309	83,203	85,309	2.5%	6.0%
Other services, except public administration ⁽¹⁵⁾	53,737	54,463	55,462	57,016	57,419	55,758	53,789	55,182	55,909	56,187	0.5%	4.6%
Government and government enterprises ⁽¹⁶⁾	217,606	218,699	214,332	209,939	213,295	216,218	217,435	213,811	211,879	211,360	-0.2%	-2.9%

[Footnotes on following page]

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

Source: Regional Economic Information System, Bureau of Economic Analysis, September 2014.

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

TABLE A-7

**Employment and Labor Force
New Mexico and the United States
2005 – 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>	
2005	918	149,320	871	141,730	5.1%	5.1%	100%
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 ⁽²⁾	936	153,889	860	139,064	8.1%	9.6%	84%
2011 ⁽²⁾	930	153,617	860	139,869	7.6%	8.9%	85%
2012 ⁽²⁾	928	154,975	862	142,469	7.1%	8.1%	88%
2013 ⁽²⁾	923	155,389	859	143,929	6.9%	7.4%	93%
2014 ⁽²⁾	918	155,922	858	146,305	6.5%	6.2%	105%
2015 ⁽²⁾⁽³⁾	926	156,571	869	147,848	6.1%	5.6%	109%

(1) Figures rounded to nearest thousand.

(2) Estimates for 2010-2014 are subject to revision. All figures were benchmarked January 2014 and revised April 2015.

(3) Estimates through May 31, 2015.

Source: U.S. Department of Commerce, Bureau of Business & Economic Research, April 2015.

TABLE A-8

**Personal Income
New Mexico and the United States
2005 – 2014**

<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>
2005	\$56,233,308	\$10,605,595,000	--	--
2006	60,090,836	11,376,405,000	6.9%	7.3%
2007	63,643,408	11,990,104,000	5.9%	5.4%
2008	67,188,091	12,429,234,000	5.6%	3.7%
2009	66,241,297	12,080,223,000	-1.4%	-2.8%
2010	68,505,892	12,417,659,000	3.4%	2.8%
2011	72,234,158	13,189,935,000	5.4%	6.2%
2012	74,601,613	13,873,161,000	3.3%	5.2%
2013	74,996,363	14,151,427,000	0.5%	2.0%
2014	78,428,001	14,708,582,165	4.6%	3.9%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data. Last Revised: March 2015.

TABLE A-9

**Per Capita Personal Income
New Mexico and the United States
2005 - 2014**

<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>
2005	\$29,102	\$35,888	81%	--	--
2006	30,625	38,127	80%	5.2%	6.2%
2007	31,980	39,804	80%	4.4%	4.4%
2008	33,416	40,873	82%	4.5%	2.7%
2009	32,522	39,379	83%	-2.7%	-3.7%
2010	33,175	40,144	83%	2.0%	1.9%
2011	34,763	42,332	82%	4.8%	5.5%
2012	35,805	44,200	81%	3.0%	4.4%
2013	35,965	44,765	80%	0.4%	1.3%
2014	37,605	46,129	82%	4.6%	3.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data. Revised: March 2015.

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TABLE A 10
2004-2014
Wages and Salaries by Industry Sector

NAICS Earnings by Place of Work ⁽¹⁾ <u>Applicable to 2004-2014</u>	New Mexico (Dollars in Thousands) ⁽²⁾		United States (Dollars in Millions) ⁽²⁾		Cumulative Annual Percent Change 2004 - 2014		Distribution of 2014 Wages & Salaries	
	2014	2004	2014	2004	N.M.	U.S.	N.M.	U.S.
	Farm Wage and Salary	\$316,816	\$187,674	\$27,681	\$18,954	68.8%	46.0%	0.9%
Non-farm Wage and Salary	36,124,338	26,821,260	7,403,229	5,398,485	34.7%	37.1%	99.1%	99.6%
Private Wage and Salary	26,611,194	18,652,137	6,199,925	4,459,362	42.7%	39.0%	73.0%	83.4%
Forestry, Fishing, related activities, and other	80,121	53,944	17,292	11,001	48.5%	57.2%	0.2%	0.2%
Mining	2,137,092	782,460	85,921	34,667	173.1%	147.8%	5.9%	1.2%
Utilities	348,248	230,949	54,343	41,011	50.8%	32.5%	1.0%	0.7%
Construction	1,913,452	1,668,675	353,330	296,641	14.7%	19.1%	5.3%	4.8%
Manufacturing	1,662,156	1,478,394	776,458	693,584	12.4%	11.9%	4.6%	10.4%
Wholesale Trade	1,156,025	912,890	419,696	307,412	26.6%	36.5%	3.2%	5.6%
Retail Trade	2,613,277	2,172,937	456,912	379,955	20.3%	20.3%	7.2%	6.1%
Transportation and Warehousing	1,022,555	757,576	240,077	176,695	35.0%	35.9%	2.8%	3.2%
Information	610,028	533,899	251,657	192,250	14.3%	30.9%	1.7%	3.4%
Finance and Insurance	1,344,752	971,217	570,385	422,630	38.5%	35.0%	3.7%	7.7%
Real Estate and Rental and Leasing	393,572	293,722	111,202	81,475	34.0%	36.5%	1.1%	1.5%
Professional, Scientific, and Technical Services	3,928,318	2,383,525	736,461	436,365	64.8%	68.8%	10.8%	9.9%
Management of Companies and Enterprises	351,295	247,970	244,994	140,824	41.7%	74.0%	1.0%	3.3%
Administrative and Waste Services	1,435,936	1,147,523	317,046	217,494	25.1%	45.8%	3.9%	4.3%
Educational Services	350,569	247,339	136,968	84,461	41.7%	62.2%	1.0%	1.8%
Health Care and Social Assistance	4,472,448	2,754,497	846,653	531,879	62.4%	59.2%	12.3%	11.4%
Arts, Entertainment, and Recreation	215,961	152,302	81,213	57,208	41.8%	42.0%	0.6%	1.1%
Accommodations and Food Services	1,515,710	1,055,468	264,221	179,164	43.6%	47.5%	4.2%	3.6%
Other Services, Except Public Administration	1,099,679	806,850	235,097	174,646	36.3%	34.6%	3.0%	3.1%
Government and Government Enterprises	9,513,144	8,169,123	1,203,304	939,123	16.5%	28.1%	26.1%	16.2%
Total	\$36,441,154	\$27,008,934	\$7,430,910	\$5,417,439				

(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 25, 2015.

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APPENDIX B

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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Timothy Keller
State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR
Elected for Better Government

Sanjay Bhakta, CPA, CGFM, CFE
Deputy State Auditor

VIA EMAIL

February 6, 2015

Treasurer Timothy Eichenberg
C/O Leo Marquez
NM State Treasurer's Office
leo.marquez@state.nm.us

Dear Treasurer Eichenberg,

The Office of the State Auditor reviewed the audit of State Treasurer's Office (STO) for Fiscal Year 2014. In connection with our review, we wanted to follow up with your Office regarding a recommendation from the Legislative Finance Committee that pertains to the statewide cash reconciliation issue. In a memorandum dated January 19, 2015, LFC staff recommended that the State Treasurer's Office create sub-accounts to the existing agency account structure for deposits and warrants that consolidate into the State General Fund Investment Pool and other funds under the purview of STO by July 1, 2015, to match bank balances with corresponding general ledger balances.

We would like to understand how your Office intends to address this recommendation. We would welcome a written response, or alternatively, your Office may contact my Deputy State Auditor, Sanjay Bhakta at Sanjay.Bhakta@osa.state.nm.us or (505) 476-3800, to schedule a meeting to discuss these issues.

Sincerely,

A handwritten signature in cursive script that reads "Timothy Keller".

Timothy Keller, State Auditor



Timothy Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR
Elected for Better Government

February 6, 2015

SAO Ref. No. 394

Timothy Eichenberg, State Treasurer
Office of the State Treasurer
2055 S. Pacheco St., Ste #100
Santa Fe, NM 87505-5135

SUBJECT: Audit Report—Office of the State Treasurer—2013-2014 Fiscal Year—Prepared by CliftonLarsonAllen, LLP

The audit report for your agency was received by the Office of the State Auditor (Office) on December 15, 2014. The State Auditor's review of the audit report required by Section 12-6-14 (B) NMSA 1978 and 2.2.2.13 NMAC has been completed. This letter is your authorization to make the final payment to the independent public accountant (IPA) who contracted to perform your agency's financial and compliance audit. In accordance with the Section 2 of the audit contract, the IPA is required to deliver the specified number of copies of the audit report to the agency.

Pursuant to Section 12-6-5 NMSA 1978, the audit report does not become public record until five days after the date of this release letter, unless your agency has already submitted a written waiver to the Office. Once the five-day period has expired or upon the Office's receipt of a written waiver, the audit report shall be:

- released by the Office to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer
- posted by the Office to our website

The independent public accountant's findings and comments are included in the audit report on pages 114-119. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments. Section 2.2.2.10(J) NMAC requires that an exit conference be held with representatives of the agency's governing authority and top management.**

A handwritten signature in cursive script that reads "Timothy Keller".

Timothy Keller
State Auditor

cc: CliftonLarsonAllen, LLP

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Santa Fe, New Mexico**

**FINANCIAL STATEMENTS
June 30, 2014**

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**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
OFFICIAL ROSTER
June 30, 2014**

Office of the State Treasurer

James B. Lewis, State Treasurer

Marilyn L. Hill, Deputy State Treasurer

State Treasurer's Investment Committee

James B. Lewis, Chairman

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

Paul Cassidy, Member

Paul Boushelle, Member

Stephanie Schardin-Clarke, State Board of Finance Member



CliftonLarsonAllen

Independent Auditors' Report

CliftonLarsonAllen LLP
500 Marquette NW, Suite 800
Albuquerque, NM 87102
505-842-8290 | fax 505-842-1568
CLAconnect.com

Honorable Susana Martinez, Governor
State Board of Finance
Honorable James B. Lewis, State Treasurer
Honorable Hector H. Balderas, State Auditor
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, 2014, 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.

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

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, 2014, 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 1, 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, 2014, 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.

As discussed in Note 22, the beginning fund balance and net position required a restatement to correct a misstatement in the June 30, 2013 financial statements. 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 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 – 11 in the Supplementary Information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

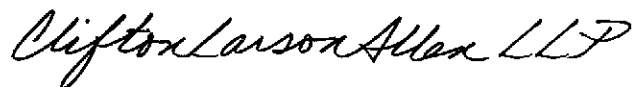
Schedules 1 – 11 in the Supplementary Information section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Albuquerque, New Mexico
December 15, 2014

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

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 \$82,004,805. In addition there was an increase to prior year's net position due to a restatement in the amount of \$61,171,181.
- The General Fund's main revenue was appropriations, which amounted to \$3,831,100 or 99.9 percent 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.

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

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.

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 27 of this report.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

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 93.

Government-wide Financial Analysis

Net Position: Table A-1 summarizes the State Treasurer's net position as of June 30, 2014. Total State Treasurer net position for fiscal year 2014 is \$220,946,800. However, most of the net position is restricted to the purpose for which it can be used.

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

YEARS ENDED JUNE 30,	<u>2014</u>	<u>2013</u>
Assets:		
Cash, cash equivalents and repurchase agreements	\$ 47,444,910	\$ 163,666,781
Due from other agencies	179,091,818	78,620,034
Other assets	4,359	2,030
Capital assets, net	<u>32,542</u>	<u>43,838</u>
 Total assets	 <u><u>\$ 226,573,629</u></u>	 <u><u>\$ 242,332,683</u></u>
 Current liabilities:		
Accounts payable and others	\$ 5,505,195	\$ 439,965
Compensated absences, amounts due in one year	<u>121,634</u>	<u>110,348</u>
 Total liabilities	 <u>5,626,829</u>	 <u>550,313</u>
 Net position:		
Investment in capital assets	32,542	43,838
Restricted	221,027,008	241,839,994
Unrestricted	<u>(112,750)</u>	<u>(101,462)</u>
 Total net position	 <u>220,946,800</u>	 <u>241,782,370</u>
 Total liabilities and net position	 <u><u>\$ 226,573,629</u></u>	 <u><u>\$ 242,332,683</u></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 \$220,946,800 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, 2014**

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, \$221,027,008, represents resources that are subject to external restrictions on their use.

Changes in Net Position: Governmental activities decreased the State Treasurer's net position in the governmental financial statements by \$82,004,805. 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,	<u>2014</u>	<u>2013</u>
Governmental Activities:		
Revenues:		
Program revenues:		
General government	\$ -	\$ -
Total program revenues	<u>-</u>	<u>-</u>
General revenues:		
State General Fund appropriations, net	3,767,652	3,573,476
State property tax levy	74,591,667	49,331,490
Severance and other taxes	569,569,009	420,048,819
Interest revenue	6,535,757	7,369,532
Miscellaneous revenue	<u>-</u>	<u>-</u>
Total general revenues	<u>654,464,085</u>	<u>480,323,317</u>
Total revenues	<u>654,464,085</u>	<u>480,323,317</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

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

YEARS ENDED JUNE 30,	<u>2014</u>	<u>2013</u>
Expenses and other financing sources (uses):		
General government	(4,946,079)	(4,725,076)
Debt service activity	(616,218,614)	(505,265,063)
Other sources:		
Bond proceeds	350,000	-
Transfers in from other state agencies	<u>(115,654,197)</u>	<u>3,613,052</u>
 Net (expenses) revenue	 <u>(736,468,890)</u>	 <u>(506,377,087)</u>
 Increase (Decrease) in net position	 (82,004,805)	 (26,053,770)
 Net position, beginning of year	 241,780,324	 265,645,207
 Restatement	 <u>61,171,281</u>	 <u>2,188,887</u>
 Net position, beginning of year, restated	 <u>302,951,605</u>	 <u>267,834,094</u>
 Net position, end of year	 <u>\$ 220,946,800</u>	 <u>\$ 241,780,324</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 \$220,946,800, which is a decrease of \$82,004,805 in comparison with the prior year. The primary reason for the decrease in fund balance is debt service payments exceeding property and severance taxes and transfers in from other state agencies.

The fund balance of the State Treasurer's general fund increased in comparison to prior fiscal year.

The fund balance of the State Treasurer's individual debt service funds decreased in comparison to the prior year due to large debt service payments offset by property and severance taxes and transfers in from other agencies as disclosed in Schedule 3 – Combining

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

Schedule of Revenues, Expenditures and Changes in Fund Balances – General Obligation Bond Debt Service Funds, and Schedule 5 – Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Severance Tax Bond Debt Service Funds.

General Fund Budgetary Highlights

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 3.3%.

Capital Assets and Debt Administration

Capital Assets. The State Treasurer's investment in capital assets for its governmental activities as of June 30, 2014 amounts to \$32,542, net of accumulated depreciation. This investment in capital assets includes equipment. The State Treasurer's capital asset additions were \$9,952.

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, 2014, the State Treasurer was responsible for administering debt service payments on total bonded debt outstanding of \$1,260,550,033, 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 increased by \$35,911,876 from the prior year due to more new bonds issued in fiscal year 2014.

Years Ended June 30,	<u>2014</u>	<u>2013</u>
General obligation bonds	\$ 349,931,690	\$ 425,361,543
Severance tax bonds	<u>910,618,343</u>	<u>799,276,614</u>
Total principal balances	<u>\$1,260,550,033</u>	<u>\$1,224,638,157</u>

Significant Highlights

During fiscal year 2014, 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 2014 cost savings yielded a \$63,448 reversion to the General Fund. Over the past five years, the State Treasurer's budget has been reduced by approximately \$510,100 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 2014 with unrealized gains of \$7,083,996 as compared to unrealized losses of \$735,293 in fiscal year 2013. Earnings increased to \$26,658,045 in 2014 from \$7,232,533 in 2013, an increase of 268.6%. 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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

the decline in interest earned. Balances of fiduciary funds managed by the State Treasurer totaled \$4,449,744,471 at June 30, 2014 an increase of 2.8% from June 30, 2013 when balances totaled \$4,325,465,679.

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. A multi-year IT appropriation for \$1.95 million to fund the full implementation was approved by the legislature in January 2013. The State Treasurer's Office requested an extension of this appropriation in October 2014.

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June 30, 2014**

During fiscal year 2014, the Cash Management Division assumed responsibility for the Daily Cash Positioning of the State. Cash positioning is the process of determining the amount of liquidity that must be left on deposit with the fiscal agent bank after all deposits are received and daily disbursements are deducted. Excess amounts are invested by the Investment Division to maximize return. The transition of this function was a natural fit for the Cash Management Division as it performs cash forecasting. The cash forecast projects significant deposits and withdrawals which is vital in the daily cash positioning process.

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

Over fiscal years 2013 and 2014, the Operations Division accomplished several initiatives. The entire Human Resources (HR) office was reorganized. A complete audit of HR records was initiated, assuring that all pertinent records were in place and up to date. Records retention and disposition schedules were updated to state archives standards and documents were managed according to these retention and disposition guidelines. HR records and personnel files are now secured and properly maintained.

Both management and employees were provided confidential guidance on HR issues in strict accordance with federal regulations, state laws, State Personnel Board rules, the State Treasurer policies and the Communication Workers of America (CWA) agreement to address HR issues.

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.

Fiscal year 2013 marked the beginning of a number of implementations and future planning opportunities. The disaster recovery hot-site was reconfigured to allow for complete server virtualization as well as remote access and remote desktop services. This change will allow users (in the event of an emergency) to now work from any location that has a computer available, including home or other state office location. The Emergency Evacuation Plan, Disaster Recovery Plan and Business Continuity Plan were implemented in fiscal year 2014.

Planning and forecasting was also an important focus in the last part of fiscal year 2012, 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.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
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June 30, 2014**

In fiscal year 2014, the State Treasurer's Office hosted ratings analysts from Standard & Poor's rating agency to review the status and management of the Local Government Investment Pool (LGIP), which is a pooled investment managed on behalf of local governments, school districts, higher education institutions, special districts, quasi-governmental agencies and Indian tribes and pueblos. The AAAM rating was reaffirmed based on a strong analysis of credit quality, market price exposure and management.

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

The Investment Division of the State Treasurer's Office hosted the 5th Annual LGIP Stakeholder Meeting in August 2013, 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 Guyna Johnson, 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 fiscal year 2014, the State Treasurer's Office reviewed, made necessary revisions to and received State Board of Finance approval of the State Treasurer's Approved Broker/Dealer list, as well as implemented new benchmarks for the State Treasurer's Office investment portfolios as of July 1, 2014. 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.

Two major advancements in the Investment Division were implemented in fiscal year 2013. These include the enhancement of the Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) compliance, reconciliations, reports and procedures. Investment Accounting made marked improvements by ensuring reconciliations are continuous between the fiscal agent bank Wells Fargo, JPMorgan Chase bank as custodial bank and QED, the State Treasurer's Office investment accounting system. Secondly, the Investment Division recommended a new account structure to DFA for input of investment transactions into SHARE which went into effect in fiscal year 2014.

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.

In fiscal year 2013, the State Treasurer's Office and the Investment Division conducted a thorough review of state investment statutes and created legislation through Senate Bill 24 to clarify statutory language and investment authorizations. The State Treasurer's Investment Policy review and re-write was completed in 2014.

The Investment Division outreach on behalf of the Local Government Investment Pool was continued in fiscal year 2014 through the following organizations: New Mexico Association of

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

Counties, New Mexico Municipal League and the Local Government Division of the Department of Finance and Administration (DFA).

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 corporate credit process has been proposed; however, infrastructure is required to implement this process.

The State Treasurer places a high priority on active participation on all of the boards and commissions on which he serves. He has designated members of the executive staff to serve on his behalf on some boards and commissions if state statutes allow a designee. In fiscal year 2014, 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 State Treasurer's Office completed work on its disaster recovery plan and business continuity plan. Full implementation occurred in 2014.
- 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:

James B. Lewis, State Treasurer
Office of the State Treasurer
P.O. Box 5135
Santa Fe, New Mexico 87505

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF NET POSITION
June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 233,473
Repurchase agreements (held in State General Fund Investment Pool)	47,211,437
Due from other agencies	179,091,818
Other assets	4,359
Capital assets, net of accumulated depreciation:	
Equipment	<u>32,542</u>
Total assets	<u>226,573,629</u>
LIABILITIES	
Accounts payable	398,951
Accrued payroll	52,528
Accrued payroll taxes	13,522
Due to State General Fund	59,828
Due to Other State Agencies	4,980,366
Compensated absences	<u>121,634</u>
Total liabilities	<u>5,626,829</u>
NET POSITION	
Investment in capital assets	32,542
Restricted for:	
Debt service	221,027,008
Unrestricted	<u>(112,750)</u>
Total net position	<u>220,946,800</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 226,573,629</u></u>

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Functions/Programs	Expenses	Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position Primary Government
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES			
General government	\$ 4,949,336	\$ 3,257	\$ (4,946,079)
Interest on debt service activity	<u>64,574,847</u>	<u>-</u>	<u>(64,574,847)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 69,524,183</u>	<u>\$ 3,257</u>	<u>(69,520,926)</u>
GENERAL REVENUES:			
State property tax levy			74,591,667
BOND ACTIVITY:			
Bond proceeds			350,000
Bond principal payments			(551,643,767)
TRANSFER FROM (TO) STATE AGENCY:			
State general fund appropriations			3,831,100
Reversions to State General Fund FY14			(63,448)
Other Interfund			-
Other state agencies			(115,654,197)
Interest			6,535,757
Severance taxes			<u>569,569,009</u>
		Total general revenues and transfers	<u>(12,483,879)</u>
CHANGE IN NET POSITION			<u>(82,004,805)</u>
NET POSITION, BEGINNING			241,780,324
RESTATEMENT			<u>61,171,281</u>
NET POSITION, BEGINNING			<u>302,951,605</u>
NET POSITION, ENDING			<u>\$ 220,946,800</u>

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014**

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>General Obligation Bond Fund</u>	<u>Severance Tax Bond Fund</u>	
ASSETS				
Investment in State General Fund Investment Pool	\$ 233,473	\$ -	\$ -	\$ 233,473
Repurchase agreements (held in State General Fund Investment Pool)	-	27,907,794	19,303,643	47,211,437
Other assets	4,359	-	-	4,359
Due from other Agencies	-	15,522,114	163,569,704	179,091,818
Total assets	<u>\$ 237,832</u>	<u>\$ 43,429,908</u>	<u>\$ 182,873,347</u>	<u>\$ 226,541,087</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 103,070	\$ -	\$ 295,881	\$ 398,951
Due to Severance Tax Permanent Fund	-	-	4,980,366	4,980,366
Due to State General Fund	59,828	-	-	59,828
Accrued payroll	52,528	-	-	52,528
Accrued payroll taxes	13,522	-	-	13,522
Total liabilities	<u>228,948</u>	<u>-</u>	<u>5,276,247</u>	<u>5,505,195</u>
FUND BALANCES:				
Restricted for:				
Debt service	-	43,429,908	177,597,100	221,027,008
Unassigned	8,884	-	-	8,884
Total fund balances	<u>8,884</u>	<u>43,429,908</u>	<u>177,597,100</u>	<u>221,035,892</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 237,832</u>	<u>\$ 43,429,908</u>	<u>\$ 182,873,347</u>	<u>\$ 226,541,087</u>

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

June 30, 2014

Total Fund Balance - Governmental Funds	
(Balance Sheet - Governmental Funds)	\$ 221,035,892

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	<u>(231,189)</u>

Total capital assets, net	32,542
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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.

	<u>(121,634)</u>
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Net position of governmental activities (Statement of Net Position)	<u>\$ 220,946,800</u>
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The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2014**

	Major Funds			Total Governmental Funds
	General Fund	General Obligation Bond Fund	Severance Tax Bond Fund	
REVENUES				
Interest income - debt service	\$ -	\$ 690,136	\$ 5,845,621	\$ 6,535,758
Federal Funds	3,257	-	-	3,257
Total revenues	<u>3,257</u>	<u>690,136</u>	<u>5,845,621</u>	<u>6,539,014</u>
EXPENDITURES				
Current:				
Personnel services and employee benefits	2,951,639	-	-	2,951,639
Operating costs:				
Contractual services	219,107	-	-	219,107
Other administrative expenditures	588,167	-	-	588,167
Debt service:				
Principal and interest on long-term debt	-	75,429,853	280,063,923	355,493,776
Principal and interest on short-term debt	-	-	260,724,838	260,724,838
Other charges	-	6,182	1,151,707	1,157,889
Capital outlay	9,952	-	-	9,952
Total expenditures	<u>3,768,865</u>	<u>75,436,035</u>	<u>541,940,468</u>	<u>621,145,368</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,765,608)	(74,745,899)	(536,094,847)	(614,606,354)
OTHER FINANCING SOURCES (USES):				
State general fund appropriations	3,684,500	-	-	3,684,500
Special appropriation	146,600	-	-	146,600
Reversions to State General Fund FY13	(63,448)	-	-	(63,448)
Severance taxes	-	-	569,569,009	569,569,009
State property tax levy	-	74,591,667	-	74,591,667
Bond proceeds	-	350,000	-	350,000
Transfer (to) from other state agency	-	1,263,775	(116,917,972)	(115,654,197)
Total other financing sources (uses)	<u>3,767,652</u>	<u>76,205,442</u>	<u>452,651,037</u>	<u>532,624,131</u>
NET CHANGE IN FUND BALANCES	2,044	1,459,543	(83,443,810)	(81,982,223)
FUND BALANCES, BEGINNING OF YEAR	6,840	18,494,050	223,345,944	241,846,834
RESTATEMENT	-	23,476,315	37,694,966	61,171,281
FUND BALANCES, BEGINNING OF YEAR, restated	<u>6,840</u>	<u>41,970,365</u>	<u>261,040,910</u>	<u>303,018,115</u>
FUND BALANCES, END OF YEAR	<u>\$ 8,884</u>	<u>\$ 43,429,908</u>	<u>\$ 177,597,100</u>	<u>\$ 221,035,892</u>

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014**

Net Change in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ (81,982,223)
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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 \$21,248 exceeded capital outlay expense of \$9,952 in the current period:	(11,296)
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Some expenses reported in the statement of activities do not require the use of current financial resources, and these are not reported as expenditures in governmental funds:

Increase in compensated absences	<u>(11,286)</u>
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Change in net position of governmental activities	<u>\$ (82,004,805)</u>
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The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENT FUNDS -
BUDGET AND ACTUAL (Budgetary Basis)
Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State General Fund appropriation	\$ 3,684,500	\$ 3,684,500	\$ 3,684,500	\$ -
Federal grants	4,000	4,000	3,257	(743)
Other	146,600	146,600	146,600	-
Total revenues	3,835,100	3,835,100	3,834,357	(743)
EXPENDITURES				
Current:				
Personnel services and benefits	3,129,200	2,984,200	2,951,639	32,561
Contractual services	180,000	225,000	219,107	5,893
Operating costs	506,500	606,500	598,119	8,381
Total expenditures	3,815,700	3,815,700	3,768,865	46,835
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>65,492</u>	<u>\$ 46,092</u>
RECONCILIATION TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE				
Unbudgeted reversions to State General Fund			<u>(63,448)</u>	
NET CHANGE IN FUND BALANCES (GAAP BASIS)			<u>\$ 2,044</u>	

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2014

	<u>Investment Trust Fund</u>	<u>Agency Fund - Gaming Suspense Fund</u>
ASSETS		
Cash and investments:		
Fiscal Agent Bank Account	\$ 177,579,035	\$ -
Cash in banks	379,916,113	-
Certificates of Deposit	89,700,000	-
U.S. Government securities	2,858,505,373	-
Municipal Bonds	89,788,382	-
Repurchase agreements	<u>844,000,000</u>	<u>-</u>
Total cash and investments	4,439,488,904	-
Securities receivable	182,339	-
Other receivables		-
Accrued interest receivable	<u>10,073,228</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 4,449,744,471</u>	<u>\$ -</u>
LIABILITIES		
Due to Broker	\$ 45,148,139	\$ -
Other liabilities	<u>28,307</u>	<u>-</u>
TOTAL LIABILITIES	<u>45,176,446</u>	<u>\$ -</u>
NET POSITION - HELD IN TRUST	<u>4,404,568,025</u>	
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,449,744,471</u>	

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2014

	Investment Trust Fund
ADDITIONS:	
Investment Income	\$ 26,658,045
Deposits	28,199,279,213
DEDUCTIONS:	
Management fees	(295,680)
Withdrawals	<u>(27,991,564,162)</u>
Subtotal of Change in Net Position	234,077,416
NET POSITION, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2013	<u>4,170,490,609</u>
NET POSITION, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2014	<u><u>\$ 4,404,568,025</u></u>

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014

NOTE 1 – DEFINITION OF REPORTING ENTITY (CONTINUED)

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – DEFINITION OF REPORTING ENTITY (CONTINUED)

The State Treasurer is responsible for making the State of New Mexico's debt service and interest payments on general obligation and severance tax bonds and maintaining the related accounting records. The proceeds from the issuance of these general obligation and severance tax bonds and the related debt are maintained in agency funds at the New Mexico Department of Finance and Administration (DFA) and are not part of this audit. Those funds are included in the DFA's financial statements. The debt service activity, including the ending balances for the general obligation and severance tax bonds and the amortization of bond premiums, discounts and issuance costs, is included in the Supplementary Information section of this report and the statewide Comprehensive Annual Financial Report (CAFR).

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

The State Treasurer's Office operates several investment pools which collectively represent the cash and investments held at the State Treasurer's Office. These pools represent amounts being held and invested for State agencies and for local governments. They have been identified as: 1) State funds investment pool, 2) short-term investment pool, 3) consolidated investment pool and 4) The Reserve Contingency Fund.

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 Board. The details of the debt are reported in the supplementary and additional information sections in this report.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity

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

The State Treasurer is an office of the State of New Mexico. The financial statements and notes to the financial statements include all funds for which the State Treasurer is responsible. These financial statements only present activity related to the State Treasurer's Office. The State Treasurer receives funding from State and federal sources and must comply with the requirements of these funding source entities. However, the State Treasurer is not included in any other governmental "reporting entity" as defined by GASB pronouncements, since the State Treasurer is elected by the public and has decision making authority, the power to designate management, and the ability to significantly influence operations and have primary financial accountability for fiscal matters. In addition, there are no component units as defined in GASB Statement 14 (amended by 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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).

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Information Technology Equipment, including software, is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5) and *AICPA Statement of Position 98-1*.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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.

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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$221,027,008.

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, 2014.

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, 2014.

Accounting Standard Pronouncements

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), was implemented in the current year, changes how the Office reports deferred inflows and outflows of resources previously recognized as assets and liabilities. GASB 65 will improve financial reporting by adding clarification to certain elements that do not represent assets or liabilities and to ensure consistency in financial reporting. The implementation of this standard does not have a significant impact on reporting for the Office.

GASB Statement No. 66, *Technical Corrections – 2012* (GASB 66), resolves conflicting accounting and financial reporting guidance from the issuance of GASB 54 and GASB 62. The Office’s reporting was not impacted by GASB 66.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 – STATE GENERAL FUND INVESTMENT POOL

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a “business unit by fund” level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled “Current State Diagnostic of Cash Control,” also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State’s SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating any of the historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences will be reported in the State General Fund.

The Department has established daily and monthly procedures that mitigate the risk of misstatement of the Department’s balances within the Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the State Treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014, the State Treasurer had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool	\$ 233,473
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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 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).

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

3. The DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the category level of the State Treasurer as a whole and changes are approved by the DFA.
7. Formal budgetary integration is employed as a management control device during the year for the General Fund only. The debt service funds (General Obligation Bond Funds and Severance Tax Bonding Funds) are non-budgeted funds.
8. The General Appropriations Act of 2004 established the modified accrual basis of accounting as the budgetary basis of accounting for the State of New Mexico beginning July 1, 2004. Accordingly, future budgets will be prepared using the modified accrual basis of accounting.
9. The State Treasurer's budget for the fiscal year ending June 30, 2014 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, 2014

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, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2014, collateral pledged to public money deposits was as follows:

	Fiscal Agent Account	Certificates of Deposit
Cash in bank (bank balance)	\$ 51,138,278 *	\$ 59,950,000
Less FDIC insurance coverage	-	1,873,023
Total unsecured public funds	\$ 51,138,278	\$ 58,076,977
Collateral requirement (50%, 75% or 102%) of uninsured public funds	\$ 25,569,139	\$ 31,825,989
Collateral pledged:		
US Government securities	80,490,971	35,384,724
Excess (under) collateralized	\$ 54,921,832	\$ 3,558,735

* 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, 2014:

Broker Name	Number of Transactions
ANTHONY MANZO	2
BANC OF AMERICA SECURITIES LLC	5
BANK OF AMERICA SECS LLC	6
BANK OF NEW YORK (HGSI)	13
BANK OF NEW YORK (NSIMBS)	13
BANK OF NEW YORK	1
BANK OF NEW YORK(BONY)/GOLDMAN	5
BANK OF NEW YORK(TMSEC)	12
BANK OF NEW YORK/SOUTH STREET SECS	2,622
BANK OF NEW YORK/TORONTO DOMINION	7
BANK OF NY/MIZUHO SECS USA TREAS FIN	4
BARCLAYS CAP INC/BARCLAYS CAP INC	14
BARCLAYS CAPITAL NY	15

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Broker Name	Number of Transactions
BKOFNYC (CANTORPRIME)	1
BNP PARIBAS SEC CORP/BONDS	2
BNP PARIBAS SECURITIES CORP	2
BONY/VINNING SPARKS IBG LP	1
CANTOR FITZGERALD & CO /CASTLEOAK	4
CANTOR FITZGERALD & CO. / CANTOR	1
CANTOR FITZGERALD & CO/CLEARING	2
CITIGROUP GLOBAL MARKETS INC/SALOMON	2
CITIGROUP GLOBAL MARKETS INC, NY	10
CREDIT SUISSE SECURITIES (USA) LLC	2
CRT CAPITAL GROUP LLC	1
DAIWA CAPITAL MARKETS AMERICA INC.	3
DAIWA SECURITIES AMERICA INC.	7
DEAN WITTER REYNOLDS INC	4
DEUTSCHE BANC ALEX BROWN INC.	4
DEUTSCHE BANK SECS INC	6
FIRST SOUTHWEST CO	17
FIRST SOUTHWEST CO (FSWC)	2
FIRST TENN BK BD DIV	1
FTB/FIRST TENNESSEE CAPITAL MKTS	4
GEORGE K BAUM	1
GEORGE K. BAUN	6
GOLDMAN SACHS NEW YORK	10
GREENWICH CAP MKTS USA	9
HARRIS NESBITT CORP-BONDS	1
JEFFERIES & COMPANY, INC.	6
JEFFERIES & COMPANY, INC.	6
JP MORGAN	1
JPMORGAN CHASE BANK/HSBCSI	2
JPMORGAN CHASE BANK/HSBCSI	7
JPMORGAN CHASE BK/RBS SECURITIES INC	2
MCDONALD & CO	1
MEMO	94
MERRILL LYNCH, P F & S NY	2
MITSUBISHI UFJ SECURITIES (USA), INC.	3,371
MORGAN STANLEY & CO. INCORPORATED	16
MORGAN STANLEY AND CO INC DTC00050	15
MORGAN STANLEY DW INC.	1
NATIONAL FINCL SVCS CORP	1
NATIONAL FINL SVCS CORP	1

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Broker Name	Number of Transactions
NESBITT BURNS NY DTC	7
NOMURA SECS/FIXED INCOME	1
NOMURA SECURITIES/FIXED INCOME	524
PERSHING LLC	4
PERSHING LLC	4
RAYMOND JAMES AND ASSOC, ST P'SBURG	3
ROBERT W BAIRD & CO	2
ROBERT W BAIRD CO INC	15
SG AMERICAS SECURITIES, LLC (SGAS)	1
SG COWEN & CO NEW YORK	6
SOUTHWEST SECURITIES INC	3
SOUTHWEST SECURITIES INC	31
STIFEL NICOLAUS & CO INC	2
STIFEL NICOLAYS & CO NEW YORK	4
TD WATERHOUSE INV SVCS	1
THE BANK OF NEWYORK/MIZUHO SECURITI	5
TORONTO DOMINION BANK NEW YORK	13
TRADITIONAL BOND BROKERS	1
UBS AG STAMFORD,CT	3
UBS SECURITIES LLC (WARBURG)	2
WEDBUSH MORGAN SECURITIES INC	1
WELLS FARGO SECURITIES, LLC	13
WELLS FARGO SECURITIES, LLC	15
WILLIAMS CAPITAL GROUP LP (THE)	<u>1</u>
Total	<u>7,009</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Balances

The fair value of investments administered by the State Treasurer at June 30, 2014 follows:

	Cost	Carrying Amount Fair Value
Fiscal Agent Bank Account	\$ 177,579,035	\$ 177,579,035
Certificates of Deposit	89,700,000	89,700,000
Cash in Bank	379,916,113	379,916,113
U.S. Government Securities	2,851,498,083	2,858,505,373
Investment in LGIP	33,329,208	33,329,208
Municipal Bonds	89,713,700	89,788,382
Repurchase Agreements	844,000,000	844,000,000
	4,465,736,139	4,472,818,112
Less interfund investments	(33,329,208)	(33,329,208)
Total	\$ 4,432,406,931	\$ 4,439,488,904

The fair value includes repurchase agreements of \$47,211,437 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 \$233,473 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 and in accordance with the Investment Policy of the Office of the State Treasurer.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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.

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, 2014, 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, 2014, the WAM(R) of the LGIP was 48.6 days, and the WAM(F) was 116.2 days. The fund was rated AAAM by Standard & Poor's as of June 30, 2014.

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;

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
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NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

2. Maintenance of Liquidity – the second level of priority must be accorded to maintaining sufficient liquidity to satisfy the reasonably anticipated, continuing operational requirements of State Government; and
3. Maximum Return – the third priority must be accorded to maximizing investment return, through budgetary and economic cycles, consistent with the higher priority accorded to the security and liquidity of principal.

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

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

The scope of investment authority of the State Treasurer is defined by the applicable investment statutes and constitutional provisions, principally Sections 6-10-10, 6-10-25, 6-10-26, 6-10-37, 6-10-44 and 6-14-10.1, NMSA 1978, as well as Article VIII, Section 4 of the New Mexico Constitution, specifying particular types of investments that may be made by the State Treasurer, which establish certain prerequisites, limitations and other requirements relating to those investments. Moreover, the State Treasurer, in his discretion, may further limit or restrict those investments.

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

Investments Permitted by Policy

1. U.S. Government Obligations – Securities backed by the full faith and credit of the U.S. government including direct obligations of the U.S. Treasury and obligations of U.S. Government agencies and instrumentalities which are guaranteed by the U.S. Treasury. Investments shall be limited to a maximum maturity of five (5) years at time of purchase, except securities for any advance refunding escrow which may be invested in securities with a maturity of more than five (5) years. These securities may be either fixed rate or variable rate.
2. U.S. Government Agency Obligations – Securities issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises, but which are not backed by the full faith and credit of the U.S. Government. These securities include mortgage-backed certificates, collateralized mortgaged obligations, and debentures issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
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NOTE 6 - DEPOSITS AND INVESTMENTS (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.
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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 State Securities and Exchange Commission; (ii) complies with the diversification, quality and maturity requirements of Rule 2a-7, or any successor rule, of the United States Securities and Exchange Commission applicable to money market mutual funds; (iii) assesses no fees pursuant to Rule 12b-1, or any successor rule, of the United States Securities and Exchange Commission, no sales load on the purchase of shares and no contingent deferred sales charge or other similar charges, however designated, provided that the State shall not, at any time, own more than five percent (5%) of a money market mutual fund's assets; and (iv) is rated AAA or equivalent by a nationally recognized rating agency. In addition, the State Treasurer may act as the investing authority for those agencies which have independent statutory authority to invest. The State Treasurer shall act in a manner consistent with each agency's guidelines and directives.
12. Local Government Investment Pool: General fund dollars may be invested in the Local Government Investment Pool (LGIP), up to five percent (5%) of the LGIP.

Unauthorized Investments/Investment Actions

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

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

- 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 \$583,893,588 in balances are collateralized in compliance with NMAC 2.60.4. Although in compliance with NMAC 2.60.4 as of June 30, 2014, there was \$71,961,455 of the State Treasurer's bank balances of \$583,893,588 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, 2014 for the general fund investment pool are as follows:

Securities by Quality Rating	Fair Value	Percentage of Portfolio
AAA:		
Municipal Bonds	\$ 4,943,119	0.19%
AAAm:		
Investment in LGIP	30,001,301	1.17%

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NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Securities by Quality Rating	Fair Value	Percentage of Portfolio
AA+:		
U.S. Treasuries	408,235,238	15.87%
U.S. Government Agency	958,003,712	37.25%
Municipal Bonds	6,463,697	0.25%
Aa1:		
Municipal Bonds	6,412,892	0.25%
Aa2:		
Municipal Bonds	961,426	0.04%
Aa3:		
Municipal Bonds	1,152,333	0.04%
AA:		
Municipal Bonds	9,501,170	0.37%
AA-:		
Municipal Bonds	1,327,403	0.05%
A+:		
Municipal Bonds	2,474,721	0.10%
A:		
Municipal Bonds	11,270,476	0.44%
A1:		
Municipal Bonds	210,580	0.01%
Not rated and other:		
Municipals	7,041,066	0.27%
U.S. Government Agency	49,251,620	1.91%
Overnight Repurchase Pool	724,343,190	28.16%
Fiscal Agent Account	177,579,035	6.90%
Certificates of Deposit	68,500,000	2.66%
Cash Miscellaneous	104,244,852	4.05%
Grand Total	\$ 2,571,917,829	100.00%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2014 for the local government investment pool are as follows:

Securities by Quality Rating	Fair Value	of Portfolio
AA+:		
U.S. Treasuries	\$ 13,111,030	2.31%
U.S. Government Agency	209,263,356	36.90%
A-1+:		
Cash Miscellaneous	8,999,838	1.59%
Not rated and other:		
U.S. Government Agency	80,725,225	14.24%
Cash	254,988,968	44.96%
Grand Total	\$ 567,088,417	100.00%

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2014 for the Bond Proceeds Investment Pool #2 are as follows:

Securities by Quality Rating	Fair Value	of Portfolio
AAA:		
Municipal Bonds	\$ 1,070,650	0.14%
AAAm:		
Investment in LGIP	1,308,818	0.17%
AA+:		
U.S. Treasuries	361,800,042	46.23%
U.S. Government Agency	257,082,608	32.85%
Municipal Bonds	1,300,872	0.17%
Aa1:		
Municipal Bonds	10,325,631	1.32%

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NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>of Portfolio</u>
Aaa:		
Municipal Bonds	526,725	0.07%
A+:		
Municipal Bonds	411,180	0.05%
A1:		
Municipal Bonds	1,368,900	0.17%
A-1+:		
U.S. Government Agency	1,296,968	0.17%
Not rated and other:		
U.S. Government Agency	48,480,070	6.19%
Cash Miscellaneous	11,680,975	1.49%
Overnight Repurchase Pool	67,799,861	8.66%
Certificates of Deposit	18,200,000	2.33%
Grand Total	\$ 782,653,301	100.00%

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2014 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:		
Municipal Bonds	12,180,993	2.21%
AAAm:		
Investment in LGIP	2,019,089	0.37%

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NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Securities by Quality Rating	Fair Value	Percentage of Portfolio
AA+:		
U.S. Government Agency	119,445,875	21.67%
U.S. Treasuries	321,482,404	58.33%
Municipal Bonds	1,264,898	0.23%
Aa1:		
Municipal Bonds	1,234,761	0.22%
AA:		
Municipal Bonds	7,065,000	1.28%
AA-:		
Municipal Bonds	1,279,890	0.23%
Not rated and other:		
U.S. Government Agency	30,327,227	5.50%
Certificates of Deposit	3,000,000	0.54%
Overnight Repurchase Pool	51,856,949	9.41%
Miscellaneous Cash	1,479	0.00%
Grand Total	\$ 551,158,565	100.00%

Concentration of Credit Risk

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

1. Investment maturities will be staggered to avoid undue concentration of assets in a specific maturity sector and to reflect cash flow requirements.
2. Investment in callable instruments is permitted for the State General Fund, but the amount invested in callable instruments should not exceed twenty-five percent (25%) of the total amount invested of each portfolio. Investment in callable investments may be allowed in the local government investment pool, bond proceeds, bond debt service funds and such pension and permanent fund monies for which the State Treasurer is the investing authority. Investment in callable investments is prohibited for tax and revenue anticipation note proceeds (and any other liquidity vehicle).

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
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NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

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NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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	\$ 408,235,238	15.87%
U.S. Government Agency Obligations:		
FFCB	101,590,336	3.95%
FHLB	140,225,511	5.45%
FHLMC	343,434,355	13.35%
FNMA	422,005,130	16.41%
Municipal Bonds:		
Albuquerque Bernalillo Cnty Wtr Util Auth N Mex Jt	708,166	0.03%
Albuquerque N Mex Arpt Rev Rfdg-Sub Lien-Ser E	535,940	0.02%
Albuquerque N Mex Gross Rcpts Lodgers Tax Rev	1,572,420	0.06%
Albuquerque N Mex Gross Rcpts Lodgers Tax Rev Rfdg	1,289,820	0.05%
Albuquerque N Mex Mun Sch Dist No 012 Ed	135,000	0.01%
Albuquerque N Mex Mun Sch Dist No 012 Sch Bldg-Ser	117,044	0.00%
Artesia N Mex Spl Hosp Dist 30/Oct/2013	210,406	0.01%
Atlanta Ga Arpt Passenger Fac Charge Rev	3,566,360	0.14%
Atlanta Ga Urban Residential Fin Auth Single	509,480	0.02%
Aztec N Mex Mun Sch Dist No 002 14/Oct/2008	1,312,803	0.05%
Belen N Mex Cons Sch Dist No 2 Formerly Belen N	1,098,692	0.04%
Bernalillo Cnty N Mex Gross Rcpts Tax Rev Rfdg	2,178,045	0.08%
Bernalillo N Mex Mun Sch Dist No 1 Rfdg-Sch	509,480	0.02%
Bernalillo N Mex Mun Sch Dist No 1 Rfdg-Ser B	516,370	0.02%
Choctaw Cnty Miss Hosp Rev Taxable-Choctaw County	160,551	0.01%
Corrales N Mex Hold Harmless Gross Rcpts Tax Rev	384,941	0.01%
Dona Ana Cnty N Mex 26/Nov/2013 01/Sep/2015 2%	287,780	0.01%
Farmington Municipal School District No 5/Nm Bond	131,924	0.01%
Farmington N Mex Mun Sch Dist No 005 Rfdg-Ser B	138,181	0.01%
Farmington N Mex Mun Sch Dist No 005 Sch Bldg-Ser	239,829	0.01%
Four Dam Pool Pwr Agy Alaska Elec Rev Ser A	1,885,587	0.07%
Gallup N Mex Pollution Ctl Rev Rfdg-Tr-State	1,203,353	0.05%
Gaylord Mich Hosp Fin Auth Ltd Oblig Rev	1,385,000	0.05%
Goat Hill Pptys Wash Lease Rev Govt Office Bldg	9,088,840	0.35%
Grants / Cibola Cnty N Mex Sch Dist No 1	386,670	0.02%
Indiana Bd Bk Rev For Issues Dtd Prior To	255,033	0.01%
Knox Cnty Ky Rfdg-Knox Cnty Hosp Pj 01/Dec/2006	255,290	0.01%
Knox Cnty Ky Rfdg-Knox Cnty Hosp Pj 01/Dec/2036	132,604	0.01%

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NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Securities	Fair Value	Percentage of Portfolio
Las Cruces N Mex Gross Rcpts Tax Rev Impt-Str Impt	\$ 819,920	0.03%
Las Vegas N Mex Gross Rcpts Tax Rev Rfdg & Impt	193,998	0.01%
Los Alamos Cnty N Mex Inc Gross Rcpts Tax Impt Rev	377,512	0.01%
Los Lunas N Mex Gross Rcpt Tax Rev Rfdg	1,256,875	0.05%
Louisiana St Rfdg-Match-Ser B 15/Jul/2017 05.000	174,797	0.01%
Lovington N Mex Mun Sch Dist No 001 18/Mar/2014	349,344	0.01%
Midpeninsula Regl Open Space Dist Calif Fing Auth	738,230	0.03%
New Mexico Edl Assistance Fndtn Rfdg-Ed Ln-Ser A-1	547,385	0.02%
New Mexico Fin Auth Rev Sub Lien Pub Proj	554,881	0.02%
New Mexico Fin Auth Rev Taxable-Sub Lien Pub Proj	789,210	0.03%
New Mexico Fin Auth Rev Taxable-Sub Lien Pub Proj	539,005	0.02%
New Mexico Fin Auth St Transn Rev Rfdg-Su Lien-Ser	341,578	0.01%
New Mexico Fin Auth St Transn Rev Rfdg-Sub	200,480	0.01%
New Mexico Fin Auth St Transn Rev Sr Lien-Ser A	100,462	0.00%
New Mexico Military Inst At Roswell Sys Rev	615,702	0.02%
New Mexico St Severance Tax Ser A 01/Jul/2016	320,586	0.01%
New Mexico St Univ Revs Taxable-Rfdg & Impt-Ser C	500,868	0.02%
Pasco Cnty Fla Sch Brd Ctfs Partn Ser A	196,583	0.01%
Puerto Rico Comwlth Hwy & Transn Auth Transn Rev	1,121,387	0.04%
Puerto Rico Comwlth Pub Impt-Ser A 01/Jul/2034	336,637	0.01%
Rio Rancho N Mex Event Ctr Rev Sub Lien Gross	1,600,000	0.06%
Ruidoso Municipal School District No 3 Bond	1,100,000	0.04%
Ruidoso N Mex Mun Sch Dist No 3 Rfdg 20/May/2014	1,645,000	0.06%
Ruidoso N Mex Waste Water Rev Rfdg 12/Jul/2013	659,632	0.03%
Sandoval Cnty N Mex Incentive Payment Rev	250,350	0.01%
Sandoval Cnty N Mex Rfdg 13/Dec/2013 01/Aug/2015	229,266	0.01%
Sandoval Cnty N Mex Rfdg 13/Dec/2013 01/Aug/2016	204,622	0.01%
Santa Fe N Mex Gross Rcpts Tax Rev Rfdg-Sub	1,610,467	0.06%
Santa Fe N Mex Gross Rcpts Tax/Wastewater Sys Impt	203,464	0.01%
Southern Sandoval Cnty N Mex Arroyo Flood Ctl Auth	231,656	0.01%
Taos Municipal School District No 1 Callable Bond	107,917	0.00%
Taos N Mex Sch Dist For Issues Dated Prior To	207,890	0.01%
Truth Or Consequences N Mex Mun Sch Dist No 006	307,195	0.01%
University Mass Bldg Auth Facs Rev	349,569	0.01%
University N Mex Univ Revs Rfdg-Sub Lien Sys	152,631	0.01%
Volusia Cnty Fla Sch Brd Ctfs Partn Lease Rev	128,881	0.01%
Westmoreland Cnty Pa Mun Auth Mun Svc Rev Ser K	381,109	0.01%
Will Cnty Ill Sch Dist No 122 Prerefunded-2013-Ser	666,803	0.03%
New Mexico Fin Auth Rev Amt-Sr Lien-Pub Proj	788,993	0.03%
New Mexico St Severance Tax Ser A	299,049	0.01%
New Mexico St Univ Revs Taxable-Rfdg & Impt-Ser C	363,340	0.01%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Securites	Fair Value	Percentage of Portfolio
Overnight Repurchase Pool	\$ 724,343,190	28.16%
Fiscal Agent Account	177,579,035	6.90%
Certificates of Deposit	68,500,000	2.66%
Cash Miscellaneous	104,244,852	4.05%
Local Government Investment Pool*	30,001,301	1.17%
Grand Total	\$ 2,571,917,829	100.00%

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. Treasury Obligations:		
U.S. Treasuries	\$ 13,111,030	2.31%
U.S. Government Agency Obligations:		
FFCB	146,000,926	25.75%
FHLB	68,870,262	12.14%
FNMA	61,284,953	10.81%
FHLMC	13,832,440	2.44%
Cash Miscellaneous	8,999,838	1.59%
Cash in Bank	254,988,968	44.96%
Grand Total	\$ 567,088,417	100.00%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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	\$ 361,800,042	46.23%
U.S. Government Agency Obligations:		
FFCB	49,777,038	6.36%
FHLMC	120,559,060	15.40%
FNMA	87,014,972	11.12%
FHLB	49,508,575	6.33%
Municipal Bonds:		
Alamogordo N Mex Mun Sch Dist No 001 01/Aug/2014	435,609	0.06%
Alamogordo N Mex Mun Sch Dist No 001 01/Aug/2015	356,710	0.05%
Albuquerque N Mex Mun Sch Dist No 012 Education	210,464	0.03%
Clovis New Mex Gross Rcpts Tax Rev Impt	1,368,900	0.17%
Gadsden N Mex Indpt Sch Dist No 016 Rfdg-Ser B	2,008,850	0.26%
Gallup Mc Kinley Cnty N Mex Sch Dist No 001	257,395	0.03%
Las Cruces N Mex Sch Dist No 002 Sch 23/Dec/2013	559,526	0.07%
Las Cruces N Mex Sch Dist No 002 Sch 23/Dec/2013	498,850	0.06%
New Mexico Fin Auth Rev Sr Lien-Pub Proj Revolving	1,070,650	0.14%
New Mexico St Cap Projs 01/Mar/2015 05.000	671,041	0.09%
Rio Rancho N Mex Pub Sch Dist No 94 Rfdg-Sch Bldg	1,120,856	0.14%
Rio Rancho N Mex Pub Sch Dist No 94 Rfdg-Sch Bldg	619,644	0.08%
Rio Rancho N Mex Pub Sch Dist No 94 Ser A	501,090	0.06%
Ruidoso N Mex Mun Sch Dist No 3 01/Aug/2015 02.000	407,668	0.05%
Ruidoso N Mex Waste Water Rev Rfdg 01/Jul/2015	411,180	0.05%
San Juan Cnty N Mex Cent Cons Indpt Sch Dist No	411,884	0.05%
San Juan Cnty N Mex Cent Cons Indpt Sch Dist No	421,360	0.05%
San Juan County Central Co 3% 01Aug2014	1,563,588	0.20%
Santa Fe Cnty N Mex 01/Jul/2015 05.500	526,725	0.07%
Santa Fe Cnty N Mex Impt 01/Jul/2014 02.000	350,000	0.04%
Santa Fe Cnty N Mex Impt 01/Jul/2015 02.000	279,832	0.04%
Santa Rosa N Mex Cons Sch Dist No 008 15/May/2015	226,211	0.03%
Truth Or Consequences N Mex Mun Sch Dist No 006	725,928.00	0.09%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Securities	Fair Value	Percentage of Portfolio
Overnight Repurchase Pool	\$ 67,799,862	8.66%
Certificates of Deposit	18,200,000	2.33%
Cash Miscellaneous	11,680,975	1.49%
Investment in LGIP	1,308,818	0.17%
Grand Total	\$ 782,653,301	100.00%

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	\$ 321,482,404	58.33%
U.S. Government Agency Obligations:		
FFCB	14,380,826	2.61%
FHLMC	56,060,050	10.17%
FNMA	38,355,075	6.96%
FHLB	25,030,750	4.54%
FFB	7,270,420	1.32%
Finance Corp	8,675,981	1.57%
Municipal Bonds:		
Albuquerque N Mex Gross Rcpts Tax Rev Impt	915,993.00	0.17%
Albuquerque N Mex Mun Sch Dist No 012 Ed	1,482,468	0.27%
Albuquerque N Mex Mun Sch Dist No 012 Rfdg	5,582,532.50	1.01%
Cloudcroft N Mex Mun Sch Dist No 11 Rfdg	829,992	0.15%
New Mexico St Severance Tax Rfdg-Ser A-2	6,485,000.00	1.18%
New Mexico St Severance Tax Ser A-1 01/Jul/2014	4,780,000.00	0.87%
Rio Rancho N Mex Wtr & Wastewtr Sys Rev Rfdg	1,279,889.80	0.23%
Santa Fe N Mex Gross Rcpts Tax Rev Rfdg-Ser A	1,264,898.25	0.23%
Torrance Etc Cntys N Mex Mun Sch Dist No 8	404,768.00	0.07%
Overnight Repurchase Pool	51,856,949	9.41%

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Securities	Fair Value	Percentage of Portfolio
Investment in LGIP	2,019,089	0.37%
Certificates of Deposit	3,000,000	0.54%
Miscellaneous Cash	1,479	0.00%
Grand Total	\$ 551,158,565	100.00%

Interest Rate Risk

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

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

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

Securities by Quality Rating	Maturities		
	Fair Value	Less than 1 Year	1-5 Years
AAA:			
Municipal Bonds	\$ 4,943,119	\$ 295,551	\$ 4,647,568
AAAm:			
Investment in LGIP	30,001,301	30,001,301	-
AA+:			
U.S. Treasuries	408,235,238	29,208,330	379,026,908
U.S. Government Agency	958,003,712	54,087,660	903,916,052
Municipal Bonds	6,463,697	1,239,485	5,224,212
Aa1:			
Municipal Bonds	6,412,892	2,548,595	3,864,296
Aa2:			
Municipal Bonds	961,426	400,468	560,958
Aa3:			
Municipal Bonds	1,152,333	-	1,152,333
AA:			
Municipal Bonds	9,501,170	3,384,485	6,116,685
AA-:			
Municipal Bonds	1,327,403	349,344	978,060
A+:			
Municipal Bonds	2,474,721	-	2,474,721
A:			
Municipal Bonds	11,270,476	5,482,833	5,787,643
A1:			
Municipal Bonds	210,580	-	210,580

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Securities by Quality Rating	Fair Value	Maturities	
		Less than 1 Year	1-5 Years
Not rated and other:			
Municipal Bonds	\$ 7,041,066	\$ 2,315,813	\$ 4,725,253
U.S. Government Agency	49,251,620	-	49,251,620
Overnight Repurchase Pool	724,343,190	724,343,190	-
Fiscal Agent Account	177,579,035	177,579,035	-
Certificates of Deposit	68,500,000	68,500,000	-
Cash Miscellaneous	104,244,850	104,244,850	-
Grand Total	\$ 2,571,917,829	\$ 1,203,980,940	\$ 1,367,936,889

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

Securities by Quality Rating	Fair Value	Maturities	
		Less than 1 Year	1-5 Years
AA+:			
U.S. Treasuries	\$ 13,111,030	-	\$ 13,111,030
U.S. Government Agency	209,263,356	-	209,263,356
A-1+:			
Cash Miscellaneous	8,999,838	-	8,999,838
Not rated and other:			
U.S. Government Agency	80,725,225	-	80,725,225
Cash	254,988,968	254,988,968	-
Grand Total	\$ 567,088,417	\$ 254,988,968	\$ 312,099,449

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

Securities by Quality Rating	Fair Value	Maturities	
		Less than 1 Year	1-5 Years
AAA:			
Municipal Bonds	\$ 1,070,650	\$ -	\$ 1,070,650
AAAm:			
Investment in LGIP	1,308,818	1,308,818	-
AA+:			
U.S. Treasuries	361,800,042	46,561,365	315,238,677
U.S. Government Agency	257,082,608	84,229,519	172,853,088
Municipal Bonds	1,300,872	1,021,041	279,832
Aa1:			
Municipal Bonds	10,325,631	5,461,275	4,864,356
Aaa:			
Municipal Bonds	526,725	-	526,725
A+:			
Municipal Bonds	411,180	-	411,180
A1:			
Municipal Bonds	1,368,900	1,368,900	-
A-1+:			
Municipal Bonds	1,296,968	1,296,968	-
Not rated and other:			
U.S. Government Agency	48,480,070	48,480,070	-
Overnight Repurchase Pool	67,799,862	67,799,862	-
Cash Miscellaneous	11,680,975	11,680,975	-
Certificates of Deposit	18,200,000	18,200,000	-
Grand Total	\$ 782,653,301	\$ 287,408,793	\$ 495,244,508

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

Securities by Quality Rating	Fair Value	Maturities	
		Less than 1 Year	1-5 Years
AAA:			
Municipal Bonds	\$ 12,180,993	\$ 4,780,000	\$ 7,400,993
AAAm:			
Investment in LGIP	2,019,089	2,019,089	-
AA+:			
U.S. Treasuries	321,482,404	70,425,775	251,056,629
U.S. Government Agency	119,445,875	25,030,750	94,415,125
Municipal Bonds	1,264,898	-	1,264,898
Aa1:			
Municipal Bonds	1,234,761	1,234,761	-
AA:			
Municipal Bonds	7,065,000	7,065,000	-
AA-:			
Municipal Bonds	1,279,890	1,279,890	-
Not rated and other:			
U.S. Government Agency	30,327,227	22,353,377	7,973,850
Certificates of Deposit	3,000,000	3,000,000	-
Overnight Repurchase Pool	51,856,949	51,856,949	-
Cash Miscellaneous	1,479	1,479	-
Grand Total	\$ 551,158,565	\$ 189,047,070	\$ 362,111,495

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2014 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
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:

Securites by Quality Rating	Fair Value	Percentage of Portfolio
AA+:		
U.S. Government Agency Obligations	\$ 873,458,645	100.00%
Grand Total	\$ 873,458,645	100.00%

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Maturities on collateral are as follows:

Securites 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	\$ 873,458,645	\$ -	\$ -	\$ -	\$ 107,867,826	\$ 765,590,819
Grand Total	\$ 873,458,645	\$ -	\$ -	\$ -	\$ 107,867,826	\$ 765,590,819

Schedule 10 discloses collateral pledged for repurchase agreements.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance, June 30, 2013	Additions	Deletions	Balance, June 30, 2014
Governmental activities:				
Depreciable assets:				
Equipment	\$ 253,779	\$ 9,952	\$ -	\$ 263,731
Total capital assets	253,779	9,952	-	263,731
Less accumulated depreciation:				
Equipment	209,941	21,248	-	231,189
Total	\$ 43,838	\$ (11,296)	\$ -	\$ 32,542

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

Governmental activities:	
General government	<u>\$ 21,248</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014:

	<u>Balance, June 30, 2013</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance, June 30, 2014</u>	<u>Amounts Due within One Year</u>
Compensated absences	\$ 110,348	\$ 115,358	\$ (104,072)	\$ 121,634	\$ 121,634

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, 2014 are as follows:

Assets:	
Investments	\$ 4,439,488,904
Securities receivable	182,339
Interest and other receivables	<u>10,073,228</u>
Total assets	<u>\$ 4,449,744,471</u>
Liabilities:	
Due to broker	\$ 45,148,139
Other liabilities	28,307
Net position:	
External participant account balances	534,055,179
Other internal participant account balances:	
Primary government	<u>3,870,512,846</u>
Total liabilities and net position	<u>\$ 4,449,744,471</u>

At June 30, 2014 the State Treasurer's investment income earnings were as follows:

Local Government Investment Pool	\$ 996,835
Consolidated Investment Pool	7,130,246
State Funds Investment Pool	<u>18,530,964</u>
Total	<u>\$ 26,658,045</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 10 - APPROPRIATIONS

The State Treasurer received the following appropriations for the year ended June 30, 2014:

General Fund	
General appropriation (General Appropriation Act)	\$ 3,684,500
Appropriation from LGIP to the Office's General Fund for management of LGIP assets	<u>146,600</u>
Total appropriations	<u>\$ 3,831,100</u>

NOTE 11 - COLLATERAL IN TRUST

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

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	\$ 155,216,399	Tax & Revenue Dept. of Finance	82500	\$ 155,216,399
G.O. 2005 Series Debt Service	03200	2,874,781	& Administration Dept. of Finance	80000	2,874,781
G.O. 2009 Series Debt Service	10630	4,696,220	& Administration Dept. of Finance	80000	4,696,220
G.O. 2011 Series Debt Service	11630	408,997	& Administration Dept. of Finance	80000	408,997
G.O. 2013 Series Debt Service	11680	2,974,822	& Administration Dept. of Finance	80000	2,974,822
G.O. 2007 Series Debt Service	28800	3,307,924	& Administration	80000	3,307,924
G.O. 2011 Series Debt Service	11630	1,259,370	Board of Finance	11310	1,259,370
Severance Tax Bonding Fund	41000	<u>8,353,305</u>	Board of Finance	Various	<u>8,353,305</u>
		<u>\$ 179,091,818</u>			<u>\$ 179,091,818</u>

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 12 – DUE TO/FROM OTHER STATE AGENCIES (CONTINUED)

<u>Due from State Treasurer's Office</u>	<u>Fund No.</u>	<u>Amount</u>	<u>Due to Agency/Purpose</u>	<u>Fund No.</u>	<u>Amount</u>
STB Bond Fund	41000	\$ 4,980,366	Sev Tax Perm Fd.	60200	\$ 4,980,366
		<u>\$ 4,980,366</u>			<u>\$ 4,980,366</u>

Purpose: Reversions due to the State General Fund; gaming receipts due to the State General Fund, and funds due to the NM State Investment Council – Severance Tax Permanent Fund.

NOTE 13 - ARBITRAGE ON TAX EXEMPT BONDS

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

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

The Revenue Reconciliation Act of 1989 amended the six-month rule. For bonds issued after December 19, 1989, the rebate requirement does not apply if: 1) all of the gross proceeds of the issue, other than the reserve fund, are spent within the six-month period following the date of issue, and 2) the rebate requirement is satisfied for the reserve fund after the six month period. The term gross proceeds for purposes of the rule include both the sale proceeds received from the bond purchase on the issue date and investment earnings on such proceeds during the six-month period. Gross proceeds deposited in a reserve fund or bona fide debt service fund, however, are not subject to the expenditure requirement.

The following is a schedule of bond issues, along with the bond year ends and arbitrage rebate due dates. The State Treasurer's Office has had the first arbitrage computation for the bonds, completed as indicated:

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 13 - ARBITRAGE ON TAX EXEMPT BONDS (CONTINUED)

	First Computation Date	First Payment Due to IRS	First Computation of Arbitrage Completed	Last / Next Payment Due to IRS
General Obligation Bonds Series 2005	3/1/2010	4/30/2010	X	3/1/2015
General Obligation Bonds Series 2007	3/1/2012	4/30/2012	X	3/1/2017
General Obligation Bonds 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
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 Series 2010C	6/30/2015	8/31/2015	X	7/1/2015
Severance Tax Bonds 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		6/24/2024

NOTE 14 - TRANSFERS

Interfund Transfers

Interfund transfers are completed to move revenue from Fund 41000, Severance Tax Bonding Fund, to the specific Debt Service funds per bond resolutions.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 14 – TRANSFERS (CONTINUED)

Debt Service:
Severance Tax Bonds:

SHARE Fund	Transfer from	Amount	SHARE Fund	Transfer to	Amount
41000	Severance Tax Bond Fund	\$ 28,283,765	10750	STB-2006A Debt Svc.	\$ 28,283,765
41000	Severance Tax Bond Fund	16,903,706	10950	STB-2010A Debt Svc.	16,903,706
41000	Severance Tax Bond Fund	13,043,385	10960	STB-2010B Debt Svc.	13,043,385
41000	Severance Tax Bond Fund	10,180,334	11190	STB-2010C Debt Svc.	10,180,334
41000	Severance Tax Bond Fund	32,491,656	11280	STB-2010 Debt Svc.	32,491,656
41000	Severance Tax Bond Fund	5,293,375	11480	STB-2012A Debt Svc.	5,293,375
41000	Severance Tax Bond Fund	18,083,727	11770	STB-2013A Debt Svc.	18,083,727
41000	Severance Tax Bond Fund	4,982,791	11980	STB-2013S-C Maturity	4,982,791
41000	Severance Tax Bond Fund	1,207,289	18300	STB-2004B Debt Svc.	1,207,289
41000	Severance Tax Bond Fund	17,457,128	30820	STB-2011A-2	17,457,128
41000	Severance Tax Bond Fund	<u>6,220,465</u>	30830	STB-2011A-1 Debt Svc	<u>6,220,465</u>
		<u>\$ 154,147,621</u>			<u>\$ 154,147,621</u>

General Obligation Bonds:

SHARE Fund	Transfer from	Amount	SHARE Fund	Transfer to	Amount
41500	GO 2001 Rebate	\$ 386	10630	GO-2009 Debt Svc.	\$ 386
10650	GO-2009 Series COI	32,936	10630	GO-2009 Debt Svc.	32,936
41900	GO 2003 Refunding	153,124	10630	GO-2009 Debt Svc.	153,124
28800	GO 2007 Series Debt Svc.	550,000	11680	GO 2013 Debt Svc.	550,000
28800	GO 2007 Series Debt Svc.	6,292,281	03200	GO 2005 Debt Svc.	6,292,281
41800	GO 2003B Refunding	<u>8,232,183</u>	11680	GO 2013 Debt Svc.	<u>8,232,183</u>
		<u>\$ 15,260,910</u>			<u>\$ 15,260,910</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 14 – TRANSFERS (CONTINUED)

Interagency Transfers

Debt Service:

Severance Tax Bonds:

Transfers in from Other State Agencies

Transfers from (purpose)	Fund No.	Amount	Transfers to (purpose)	Fund No.	Amount
Board of Finance	34103	\$ 13,059,758	Severance Tax Bonding Fund	41000	\$ 13,059,758
		<u>\$ 13,059,758</u>			<u>\$ 13,059,758</u>

General Obligation Bonds:

Transfers in from Other State Agencies

Transfers from (purpose)	Fund No.	Amount	Transfers to (purpose)	Fund No.	Amount
Board of Finance	34103	\$ 1,375,866	GO 2009 Debt Service	10630	107,808
			GO 2011 Debt Service	11630	1,259,304
			GO 2007 Debt Service	28800	<u>8,754</u>
		<u>\$ 1,375,866</u>			<u>\$ 1,375,866</u>

Transfers out to Other State Agencies

Transfers from (purpose)	Fund No.	Amount	Transfers to (purpose)	Fund No.	Amount
GO 911-Rebate	48800	\$ 112,091	Department of & Administration	74500	\$ 112,091
STB Bond Fund	41000	<u>129,977,730</u>	Sev Tax Perm Fd.	60200	<u>129,977,122</u>
Total - General Obligation Bond Funds		<u>\$ 130,089,821</u>			<u>\$ 130,089,213</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 15 - PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

Substantially all of the State Treasurer's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The State Treasurer's Office is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the State Treasurer's Office are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The State Treasurer's contributions to PERA for the fiscal years ending June 30, 2014, 2013 and 2012 were \$332,687, \$287,778 and \$260,521, respectively, which equal the amount of the required contributions for each fiscal year.

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

Plan Description

The State Treasurer's Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government

agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978).

The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

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

Funding Policy

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

The 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, 2014 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, 2014 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, 2014, 2013 and 2012 were \$40,179, \$38,166 and \$35,649, respectively, which equal the required contributions for each year.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 17 - RISK MANAGEMENT

The State Treasurer is exposed to various risks of loss for which the State Treasurer carries insurance (auto; employee fidelity bond; general liability; civil rights and foreign jurisdiction; money and securities; property; and workers' compensation) with the State of New Mexico Risk Management Division. Public employee fidelity bonding coverage is self-insured by the State of New Mexico. The current policy year is July 1, 2013 to June 30, 2014. 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, 2014, 2013 and 2012, there were no settlements that exceeded insurance coverage.

NOTE 18 - REVERSION TO THE STATE GENERAL FUND

Under State Statute 6-5-10 NMSA, 1978, all 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, 2014 is \$63,448.

Amounts reverted to the State General Fund during 2014 were as follows:

	<u>Appropriation</u>	<u>Reversion</u>
Reversion to State General Fund fiscal year 2014	\$ 3,684,500	\$ 63,448
Special Appropriations	<u>146,000</u>	<u>-</u>
Total Due to State General Fund	<u>\$ 3,831,100</u>	<u>\$ 63,448</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

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, 2014 follows:

	General Fund	General Obligation Bond Fund	Severance Tax Bond Fund
Fund balances:			
Restricted for:			
Debt service	\$ -	\$ 43,429,908	\$ 177,597,100
Unrestricted, unassigned	8,884	-	-
Total fund balances	\$ 8,884	\$ 43,429,908	\$ 177,597,100

NOTE 22 – RESTATEMENT

The following restatements were recorded to correctly reflect interagency transactions in a consistent manner with other state agencies and ensure that the proper twelve months of revenue (July 1, 2013 through June 30, 2014) were captured as revenue in the financial statements for the year ended June 30, 2014:

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

	General Obligation Fund	Severance Tax Bond Fund
Fund balances, June 30, 2013	\$ 18,494,050	\$ 223,345,944
Restatement	23,476,315	37,694,966
Fund balances, June 30, 2013, as restated	\$ 41,970,365	\$ 261,040,910

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 22 – RESTATEMENT (CONTINUED)

Statement of Activities:

Net position, June 30, 2013	\$ 241,780,324
Restatement	<u>61,171,281</u>
Net position, June 30, 2013, as restated	<u>\$ 302,951,605</u>

NOTE 23 – SUBSEQUENT ACCOUNTING PRONOUNCEMENTS

In June 2012, the 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. This Statement will be effective for the Department in fiscal year 2015. The Department is in the process of evaluating the impact of this pronouncement on its financial statements. GASB No. 68 will require the Department to record its proportionate share of the unfunded pension plan liabilities in the New Mexico State Retirement System and other plans. Although the amount of the liability is unknown, it is presumed to be material.

In January 2013, the 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. This Statement will be effective for the Department in fiscal year 2015. The Department is in the process of evaluating the impact of this pronouncement on its financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combination* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement will be effective for the Department in fiscal year 2015. The Department is in the process of evaluating the impact (if any) of this pronouncement on its financial statements.

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

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 1 - CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS -
SCHEDULE OF CHANGES BY ASSET CLASS AND SOURCE
Year Ended June 30, 2014

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
GOVERNMENTAL FUNDS				
CAPITAL ASSETS				
Equipment, furniture and fixtures	\$ 253,779	\$ 9,952	\$ -	\$ 263,731
TOTAL GOVERNMENTAL FUNDS				
CAPITAL ASSETS				
BY SOURCE				
	\$ 253,779	\$ 9,952	\$ -	\$ 263,731
INVESTMENTS IN GOVERNMENTAL				
FUNDS CAPITAL ASSETS				
General Fund revenues	\$ 253,779	\$ 9,952	\$ -	\$ 263,731
TOTAL GOVERNMENTAL FUNDS				
CAPITAL ASSETS				
	253,779	9,952	-	263,731
Less Accumulated Depreciation Equipment	209,941	\$ 21,248	\$ -	231,189
Total	\$ 43,838	\$ (11,296)	\$ -	\$ 32,542

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, 2014

	SHARE Fund	Assets			Total Assets
		Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	
2003 Series-Debt Service	03100	\$ 785,098	\$ -	\$ -	\$ 785,098
2005 Series Debt Service	03200	4,657,555	2,874,781	-	7,532,336
2007 Series-Debt Service	28800	4,113,939	3,307,924	-	7,421,863
2001 Series-Debt Service	41400	340,616	-	-	340,616
2003B Series - Refunding	41800	3,970	-	-	3,970
2009 Series-Debt Service	10630	11,371,128	4,696,220	-	16,067,348
2011 Series-Debt Service	11630	1,599,398	1,668,367	-	3,267,765
2013 Series-Debt Service	11680	4,185,186	2,974,822	-	7,160,008
2008A Series-Redemption	73030	220,699	-	-	220,699
2008A Series-Debt Service	73010	3,142	-	-	3,142
Total Debt Service		27,280,731	15,522,114	-	42,802,845
2003 Series - Rebate	41300	4,794	-	-	4,794
2001 Series - Rebate	41500	56	-	-	56
2003 Refunding Series - Rebate	41900	9	-	-	9
2005 Series - Rebate	42600	608,703	-	-	608,703
911 - Rebate	48800	-	-	-	-
Total Rebate Accounts		613,562	-	-	613,562
2009 Series - Cost of Issuance	10650	-	-	-	-
2011 Series - Cost of Issuance	11320	(650)	-	-	(650)
2013 Series - Cost of Issuance	11620	14,151	-	-	14,151
Total cost of issuance		13,501	-	-	13,501
COMBINED TOTAL		\$ 27,907,794	\$ 15,522,114	\$ -	\$ 43,429,908

Liabilities			Fund Balance		Total Liabilities & Fund Equity
Due to Other State Agencies	Accounts Payable	Total Liabilities	Balance Restricted for Debt Service	Total Fund Balance	
\$ -	\$ -	\$ -	\$ 785,098	\$ 785,098	\$ 785,098
-	-	-	7,532,336	7,532,336	7,532,336
-	-	-	7,421,863	7,421,863	7,421,863
-	-	-	340,616	340,616	340,616
-	-	-	3,970	3,970	3,970
-	-	-	16,067,348	16,067,348	16,067,348
-	-	-	3,267,765	3,267,765	3,267,765
-	-	-	7,160,008	7,160,008	7,160,008
-	-	-	220,699	220,699	220,699
-	-	-	3,142	3,142	3,142
-	-	-	42,802,845	42,802,845	42,802,845
-	-	-	4,794	4,794	4,794
-	-	-	56	56	56
-	-	-	9	9	9
-	-	-	608,703	608,703	608,703
-	-	-	-	-	-
-	-	-	613,562	613,562	613,562
-	-	-	-	-	-
-	-	-	(650)	(650)	(650)
-	-	-	14,151	14,151	14,151
-	-	-	13,501	13,501	13,501
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,429,908</u>	<u>\$ 43,429,908</u>	<u>\$ 43,429,908</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, 2014

	SHARE Fund	Revenues		Expenditures	
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures
2003 Series-Debt Service	03100	\$ 3,436	\$ -	\$ -	\$ -
2005 Series Debt Service	03200	18,874	14,508,000	2,050	14,510,050
2007 Series Debt Service	28800	29,989	17,466,750	683	17,467,433
2001 Series-Debt Service	41400	1,265	-	-	-
2003-B Series - Refunding	41800	19,353	-	-	-
2009 Series-Debt Service	10630	57,689	25,883,250	1,365	25,884,615
2011 Series-Debt Service	11630	35,782	2,246,350	717	2,247,067
2013 Series-Debt Service	11680	506,282	15,325,503	-	15,325,503
2008A Series-Redemption	73030	-	-	-	-
2008A Series-Debt Service	73010	14,218	-	1,367	1,367
Total Debt Service		686,868	75,429,853	6,182	75,436,035
2003 Series-Rebate	41300	18	-	-	-
2001 Series-Rebate	41500	568	-	-	-
2003 Series-Refunding	41900	105	-	-	-
2005 Rebate	42600	2,510	-	-	-
911-Rebate	48800	67	-	-	-
Total Rebate Accounts		3,268	-	-	-
2009 Series - Cost of Issuance	10650	-	-	-	-
2011 Series - Cost of Issuance	11320	-	-	-	-
2013 Series - Cost of Issuance	11620	-	-	-	-
Total cost of issuance		-	-	-	-
COMBINED TOTAL		\$ 690,136	\$ 75,429,853	\$ 6,182	\$ 75,436,035

Other Financing Sources (Uses)

Excess (Deficiency) of Revenues over (under) Expenditures	State Property Tax Levy	Transfers (to) from Other State Agencies	Bond Proceeds	Capital Projects Reversions	Interfund Transfers
\$ 3,436	\$ -	\$ -	\$ -	\$ -	\$ -
(14,491,176)	10,190,258	-	-	-	6,292,281
(17,437,464)	17,108,222	8,754	-	-	(550,000)
1,265	-	-	-	-	-
19,353	-	-	-	-	(8,232,183)
(25,826,926)	31,851,571	107,808	-	-	186,446
(2,211,285)	2,719,360	1,259,912	-	-	-
(14,819,221)	12,722,256	-	-	-	8,782,183
-	-	-	-	-	-
12,851	-	-	-	-	(6,292,281)
(74,749,167)	74,591,667	1,376,474	-	-	186,446
18	-	-	-	-	-
568	-	(512)	-	-	(386)
105	-	(96)	-	-	(153,124)
2,510	-	-	-	-	-
67	-	(112,091)	-	-	-
3,268	-	(112,699)	-	-	(153,510)
-	-	-	-	-	(32,936)
-	-	-	-	-	-
-	-	-	350,000	-	-
-	-	-	350,000	-	(32,936)
\$ (74,745,899)	\$ 74,591,667	\$ 1,263,775	\$ 350,000	\$ -	\$ -

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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, 2014

	SHARE Fund	Net Change in Fund Balance	Beginning Fund Balance as Originally Reported	Restatement	Beginning Fund Balances as Restated	Fund Balances June 30, 2014
2003 Series-Debt Service	03100	\$ 3,436	\$ 781,662	\$ -	\$ 781,662	\$ 785,098
2005 Series Debt Service	03200	1,991,363	982,188	4,558,785	5,540,973	7,532,336
2007 Series Debt Service	28800	(870,488)	3,047,361	5,244,989	8,292,350	7,421,862
2001 Series-Debt Service	41400	1,265	339,350	-	339,350	340,615
2003-B Series - Refunding	41800	(8,212,830)	8,216,800	-	8,216,800	3,970
2009 Series-Debt Service	10630	6,318,899	2,293,228	7,455,222	9,748,450	16,067,349
2011 Series-Debt Service	11630	1,767,987	843,216	656,562	1,499,778	3,267,765
2013 Series-Debt Service	11680	6,685,218	134,650	340,140	474,790	7,160,008
2008A Series-Redemption	73030	-	220,699	-	220,699	220,699
2008A Series-Debt Service	73010	(8,279,430)	1,061,955	5,220,617	6,282,572	3,142
Total debt service		1,405,420	17,921,109	23,476,315	41,397,424	42,802,844
2003 Series-Rebate	41300	18	4,776	-	4,776	4,794
2001 Series-Rebate	41500	(330)	386	-	386	56
2003 Series-Refunding	41900	(153,115)	153,125	-	153,125	10
2005 Rebate	42600	2,510	606,193	-	606,193	608,703
911-Rebate	48800	(112,024)	112,024	-	112,024	-
Total Rebate Accounts		(262,941)	876,504	-	876,504	613,563
2009 Series - Cost of Issuance	10650	(32,936)	32,936	-	32,936	-
2011 Series - Cost of Issuance	41600	-	(650)	-	(650)	(650)
2013 Series - Cost of Issuance	41600	350,000	(335,849)	-	(335,849)	14,151
Total cost of issuance		317,064	(303,563)	-	(303,563)	13,501
COMBINED TOTAL		\$ 1,459,543	\$ 18,494,050	\$ 23,476,315	\$ 41,970,365	\$ 43,429,908

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, 2014

	Assets					Total Assets
	SHARE Fund	Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	Prepaid Expense	
2009-A Series - Debt Service	10750	\$ 8,215	\$ -	\$ -	\$ -	\$ 8,215
2010-A Series - Debt Service	10950	6,364	-	-	-	6,364
2010-B Series - Debt Service	10960	982	-	-	-	982
2010-C Series - Debt Service	11190	761	-	-	-	761
Series 2011A-1 Refunding	11280	2,351	-	-	-	2,351
Series 2013A	11770	107,191	-	-	-	107,191
2013 S-C Maturity	11980	2,510	-	-	-	2,510
Series 2014A	12160	15,393	-	-	-	15,393
Series 2011A-2 Refunding	30830	14,850	-	-	-	14,850
Series 2012A - Refunding	30820	1,227	-	-	-	1,227
2010-D Series - Debt Service	11480	19,505	-	-	-	19,505
2004-A Series Debt Service	49200	696	-	-	-	696
2004-B Series Debt Service	18300	92	-	-	-	92
2005-B1 Series Debt Service	38800	2,006	-	-	-	2,006
Severance Tax Bonding	41000	18,771,414	163,569,704	-	-	182,341,118
2005-A Series Debt Service	41200	106,529	-	-	-	106,529
2003-B Series-Debt Service	48400	218	-	-	-	218
2007-A Debt Service	53700	55,090	-	-	-	55,090
2005-B2 Series Debt Service	57100	1,477	-	-	-	1,477
2008A-1 Series - Debt Service	72010	66,838	-	-	-	66,838
2008A-2 Series - Debt Service	72070	1,491	-	-	-	1,491
2006-A Series Debt Service	96300	2,474	-	-	-	2,474
Total Debt Service		19,187,674	163,569,704	-	-	182,757,378
2004-B Series-Rebate	41100	1,018	-	-	-	1,018
2003-B Supp-Rebate	42000	12,772	-	-	-	12,772
2005-A Series-Rebate	48300	45,366	-	-	-	45,366
2005-B1 Series-Rebate	57000	11,179	-	-	-	11,179
2005-B2 Series-Rebate	96000	6,560	-	-	-	6,560
2006-A Series-Rebate	96400	39,074	-	-	-	39,074
Total Rebate Accounts		115,969	-	-	-	115,969
COMBINED TOTAL		\$ 19,303,643	\$ 163,569,704	\$ -	\$ -	\$ 182,873,347

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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, 2014

	<u>Fund Equity</u>		<u>Total Liabilities & Fund Equity</u>
	<u>Restricted for Debt Service</u>	<u>Total Fund Equity</u>	
2009-A Series - Debt Service	\$ 8,215	\$ 8,215	\$ 8,215
2010-A Series - Debt Service	6,364	6,364	6,364
2010-B Series - Debt Service	982	982	982
2010-C Series - Debt Service	761	761	761
2010-D Series - Debt Service	2,351	2,351	2,351
Series 2013A	107,191	107,191	107,191
2013 S-C Maturity	2,510	2,510	2,510
Series 2014A	15,393	15,393	15,393
Series 2011A-1 Refunding	14,850	14,850	14,850
Series 2011A-2 Refunding	1,227	1,227	1,227
Series 2012A - Refunding	19,505	19,505	19,505
2004-A Series Debt Service	696	696	696
2004-B Series Debt Service	92	92	92
2005-B1 Series Debt Service	2,006	2,006	2,006
Severance Tax Bonding	177,066,086	177,066,086	182,341,118
2005-A Series Debt Service	106,529	106,529	106,529
2003-B Series-Debt Service	218	218	218
2007-A Debt Service	55,090	55,090	55,090
2005-B2 Series Debt Service	1,477	1,477	1,477
2008A-1 Series - Debt Service	66,838	66,838	66,838
2008A-2 Series - Debt Service	276	276	1,491
2006-A Series Debt Service	2,474	2,474	2,474
Total Debt Service	177,481,131	177,481,131	182,757,378
2004-B Series-Rebate	1,018	1,018	1,018
2003-B Supp-Rebate	12,772	12,772	12,772
2005-A Series-Rebate	45,366	45,366	45,366
2005-B1 Series-Rebate	11,179	11,179	11,179
2005-B2 Series-Rebate	6,560	6,560	6,560
2006-A Series-Rebate	39,074	39,074	39,074
Total Rebate Accounts	115,969	115,969	115,969
COMBINED TOTAL	\$ 177,597,100	\$ 177,597,100	\$ 182,873,347

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, 2014

	SHARE Fund	Revenues		Expenditures	
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures
2009-A Series - Debt Service	10750	\$ 45,590	\$ 62,692,625	\$ -	\$ 62,692,625
2010-A Series - Debt Service	10950	52,083	31,322,850	-	31,322,850
2010-B Series - Debt Service	10960	1,661	24,442,324	-	24,442,324
2010-C Series - Debt Service	11190	821	19,557,500	-	19,557,500
2010-D Series - Debt Service	11280	2,657	61,899,900	(1,300)	61,898,600
Series 2013A	11770	579,042	18,555,578	-	18,555,578
2013 S-C Maturity	11980	-	4,980,281	-	4,980,281
Series 2014A	12160	15,393	-	-	-
2011A-1 Series	30830	95,759	10,376,855	-	10,376,855
2011A-2 Series Refunding	30820	1,436	19,281,475	-	19,281,475
2012A - Series	11480	146,984	8,369,501	-	8,369,501
2004-A Series Debt Service	49200	696	-	-	-
2004-B Series Debt Service	18300	103	2,374,001	-	2,374,001
2005-B1 Series Debt Service	38800	7	-	-	-
Severance Tax Bonding	41000	4,833,731	260,724,838	1,153,007	261,877,845
2005-A Series -Debt Service	41200	3,130	-	-	-
2003-B Series-Debt Service	48400	1	1,268,033	-	1,268,033
2007-A Series-Debt Service	53700	9,870	-	-	-
2005-B2 Series Debt Service	57100	54	-	-	-
2008A-1 Debt Service	72010	56,155	14,943,000	-	14,943,000
2008A-2 Debt Service	72070	6	-	-	-
2006-A Series Debt Service	96300	10	-	-	-
Total Debt Service		5,845,189	540,788,761	1,151,707	541,940,468
2004-B Series-Rebate	41100	4	-	-	-
2003-B Supp-Rebate	42000	47	-	-	-
2005-A Series-Rebate	48300	169	-	-	-
2005-B1 Series-Rebate	57000	42	-	-	-
2005-B2 Series-Rebate	96000	24	-	-	-
2006-A Series-Rebate	96400	146	-	-	-
Total Rebate Accounts		432	-	-	-
COMBINED TOTAL		\$ 5,845,621	\$ 540,788,761	\$ 1,151,707	\$ 541,940,468

Excess (Deficiency) of Revenues over (under) Expenditures	Other Financing Sources (Uses)					
	Severance Taxes	Bond Proceeds	Transfers (to) from Other State Agencies	Interfund Transfers	Payment to Escrow Agent	Severance Tax Permanent Fund Reversions
\$ (62,647,035)	\$ -	\$ -	\$ -	\$ 28,283,765	\$ -	\$ -
(31,270,767)	-	-	-	16,903,706	-	-
(24,440,663)	-	-	-	13,043,385	-	-
(19,556,679)	-	-	-	10,180,334	-	-
(61,895,943)	-	-	-	32,491,656	-	-
(17,976,536)	-	-	-	18,083,727	-	-
(4,980,281)	-	-	-	4,982,791	-	-
15,393	-	-	-	-	-	-
(10,281,096)	-	-	-	6,220,465	-	-
(19,280,039)	-	-	-	17,457,128	-	-
(8,222,517)	-	-	-	5,293,375	-	-
696	-	-	-	-	-	-
(2,373,898)	-	-	-	1,207,289	-	-
7	-	-	-	-	-	-
(257,044,114)	569,569,009	-	(116,917,972)	(154,147,621)	-	-
3,130	-	-	-	-	-	-
(1,268,032)	-	-	-	-	-	-
9,870	-	-	-	-	-	-
54	-	-	-	-	-	-
(14,886,845)	-	-	-	-	-	-
6	-	-	-	-	-	-
10	-	-	-	-	-	-
(536,095,279)	569,569,009	-	(116,917,972)	-	-	-
4	-	-	-	-	-	-
47	-	-	-	-	-	-
169	-	-	-	-	-	-
42	-	-	-	-	-	-
24	-	-	-	-	-	-
146	-	-	-	-	-	-
432	-	-	-	-	-	-
<u>\$ (536,094,847)</u>	<u>\$ 569,569,009</u>	<u>\$ -</u>	<u>\$ (116,917,972)</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, 2014

	SHARE	Total Other	Net Change	Beginning		Beginning	Fund
	Fund	Financing	in Fund	Fund Balance	Restatement	Fund Balance	Balances
		Sources (Uses)	Balance	as Originally		as Restated	June 30, 2014
				Reported			
2009-A Series - Debt Service	10750	\$ 28,283,765	\$ (34,363,270)	\$ 34,371,485	\$ -	\$ 34,371,485	\$ 6,215
2010-A Series - Debt Service	10950	16,903,706	(14,367,061)	14,373,425	-	14,373,425	6,364
2010-B Series - Debt Service	10960	13,043,385	(11,397,278)	11,398,260	-	11,398,260	982
2010-C Series - Debt Service	11190	10,180,334	(9,376,345)	9,377,106	-	9,377,106	761
2010-D Series - Debt Service	11280	32,491,656	(29,404,287)	29,406,638	-	29,406,638	2,351
Series 2013A	11770	18,083,727	107,191	-	-	-	107,191
2013 S-C Maturity	11980	4,982,791	2,510	-	-	-	2,510
Series 2014A	11980	-	15,393	-	-	-	15,393
2011A-1 Series	30830	6,220,465	(4,060,631)	4,075,481	-	4,075,481	14,850
2011A-2 Series Refunding	30830	17,457,128	(1,822,911)	1,824,138	-	1,824,138	1,227
2012A - Series	30830	5,293,375	(2,929,142)	2,948,647	-	2,948,647	19,505
2004-B Series Debt Service	18300	-	696	-	-	-	696
2004-B Series Debt Service	18300	1,207,289	(1,166,609)	1,166,702	-	1,166,702	92
2005-B1 Series Debt Service	38800	-	7	1,999	-	1,999	2,006
Severance Tax Bonding	41000	298,503,416	41,459,302	97,911,817	37,694,967	135,606,784	177,066,086
2005-A Series -Debt Service	41200	-	3,130	103,399	-	103,399	106,529
2003-B Series-Debt Service	48400	-	(1,268,032)	1,268,250	-	1,268,250	218
2007-A Series-Debt Service	53700	-	9,870	45,220	-	45,220	55,090
2005-B2 Series Debt Service	57100	-	54	1,423	-	1,423	1,477
2008A-1 Debt Service	72010	-	(14,886,845)	14,953,683	-	14,953,683	66,838
2008A-2 Debt Service	72070	-	6	270	-	270	276
2006-A Series Debt Service	96300	-	10	2,464	-	2,464	2,474
Total Debt Service		452,651,037	(83,444,242)	223,230,407	37,694,967	260,925,374	177,481,131
2004-B Series-Rebate	41100	-	4	1,014	-	1,014	1,018
2003-B Supp-Rebate	42000	-	47	12,725	-	12,725	12,772
2005-A Series-Rebate	48300	-	169	45,197	-	45,197	45,366
2005-B1 Series-Rebate	57000	-	42	11,137	-	11,137	11,179
2005-B2 Series-Rebate	96000	-	24	6,536	-	6,536	6,560
2006-A Series-Rebate	96400	-	146	38,928	-	38,928	39,074
Total Rebate Accts		-	432	115,537	-	115,537	115,969
COMBINED TOTAL		\$ 452,651,037	\$ (83,443,810)	\$ 223,345,944	\$ 37,694,967	\$ 261,040,911	\$ 177,597,100

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, 2014

Issue	SHARE Fund	Date of Issue	Issue Amount	Interest Rate	Unpaid Balance 6/30/2013
General Obligation and Revenue Bonds:					
Series 2005 Debt Service	3200	3/1/05	\$ 111,850,000	5.00%	\$ 25,960,000
Series 2007 Debt Service	28800	3/1/07	134,870,000	5.00%	61,935,000
Series 2009 Debt Service	10630	5/28/09	196,330,000	5.00%	131,365,000
Series 2011 Debt Service	11630	5/26/11	18,645,000	2.00-4.00%	15,220,000
Series 2013 Debt Service	11680	4/23/13	<u>137,220,000</u>	2.00-2.40%	<u>137,220,000</u>
Total General Obligation Bonds			<u>598,915,000</u>		<u>372,700,000</u>
Severance Tax Bonds:					
Series 2003B Supplemental	48400	11/1/03	10,000,000	3.10-3.70%	1,245,000
Series 2004B Supplemental	18300	11/17/04	10,000,000	2.00-5.00%	2,250,000
Series 2008A-1	72010	6/25/08	149,000,000	4.00-5.00%	14,650,000
Series 2009A Refunding	10750	7/30/09	218,450,000	2.00-5.00%	138,235,000
Series 2010A	10950	3/24/10	132,265,000	3.00-5.00%	110,065,000
Series 2010B Supplemental	10960	3/24/10	100,000,000	4.00-5.00%	81,490,000
Series 2010C Refunding	11190	6/30/10	43,780,000	4.00-5.00%	27,820,000
Series 2010D Refunding	11280	12/8/10	140,520,000	3.00-5.00%	127,585,000
Series 2011A-1	30830	12/6/11	47,790,000	3.00-5.00%	46,220,000
Series 2011A-2 Refunding	30820	12/6/11	75,715,000	4.00-5.00%	75,715,000
Series 2012A	11480	6/21/12	57,990,000	3.00-5.00%	57,990,000
Series 2013A	11770	6/21/12	157,560,000	2.00-5.00%	-
Series 2014A	12160	6/21/12	<u>143,770,000</u>	3.00-5.00%	<u>-</u>
Total Severance Tax Bonds			<u>1,286,840,000</u>		<u>683,275,000</u>
TOTAL GENERAL LONG-TERM DEBT			\$ 1,885,755,000		\$ 1,055,975,000
			Premium/Discount		
Current year bond premiums:					
STB, Series 2013A			\$ 16,899,970		
STB, Series 2014A			<u>22,618,930</u>		
TOTAL CURRENT YEAR BOND PREMIUMS			\$ 39,518,899		

New Bonds	Refunded Debt	Reductions		Unpaid Balance 6/30/2014	Interest to Maturity	Debt Service Requirements
		Principal Payments	Total Reductions			
\$ -	\$ -	\$ 13,160,000	\$ 13,160,000	\$ 13,800,000	\$ 690,000	\$ 14,490,000
-	-	14,370,000	14,370,000	47,565,000	4,833,750	52,398,750
-	-	19,315,000	19,315,000	112,050,000	17,353,750	129,403,750
-	-	1,690,000	1,690,000	13,530,000	2,189,050	15,719,050
-	-	12,895,000	12,895,000	124,325,000	13,595,140	137,920,140
-	-	61,430,000	61,430,000	311,270,000	38,661,690	349,931,690
-	-	1,245,000	1,245,000	-	-	-
-	-	2,260,000	2,260,000	-	-	-
-	-	14,650,000	14,650,000	-	-	-
-	-	53,870,000	53,870,000	84,365,000	13,076,000	97,441,000
-	-	23,895,000	23,895,000	86,170,000	15,692,250	101,862,250
-	-	18,970,000	18,970,000	62,520,000	10,533,050	73,053,050
-	-	17,905,000	17,905,000	9,915,000	495,750	10,410,750
-	-	53,780,000	53,780,000	73,805,000	6,676,000	80,481,000
-	-	8,005,000	8,005,000	38,215,000	4,796,000	43,011,000
-	-	13,810,000	13,810,000	61,905,000	7,926,500	69,831,500
-	-	4,150,000	4,150,000	53,840,000	12,818,000	66,658,000
157,560,000	-	11,985,000	11,985,000	145,575,000	32,284,100	177,859,100
143,770,000	-	-	-	143,770,000	46,240,693	190,010,693
301,330,000	-	224,525,000	224,525,000	760,080,000	150,538,343	910,618,343
\$ 301,330,000	\$ -	\$ 285,955,000	\$ 285,955,000	\$ 1,071,350,000	\$ 189,200,033	\$ 1,260,550,033

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, 2013

Issue	SHARE Fund	2015	2016
General Obligation Bonds:			
Series 2005	3200	\$ 14,490,000	\$ -
Series 2007	28800	17,468,250	17,463,750
Series 2009 Debt Service	10630	25,882,500	25,878,500
Series 2011	11630	2,247,550	2,243,550
Series 2013	11670	<u>15,322,948</u>	<u>15,323,148</u>
Total General Obligation Bonds		<u>75,411,248</u>	<u>60,908,948</u>
Severance Tax Bonds:			
Series 2009A Refunding	10750	2,109,125	19,067,500
Series 2010A	10950	2,154,250	16,661,750
Series 2010B Supplemental	10960	1,506,775	12,495,425
Series 2010C Refunding	11190	247,875	10,162,875
Series 2010D Refunding	11280	1,845,125	31,784,875
Series 2011A-1 Refunding	30830	673,519	6,187,913
Series 2011A-2 Refunding	30820	1,547,625	17,101,125
Series 2012A	11480	1,346,000	8,166,625
Series 2013A	11770	3,199,500	19,429,875
Series 2014A	12160	<u>3,671,693</u>	<u>11,028,500</u>
Total Severance Tax Bonds		<u>18,301,487</u>	<u>152,086,463</u>
TOTAL DEBT SERVICE REQUIREMENTS		<u>\$ 93,712,735</u>	<u>\$ 212,995,411</u>

2017	2018	2019	Thereafter	Total
\$ -	\$ -	\$ -	\$ -	\$ 14,490,000
17,466,750	-	-	-	52,398,750
25,879,000	25,881,250	25,882,500	-	129,403,750
2,246,950	2,246,000	2,244,200	4,490,800	15,719,050
<u>15,323,248</u>	<u>15,323,147</u>	<u>15,327,747.00</u>	<u>61,299,902.00</u>	<u>137,920,140</u>
<u>60,915,948</u>	<u>43,450,397</u>	<u>43,454,447</u>	<u>65,790,702</u>	<u>349,931,690</u>
19,066,500	19,065,500	19,067,375	19,065,000	97,441,000
16,642,500	16,625,875	16,610,125	33,167,750	101,862,250
12,223,675	11,989,675	11,781,175	23,056,325	73,053,050
-	-	-	-	10,410,750
31,757,875	15,093,125	-	-	80,481,000
6,183,413	6,176,162	6,256,787	17,533,206	43,011,000
17,080,000	17,062,125	17,040,625	-	69,831,500
8,163,750	8,166,125	8,163,000	32,652,500	66,658,000
19,410,000	19,395,875	19,375,750	97,048,100	177,859,100
<u>15,373,500</u>	<u>17,663,750</u>	<u>18,649,375</u>	<u>123,623,875</u>	<u>190,010,693</u>
<u>145,901,213</u>	<u>131,238,212</u>	<u>116,944,212</u>	<u>346,146,756</u>	<u>910,618,343</u>
<u>\$ 206,817,161</u>	<u>\$ 174,688,609</u>	<u>\$ 160,398,659</u>	<u>\$ 411,937,458</u>	<u>\$ 1,260,550,033</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS (CONTINUED) –
 ADDITIONAL INFORMATION
 June 30, 2014**

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, 2014, including interest payments, are as follows (see details on Schedule 6):

Years ending June 30:	
2015	\$ 75,411,248
2016	60,908,948
2017	60,915,948
2018	43,450,397
2019	43,454,447
2020 - 2021	<u>65,790,702</u>
Total	<u>\$ 349,931,690</u>

SEVERANCE TAX BONDS:

Severance tax bonds are for State agencies, local governments and public and higher education, including a broad range of State and local capital needs. Funds are provided through tax receipts levied upon natural resource products, severed and saved from the lands of the State of New Mexico.

The annual requirements to amortize the combined Severance Tax Bond issues outstanding as of June 30, 2014, including interest payments, are as follows (see details on Schedule 6, page 3):

Years ending June 30:	
2015	\$ 18,301,487
2016	152,086,463
2017	145,901,213
2018	131,238,212
2019	116,944,212
2020 - 2021	<u>346,146,756</u>
Total	<u>\$ 910,618,343</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS
Year Ended June 30, 2014

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
GENERAL FUND INVESTMENT POOL:					
Repurchase Agreements	Various	Various	\$ 724,343,190	\$ 724,343,190	\$ -
Bank of The West	Various	Various	100,008,548	100,008,548	-
Certificates of Deposit	Various	Various	68,500,000	68,500,000	-
Cash Miscellaneous	Various	Various	4,236,304	4,236,304	-
Fiscal Agent Bank Account	0.000%	N/A	177,579,035	177,579,035	-
Mutual Funds (LGIP Participant)	Various	Various	30,001,301	30,001,301	-
Municipal Bonds:					
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	4.250%	7/1/2015	207,927	208,166	239.23
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	4.000%	7/1/2014	500,000	500,000	-
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	4.000%	7/1/2016	531,353	535,940	-
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	5.000%	7/1/2015	1,567,802	1,572,420	4,618.20
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	5.000%	7/1/2016	1,082,489	1,089,820	7,331.43
ALBUQUERQUE N MEX ARPT REV RFDG-SUB LIEN-SER E	5.000%	7/1/2014	200,000	200,000	-
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV	4.900%	7/1/2014	135,000	135,000	-
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV RFDG	2.000%	7/1/2015	116,939	117,044	104.27
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV RFDG	3.000%	7/1/2016	209,692	210,406	713.52
ALBUQUERQUE N MEX MUN SCH DIST NO 012 ED	2.000%	8/1/2015	3,561,495	3,566,360	4,865.00
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER	2.000%	8/1/2015	508,380	509,480	1,100.36
ARTESIA N MEX SPL HOSP DIST 30/OCT/2013	3.000%	8/1/2014	1,312,901	1,312,803	(97.82)
ATLANTA GA ARPT PASSENGER FAC CHARGE REV	5.000%	1/1/2034	363,237	363,506	269.12
ATLANTA GA URBAN RESIDENTIAL FIN AUTH SINGLE	0.000%	10/1/2016	515,643	511,458	(4,184.81)
AZTEC N MEX MUN SCH DIST NO 002 14/OCT/2008	3.250%	10/1/2015	103,638	103,528	(109.53)
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	2.500%	8/1/2014	120,215	120,200	(14.87)
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	2.000%	8/1/2014	2,178,068	2,178,045	(23.36)
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	2.000%	8/1/2015	508,108	509,480	1,372.34
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	2.000%	8/1/2016	512,698	516,370	3,671.80
BERNALILLO CNTY N MEX GROSS RCPTS TAX REV RFDG	5.125%	4/1/2015	160,633	160,551	(82.51)
BERNALILLO N MEX MUN SCH DIST NO 1 RFDG-SCH	3.125%	8/1/2015	257,091	257,408	316.99
BERNALILLO N MEX MUN SCH DIST NO 1 RFDG-SER B	2.000%	8/1/2015	127,024	127,534	509.59
CHOCTAW CNTY MISS HOSP REV TAXABLE-CHOCTAW COUNTY	7.500%	8/1/2028	290,377	287,780	(2,596.84)
CORRALES N MEX HOLD HARMLESS GROSS RCPTS TAX REV	2.000%	5/1/2015	131,677	131,924	246.60
CORRALES N MEX HOLD HARMLESS GROSS RCPTS TAX REV	2.000%	5/1/2016	138,070	138,181	111.05
DONA ANA CNTY N MEX 26/NOV/2013 01/SEP/2015 2%	2.000%	9/1/2015	239,188	239,829	641.68
FARMINGTON MUNICIPAL SCHOOL DISTRICT NO 5/NM BOND	2.000%	9/1/2014	1,002,942	1,003,010	68.15
FARMINGTON N MEX MUN SCH DIST NO 005 RFDG-SER B	2.000%	9/1/2015	882,130	882,577	447.27
FARMINGTON N MEX MUN SCH DIST NO 005 SCH BLDG-SER	2.000%	9/1/2015	168,267	168,353	85.32
FOUR DAM POOL PWR AGY ALASKA ELEC REV SER A	5.000%	7/1/2024	1,035,000	1,035,000	-
FOUR DAM POOL PWR AGY ALASKA ELEC REV SER A	5.250%	7/1/2026	1,385,000	1,385,000	-
GALLUP N MEX POLLUTION CTL REV RFDG-TR-STATE	5.000%	8/15/2014	5,278,030	5,282,833	4,803.23
GALLUP N MEX POLLUTION CTL REV RFDG-TR-STATE	5.000%	8/15/2015	3,806,597	3,806,007	(590.56)
GAYLORD MICH HOSP FIN AUTH LTD OBLIG REV	6.500%	1/1/2037	386,602	386,670	68.44
GOAT HILL PPTY WASH LEASE REV GOVT OFFICE BLDG	5.000%	12/1/2015	254,948	255,033	84.12
GOAT HILL PPTY WASH LEASE REV GOVT OFFICE BLDG	5.250%	12/1/2016	255,208	255,290	81.94
GRANTS / CIBOLA CNTY N MEX SCH DIST NO 1	2.000%	10/1/2015	132,656	132,604	(52.38)
INDIANA BD BK REV FOR ISSUES DTD PRIOR TO	5.120%	1/15/2017	820,842	819,920	(921.86)

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2014

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
Municipal Bonds - continued:					
KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006	5.800%	12/1/2019	\$ 195,998	\$ 193,998	\$ (2,000)
KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2036	5.875%	12/1/2036	381,405	377,512	(3,893)
LAS CRUCES N MEX GROSS RCPTS TAX REV IMPT-STR IMPT	2.000%	6/1/2015	1,045,522	1,046,295	773
LAS VEGAS N MEX GROSS RCPTS TAX REV RFDG & IMPT	2.000%	6/1/2016	210,669	210,580	(89)
LOS ALAMOS CNTY N MEX INC GROSS RCPTS TAX IMPT REV	5.750%	6/1/2016	175,922	174,797	(1,125)
LOS LUNAS N MEX GROSS RCPT TAX REV RFDG	2.000%	4/1/2015	349,047	349,344	297
LOS LUNAS N MEX GROSS RCPT TAX REV RFDG	2.000%	4/1/2016	737,798	738,230	432
LOUISIANA ST RFDG-MATCH-SER B 15/JUL/2017 05.000	5.000%	7/15/2017	547,736	547,365	(351)
LOVINGTON N MEX MUN SCH DIST NO 001 18/MAR/2014	2.000%	9/1/2015	305,761	306,096	335
MIDPENINSULA REGL OPEN SPACE DIST CALIF FING AUTH	0.000%	9/1/2015	248,631	248,785	154
NEW MEXICO EDL ASSISTANCE FNDDTN RFDG-ED LN-SER A-1	4.000%	12/1/2015	789,386	789,210	(176)
NEW MEXICO FIN AUTH REV SUB LIEN PUB PROJ	2.000%	6/15/2015	539,110	539,005	(105)
NEW MEXICO FIN AUTH REV SUB LIEN PUB PROJ	3.000%	6/15/2016	340,927	341,578	651
NEW MEXICO FIN AUTH REV TAXABLE-SUB LIEN PUB PROJ	0.950%	6/15/2015	200,000	200,480	480
NEW MEXICO FIN AUTH REV TAXABLE-SUB LIEN PUB PROJ	1.250%	6/15/2016	100,000	100,462	462
NEW MEXICO FIN AUTH ST TRANSN REV RFDG-SU LIEN-SER	4.000%	12/15/2014	508,674	508,725	51
NEW MEXICO FIN AUTH ST TRANSN REV RFDG-SUB	5.000%	12/15/2015	106,770	106,977	207
NEW MEXICO FIN AUTH ST TRANSN REV SR LIEN-SER A	5.000%	12/15/2015	320,238	320,566	348
NEW MEXICO MILITARY INST AT ROSWELL SYS REV	0.751%	6/1/2015	400,000	400,468	468
NEW MEXICO MILITARY INST AT ROSWELL SYS REV	1.182%	6/1/2016	100,000	100,400	400
NEW MEXICO ST SEVERANCE TAX SER A 01/JUL/2016	5.000%	7/1/2016	195,334	196,583	1,250
NEW MEXICO ST UNIV REVS TAXABLE-RFDG & IMPT-SER C	0.800%	4/1/2015	540,000	541,091	1,091
NEW MEXICO ST UNIV REVS TAXABLE-RFDG & IMPT-SER C	1.000%	4/1/2016	580,000	580,296	296
PASCO CNTY FLA SCH BRD CTFS PARTN SER A	5.000%	8/1/2030	336,323	336,637	314
PUERTO RICO COMWLTH HWY & TRANSN AUTH TRANSN REV	5.125%	7/1/2039	1,600,000	1,600,000	-
PUERTO RICO COMWLTH HWY & TRANSN AUTH TRANSN REV	5.125%	7/1/2043	1,100,000	1,100,000	-
PUERTO RICO COMWLTH PUB IMPT-SER A 01/JUL/2034	5.000%	7/1/2034	1,645,000	1,645,000	-
RIO RANCHO N MEX EVENT CTR REV SUB LIEN GROSS	5.000%	6/1/2020	661,820	659,632	(2,188)
RUIDOSO MUNICIPAL SCHOOL DISTRICT NO 3 BOND	2.000%	8/1/2014	250,376	250,350	(26)
RUIDOSO N MEX MUN SCH DIST NO 3 RFDG 20/MAY/2014	2.000%	8/1/2015	229,125	229,266	141
RUIDOSO N MEX WASTE WATER REV RFDG 12/JUL/2013	2.000%	7/1/2016	204,749	204,622	(127)
SANDOVAL CNTY N MEX INCENTIVE PAYMENT REV	0.579%	6/1/2015	1,610,000	1,610,467	467
SANDOVAL CNTY N MEX RFDG 13/DEC/2013 01/AUG/2015	2.000%	8/1/2015	203,260	203,464	204
SANDOVAL CNTY N MEX RFDG 13/DEC/2013 01/AUG/2016	2.000%	8/1/2016	230,992	231,656	664
SANTA FE N MEX GROSS RCPTS TAX REV RFDG-SUB	5.000%	6/1/2016	108,568	107,917	(651)
SANTA FE N MEX GROSS RCPTS TAX/WASTEWATER SYS IMPT	5.000%	6/1/2015	208,462	207,890	(572)
SOUTHERN SANDOVAL CNTY N MEX ARROYO FLOOD CTL AUTH	2.000%	8/18/2015	25,351	25,439	88
TAOS MUNICIPAL SCHOOL DISTRICT NO 1 CALLABLE BOND	4.000%	9/1/2014	281,808	281,758	(49)
TAOS N MEX SCH DIST FOR ISSUES DATED PRIOR TO	4.000%	9/1/2015	349,572	349,569	(3)
TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006	2.000%	8/1/2015	152,265	152,631	366
TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006	2.000%	8/1/2016	127,571	128,881	1,311
UNIVERSITY MASS BLDG AUTH FACS REV	5.125%	11/1/2034	381,128	381,109	(19)
UNIVERSITY N MEX UNIV REVS RFDG-SUB LIEN SYS	3.000%	6/1/2015	666,643	666,803	160
VOLUSIA CNTY FLA SCH BRD CTFS PARTN LEASE REV	5.000%	8/1/2027	788,258	788,993	735
WESTMORELAND CNTY PA MUN AUTH MUN SVC REV SER K	0.000%	7/1/2015	299,076	299,049	(27)
WILL CNTY ILL SCH DIST NO 122 PREREFUNDED-2013-SER	4.500%	10/1/2024	362,751	363,340	589
Total Municipal Bonds			<u>51,729,890</u>	<u>51,758,881</u>	<u>28,992</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2014

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
US Government Securities:					
US Treasury Notes:					
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	5/31/2017	\$ 19,780,019	\$ 19,862,500	\$ 82,481
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	8/15/2016	20,002,219	20,048,400	46,181
UNITED STATES OF AMERICA NOTES FIXED .75%	0.750%	6/30/2017	19,836,036	19,918,800	82,764
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2017	20,014,959	20,089,000	74,041
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	3/31/2017	20,051,221	20,115,625	64,404
UNITED STATES OF AMERICA NOTES FIXED 1.375%	1.375%	11/30/2018	19,975,500	19,943,800	(31,700)
UNITED STATES OF AMERICA NOTES FIXED 1.625%	1.625%	3/31/2019	34,810,337	35,101,150	290,813
UNITED STATES OF AMERICA NOTES FIXED 2.625%	2.625%	7/31/2014	15,013,756	15,031,650	17,894
UNITED STATES OF AMERICA NOTES FIXED 4.25%	4.250%	11/15/2017	22,090,191	22,125,000	34,809
UNITED STATES OF AMERICA NOTES FIXED 5.125%	5.125%	5/15/2016	21,719,461	21,760,938	41,476
UNITED STATES TREAS NTS 0.625%30/APR/2018	0.625%	4/30/2018	19,407,894	19,528,200	120,306
UNITED STATES TREAS NTS 0.625%30/NOV/2017	0.625%	11/30/2017	19,698,770	19,693,800	(4,970)
UNITED STATES TREAS NTS 0.875%28/FEB/2017	0.875%	2/28/2017	33,502,838	33,622,945	120,107
UNITED STATES TREAS NTS 0.875%31/DEC/2016	0.875%	12/31/2016	25,060,620	25,130,750	70,130
UNITED STATES TREAS NTS 0.875%31/JAN/2018	0.875%	1/31/2018	19,696,977	19,807,800	110,823
UNITED STATES TREAS NTS 1%31/AUG/2016	1.000%	8/31/2016	20,030,171	20,206,200	176,029
UNITED STATES TREAS NTS 2.375%31/JUL/2017	2.375%	7/31/2017	20,757,387	20,878,200	120,813
UNITED STATES TREAS NTS 2.625% 31/DEC/2014	2.625%	12/31/2014	14,171,850	14,176,680	4,830
UNITED STATES TREAS NTS 3%28/FEB/2017	3.000%	2/28/2017	21,123,763	21,193,800	70,037
Total US Treasury Notes			<u>406,743,966</u>	<u>408,235,238</u>	<u>1,491,271</u>
Federal Farm Credit Banks Cons Long:					
FEDERAL AGRIC MTG CORP MTNS B FR 0.77%01/AUG/2016	0.770%	8/1/2016	15,986,790	16,023,200	36,410
FEDERAL AGRIC MTG CORP MTNS B FR 0.9%09/JUN/2016	0.900%	6/9/2016	25,000,000	25,255,750	255,750
FEDERAL AGRIC MTG CORP MTNS B FR 1.1%26/JAN/2017	1.100%	1/26/2017	25,000,000	25,222,500	222,500
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.000%	7/14/2017	9,526,841	9,542,556	15,715
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.000%	4/10/2017	8,991,399	9,034,110	42,711
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.000%	5/1/2017	7,991,075	8,005,920	14,845
FEDERAL FARM CREDIT BANK BOND FIXED .52%	0.520%	6/17/2016	7,500,000	7,506,150	6,150
FEDERAL FARM CREDIT BANKS 1.5% BDS 11/JUN/2018	1.500%	6/11/2018	996,033	1,000,150	4,117
Total Federal Farm Credit Banks			<u>100,992,139</u>	<u>101,590,336</u>	<u>598,197</u>
Federal Home Loan Banks:					
FEDERAL HOME LOAN BANKS 0.25% BDS 20/FEB/2015	0.250%	2/20/2015	3,998,900.60	4,002,760.00	3,859.40
FEDERAL HOME LOAN BANKS 0.875% BDS 10/MAR/2017	0.875%	3/10/2017	20,048,969.24	20,036,800.00	(12,169.24)
FEDERAL HOME LOAN BANKS 1% BDS 09/JUN/2017 USD5000	1.000%	6/9/2017	23,048,247.14	23,067,620.00	19,372.86
FEDERAL HOME LOAN BANKS 1.0% BDS 13/FEB/2017	1.000%	2/13/2017	19,984,298.74	20,098,800.00	114,501.26
FEDERAL HOME LOAN BANKS 4.75% BDS 16/DEC/2016	4.750%	12/16/2016	10,987,096.64	10,988,300.00	1,203.36
FEDERAL HOME LOAN BANKS BOND FIXED .375%	0.375%	6/24/2016	37,457,803.96	37,395,375.00	(62,428.96)
FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED 1.25%	1.250%	8/14/2017	4,997,765.04	5,007,000.00	9,234.96
FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED 2.125%	2.125%	6/26/2019	19,645,946	19,628,856	(17,090)
Total Federal Home Loan Banks			<u>140,169,027</u>	<u>140,225,511</u>	<u>56,464</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2014

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
Federal Home Loan Mortgage Corporation					
FEDERAL HOME LN MTG CORP CALL 2%06/NOV/2017	2.000%	11/06/17	\$ 5,032,198	\$ 5,031,900	\$ (298)
FEDERAL HOME LOAN MORTGAGE CORP 0.75% BDS	0.750%	11/25/14	9,999,562.38	10,026,100.00	26,537.62
FEDERAL HOME LOAN MORTGAGE CORP 0.875% BDS	0.875%	03/07/18	14,689,551.01	14,785,800.00	96,248.99
FEDERAL HOME LOAN MORTGAGE CORP 0.875% MTG BDS	0.875%	10/14/18	30,009,132.73	30,195,000.00	185,867.27
FEDERAL HOME LOAN MORTGAGE CORP 1% BDS 08/MAR/2017	1.000%	03/08/17	39,980,022.36	40,138,000.00	157,977.64
FEDERAL HOME LOAN MORTGAGE CORP 1% BDS 27/JUN/2017	1.000%	06/29/17	30,016,910.43	30,064,800.00	47,889.57
FEDERAL HOME LOAN MORTGAGE CORP 1% BDS 29/SEP/2017	1.000%	09/29/17	29,942,700.70	29,936,200.00	(4,500.70)
FEDERAL HOME LOAN MORTGAGE CORP 1% MTG BDS	1.000%	07/28/17	25,569,915.10	25,515,555.00	(54,360.10)
FEDERAL HOME LOAN MORTGAGE CORP 1.75% NTS	1.750%	09/10/15	20,177,162.09	20,361,800.00	184,637.91
FEDERAL HOME LOAN MORTGAGE CORP 2% BDS 25/AUG/2016	2.000%	08/25/16	40,993,940.00	41,204,000.00	210,060.00
FEDERAL HOME LOAN MORTGAGE CORP 2.50% NTS	2.500%	05/27/16	20,534,253.12	20,744,200.00	209,946.88
FEDERAL HOME LOAN MORTGAGE CORP 3.75% BDS	3.750%	03/27/19	21,801,593.01	21,980,200.00	178,606.99
FEDERAL HOME LOAN MORTGAGE CORP 5.125% NTS	5.125%	10/18/16	22,083,728.64	22,032,200.00	(51,528.64)
FEDERAL HOME LOAN MORTGAGE CORP 5.5% NTS	5.500%	08/23/17	11,367,207	11,383,200	15,993
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .875%	0.875%	02/22/17	19,972,368	20,033,400	61,032
Total Federal Home Loan Mortgage Corporation			<u>342,170,245</u>	<u>343,434,355</u>	<u>1,264,110</u>
Federal National Mortgage Association					
FEDERAL NATIONAL MORTGAGE ASSOC 0.375% BDS	0.375%	3/16/2015	19,977,554	20,034,200	56,646
FEDERAL NATIONAL MORTGAGE ASSOC 0.375% BDS	0.375%	7/5/2016	14,966,717	14,929,350	(37,367)
FEDERAL NATIONAL MORTGAGE ASSOC 0.5% NTS	0.500%	7/2/2015	59,997,531	60,194,400	196,869
FEDERAL NATIONAL MORTGAGE ASSOC 0.875% BDS	0.845%	8/28/2014	20,013,538	20,024,600	11,062
FEDERAL NATIONAL MORTGAGE ASSOC 1.125% BDS	1.125%	4/27/2017	10,021,038	10,050,400	29,362
FEDERAL NATIONAL MORTGAGE ASSOC 1.25% BDS	1.250%	9/28/2016	20,021,721	20,293,400	271,679
FEDERAL NATIONAL MORTGAGE ASSOC 1.25% MTG BDS	1.250%	1/30/2017	40,198,757	40,500,400	301,643
FEDERAL NATIONAL MORTGAGE ASSOC 2.375% NTS	2.375%	4/11/2016	36,490,983	36,792,200	301,217
FEDERAL NATIONAL MORTGAGE ASSOC 4.875% BDS	4.875%	12/15/2016	37,557,840	37,514,580	(43,260)
FEDERAL NATIONAL MORTGAGE ASSOC 5% BDS 15/MAR/2016	5.000%	3/15/2016	64,423,725	64,880,600	256,875
FEDERAL NATIONAL MORTGAGE ASSOC 5.375% BDS	5.375%	7/15/2016	21,709,050	21,962,800	253,750
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.875%	10/26/2017	24,765,317	24,816,500	51,183
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.625%	11/27/2018	14,922,645	15,080,250	157,605
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.875%	2/19/2019	20,174,997	20,267,200	92,203
FEDERAL NATL MTG ASSN CALL 1.1%13/MAR/2018	1.100%	3/13/2018	15,000,000	14,864,250	(135,750)
Total Federal National Mortgage Corporation			<u>420,241,412</u>	<u>422,005,130</u>	<u>1,763,718</u>
Total US Government Securities			<u>1,410,316,789</u>	<u>1,415,490,570</u>	<u>5,173,781</u>
Total General Fund Investment Pool (State Funds Investment Pool)			<u>2,566,715,057</u>	<u>2,571,917,829</u>	<u>5,202,772</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2014

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	\$ 138,848,402	\$ 138,848,402	\$ -
US BANK	Variable	12/31/2049	30,127,356	30,127,356	-
WELLS FARGO CHECKING	0.15%	12/31/2049	83,650,869	83,650,869	-
WELLS FARGO SAVINGS	Variable	12/31/2049	2,362,341	2,362,341	-
CASH MISCELLANEOUS	0.000%	7/23/2014	8,999,294	8,999,838	544
Total Bank Accounts			<u>263,988,262</u>	<u>263,988,806</u>	<u>544</u>
US Government Securities:					
US Treasury Notes/Securities:					
UNITED STATES OF AMER TREAS BONDS 2.5% NTS	2.500%	3/31/2015	3,052,517	3,054,030	1,513
UNITED STATES TREAS NTS 2.375%30/SEP/2014	2.375%	9/30/2014	10,054,557	10,057,000	2,443
Total US Treasury Notes/Securities			<u>13,107,074</u>	<u>13,111,030</u>	<u>3,956</u>
Federal National Mortgage Association:					
FANNIE MAE ZCP 05/JUL/2014	0.000%	7/5/2014	9,034,838	9,034,819	(18)
FEDERAL NATIONAL MORTGAGE ASSOC 0.625% BDS	0.625%	10/30/2014	7,467,353	7,469,644	2,292
FEDERAL NATIONAL MORTGAGE ASSOC 0.875% BDS	0.875%	8/28/2014	12,514,314	12,515,375	1,061
FEDERAL NATIONAL MORTGAGE ASSOC 2.625% NTS	2.625%	11/20/2014	2,196,554	2,197,129	575
FEDERAL NATIONAL MORTGAGE ASSOCIATION DISCOUNT	0.000%	11/15/2014	8,992,308	8,993,790	1,482
FEDERAL NATL MTG ASSN FR 0.75%19/DEC/2014	0.750%	12/19/2014	21,070,083	21,074,196	4,113
Total Federal National Mortgage Association			<u>61,275,449</u>	<u>61,284,953</u>	<u>9,505</u>
Federal Farm Credit Bank:					
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	Floating	7/1/2015	20,000,000	20,005,000	5,000
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	Floating	5/1/2015	20,000,000	20,000,600	600
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.200%	1/20/2015	5,000,000	5,001,900	1,900
FEDERAL FARM CR BKS CONS BD 0.25% 17/JUL/2014	0.250%	7/17/2014	2,750,139	2,750,220	81
FEDERAL FARM CR BKS CONS BD FLT 15 01/MAY/2015	Floating	5/1/2015	7,008,310	7,013,300	4,990
FEDERAL FARM CR BKS CONS BD FLT 15 20/JAN/2015	Floating	1/20/2015	2,001,287	2,001,560	273
FEDERAL FARM CREDIT BANK BOND FIXED .13%	0.130%	5/1/2015	4,999,914	4,997,350	(2,564)
FEDERAL FARM CREDIT BANK BOND FIXED .16%	0.160%	10/24/2014	9,999,529	10,001,830	2,301
FEDERAL FARM CREDIT BANK BOND FIXED .2%	0.200%	10/15/2014	1,331,087	1,331,349	261
FEDERAL FARM CREDIT BANK BOND VARIABLE 02/DEC/2015	Floating	12/2/2015	19,998,578	20,014,980	16,402
FEDERAL FARM CREDIT BANK BOND VARIABLE 03/AUG/2015	Floating	8/3/2015	1,400,000	1,401,008	1,008
FEDERAL FARM CREDIT BANK BOND VARIABLE 16/MAR/2015	Floating	3/16/2015	2,000,431	2,001,660	1,229
FEDERAL FARM CREDIT BANK BOND VARIABLE 22/JUL/2014	Floating	7/22/2014	12,499,963	12,500,000	37
FEDERAL FARM CREDIT BANK BOND VARIABLE 22/OCT/2015	Floating	10/22/2015	15,010,728	15,013,200	2,474
FEDERAL FARM CREDIT BANK BOND VARIABLE 26/JAN/2015	Floating	1/26/2015	4,000,576	4,003,280	2,704
FEDERAL FARM CREDIT BANK BOND VARIABLE 29/MAR/2016	Floating	3/29/2016	4,999,096	4,996,275	(821)
FEDERAL FARM CREDIT BANKS 0.3% BDS 18/JUL/2014	0.300%	7/18/2014	5,374,499	5,374,430	(69)

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2014

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
Federal Farm Credit Bank - continued:					
FEDERAL FARM CREDIT BANKS 1.625% BDS 19/NOV/2014	1.625%	11/19/2014	\$ 3,070,998	\$ 3,071,530	\$ 532
FEDERAL FARM CREDIT BANKS 3% BDS 22/SEP/2014	3.000%	9/22/2014	4,518,727	4,519,454	727
Total Federal Farm Credit Bank			<u>145,963,862</u>	<u>146,000,926</u>	<u>37,064</u>
Federal Home Loan Bank:					
FEDERAL HOME LOAN BANKS 0.875% BDS 12/DEC/2014	0.875%	12/12/2014	7,951,298	7,951,628	330
FEDERAL HOME LOAN BANKS BOND FIXED .1% 02/SEP/2014	0.100%	9/2/2014	7,645,040	7,644,159	(881)
FEDERAL HOME LOAN BANKS BOND FIXED .125%	0.125%	9/12/2014	9,998,861	10,001,100	2,239
FEDERAL HOME LOAN BANKS BOND FIXED .125%	0.125%	3/4/2015	3,598,844	3,599,172	328
FEDERAL HOME LOAN BANKS BOND FIXED .125%	0.125%	4/21/2015	3,599,654	3,599,388	(266)
FEDERAL HOME LOAN BANKS BOND FIXED .125%	0.125%	9/23/2014	9,998,922	10,001,070	2,148
FEDERAL HOME LOAN BANKS BOND FIXED .125%	0.125%	9/3/2014	2,699,789	2,700,230	441
FEDERAL HOME LOAN BANKS BOND FIXED .13%	0.130%	3/12/2015	5,999,086	5,997,720	(1,366)
FEDERAL HOME LOAN BANKS BOND FIXED .15%	0.150%	3/12/2015	6,999,404	6,999,370	(34)
FEDERAL HOME LOAN BANKS BOND FIXED .17%	0.170%	9/18/2014	5,375,157	5,376,075	918
FEDERAL HOME LOAN BANKS BOND FIXED .19%	0.190%	7/24/2014	5,000,139	5,000,350	211
Total Home Loan Bank			<u>68,866,194</u>	<u>68,870,262</u>	<u>4,067</u>
Federal Home Loan Mortgage Corp:					
FEDERAL HOME LOAN MORTGAGE CORP 0.625% NTS	0.625%	12/29/2014	2,105,397	2,105,187	(210)
FEDERAL HOME LOAN MORTGAGE CORP 2.875% NTS	2.875%	2/9/2015	2,540,954	2,541,875	921
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .5%	0.500%	4/17/2015	9,186,237	9,185,378	(859)
Total Federal Home Loan Mortgage Corp			<u>13,832,587</u>	<u>13,832,440</u>	<u>(148)</u>
Total Governmental Bonds			<u>303,045,167</u>	<u>303,099,611</u>	<u>54,444</u>
Total Local Government Investment Pool (Short-term Investment Pool)			<u>567,033,429</u>	<u>567,088,417</u>	<u>54,988</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2013

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
Bond Proceeds Investment Pool #2 (Taxable):					
Repurchase Agreements	Various	Various	\$ 67,799,861	\$ 67,799,861	\$ -
Certificates of Deposit	Various	Various	18,200,000	18,200,000	-
Cash/Cash Miscellaneous	Various	Various	11,680,975	11,680,975	-
Mutual Funds (LGIP Pool Participant)	Various	Various	1,308,818	1,308,818	-
Municipal Bonds:					
ALAMOGORDO N MEX MUN SCH DIST NO 001 01/AUG/2014	2.000%	8/1/2014	435,592	435,609	17
ALAMOGORDO N MEX MUN SCH DIST NO 001 01/AUG/2015	2.000%	8/1/2015	355,469	356,710	1,240
ALBUQUERQUE N MEX MUN SCH DIST NO 012 EDUCATION	5.000%	8/1/2015	209,730	210,464	734
CLOVIS NEW MEX GROSS RCPTS TAX REV IMPT	2.000%	6/1/2015	1,365,403	1,368,900	3,497
GADSDEN N MEX INDPT SCH DIST NO 016 RFDG-SER B	2.000%	8/15/2014	2,008,729	2,008,850	121
GALLUP MC KINLEY CNTY N MEX SCH DIST NO 001	2.000%	8/1/2016	256,656	257,395	739
LAS CRUCES N MEX SCH DIST NO 002 SCH 23/DEC/2013	8/1/2015	8/1/2015	559,201	559,526	325
LAS CRUCES N MEX SCH DIST NO 002 SCH 23/DEC/2013	3.000%	8/1/2016	498,056	498,850	793
NEW MEXICO FIN AUTH REV SR LIEN-PUB PROJ REVOLVING	4.000%	6/1/2016	1,065,320	1,070,650	5,330
NEW MEXICO ST CAP PROJS 01/MAR/2015 05.000	5.000%	3/1/2015	669,906	671,041	1,135
RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG	2.000%	8/1/2015	1,118,402	1,120,856	2,454
RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG	2.000%	8/1/2016	616,731	619,644	2,913
RIO RANCHO N MEX PUB SCH DIST NO 94 SER A	3.000%	8/1/2014	501,112	501,090	(22)
RUIDOSO N MEX MUN SCH DIST NO 3 01/AUG/2015 02.000	2.000%	8/1/2015	406,224	407,668	1,444
RUIDOSO N MEX WASTE WATER REV RFDG 01/JUL/2015	2.000%	7/1/2015	410,235	411,180	945
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	3.000%	8/1/2015	411,019	411,884	865
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	3.000%	8/1/2016	419,424	421,360	1,936
SAN JUAN COUNTY CENTRAL CO 3% 01AUG2014	3.000%	8/1/2014	1,563,652	1,563,588	(64)
SANTA FE CNTY N MEX 01/JUL/2015 05.500	5.500%	7/1/2015	525,243	526,725	1,482
SANTA FE CNTY N MEX IMPT 01/JUL/2014 02.000	2.000%	7/1/2014	350,000	350,000	-
SANTA FE CNTY N MEX IMPT 01/JUL/2015 02.000	2.000%	7/1/2015	279,386	279,832	445
SANTA ROSA N MEX CONS SCH DIST NO 008 15/MAY/2015	1.000%	5/15/2015	225,683	226,211	527
TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006	2.000%	8/1/2014	725,927	725,928	1
Total Municipal Bonds			<u>14,977,101</u>	<u>15,003,959</u>	<u>26,858</u>
US Government Securities:					
US Treasury Notes/Bonds:					
UNITED STATES OF AMER TREAS BONDS 2.5% NTS	2.500%	3/31/2015	20,326,291	20,360,200	33,909
UNITED STATES OF AMERICA NOTES FIXED .25%	0.250%	12/15/2014	5,498,004	5,504,290	6,286
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	12/15/2016	19,980,555	19,989,000	8,445
UNITED STATES OF AMERICA NOTES FIXED .75%	0.750%	6/30/2017	4,962,218	4,979,700	17,482
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	11/30/2016	20,059,020	20,118,750	59,730
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2017	15,067,218	15,066,750	(468)
UNITED STATES OF AMERICA NOTES FIXED 1%	0.100%	6/30/2016	15,127,666	15,139,453	11,787
UNITED STATES OF AMERICA NOTES FIXED 1.5%	1.500%	6/30/2015	30,576,716	30,618,900	42,184
UNITED STATES OF AMERICA NOTES FIXED 1.875%	1.875%	6/30/2015	20,307,936	20,343,750	35,814
UNITED STATES OF AMERICA NOTES FIXED 2.125%	2.125%	12/31/2015	15,378,259	15,418,350	40,091
UNITED STATES OF AMERICA NOTES FIXED 2.125%	2.125%	2/29/2016	15,421,682	15,449,414	27,732
UNITED STATES OF AMERICA NOTES FIXED 4.125%	4.125%	5/15/2015	20,663,898	20,696,875	32,977
UNITED STATES TREAS NTS 0.25%15/APR/2016	0.250%	4/15/2016	29,901,264	29,930,700	29,446
UNITED STATES TREAS NTS 0.5%31/JUL/2017	0.500%	7/31/2017	4,938,438	4,934,000	(4,438)

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2013

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
US Treasury Notes/Bonds - continued:					
UNITED STATES TREAS NTS 0.625%15/JUL/2016	0.625%	7/15/2016	\$ 15,028,661	\$ 15,045,750	\$ 17,089
UNITED STATES TREAS NTS 0.625%31/AUG/2017	0.625%	8/31/2017	10,880,270	10,879,660	(610)
UNITED STATES TREAS NTS 0.875%28/FEB/2017	0.875%	2/28/2017	5,011,419	5,018,350	6,931
UNITED STATES TREAS NTS 1%30/SEP/2016	1.000%	9/30/2016	15,107,661	15,145,350	37,489
UNITED STATES TREAS NTS 1.375% 30/NOV/2015	1.375%	11/30/2015	15,216,483	15,242,550	26,067
UNITED STATES TREAS NTS 1.75%31/JUL/2015	1.750%	7/31/2015	10,139,938	10,172,700	32,762
UNITED STATES TREAS NTS 1.750% 31/MAY/2016	1.750%	5/31/2016	15,350,604	15,379,650	29,046
UNITED STATES TREAS NTS 2.625% 31/DEC/2014	2.625%	12/31/2014	15,163,198	15,189,300	6,102
UNITED STATES TREAS NTS 3.125% 31/OCT/2016	3.125%	10/31/2016	<u>21,175,000</u>	<u>21,176,600</u>	<u>1,600</u>
Total US Treasury Notes/Bonds			<u>361,302,590</u>	<u>361,800,042</u>	<u>497,453</u>
Federal Farm Credit Banks Cons Long:					
FED AGRIC MTG CP DSC NT FED BE MATURES 31/JUL/2014	0.000%	7/31/2014	1,296,831	1,296,968	136
FEDERAL AGRIC MTG CORP MTNS B FR 0.43%08/JAN/2016	0.430%	1/8/2016	15,492,123	15,524,490	32,367
FEDERAL AGRIC MTG CORP MTNS B FR 0.65%10/JUL/2017	0.650%	7/10/2017	7,949,528	7,940,880	(8,648)
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.245%	4/21/2015	9,998,707	10,009,000	10,293
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.200%	1/20/2015	<u>15,000,000</u>	<u>15,005,700</u>	<u>5,700</u>
Total Federal Farm Credit Banks			<u>49,737,189</u>	<u>49,777,038</u>	<u>39,849</u>
Federal Home Loan Mortgage Co:					
FEDERAL HOME LOAN MORTGAGE CORP 0.5% BDS	0.500%	8/28/2015	15,009,648	15,051,450	41,802
FEDERAL HOME LOAN MORTGAGE CORP 0.75% BDS	0.750%	11/25/2014	15,034,547	15,039,150	4,603
FEDERAL HOME LOAN MORTGAGE CORP 1% BDS 08/MAR/2017	1.000%	9/10/2015	10,064,806	10,034,500	(30,306)
FEDERAL HOME LOAN MORTGAGE CORP 1% NTS 27/AUG/2014	1.000%	3/8/2017	20,022,606	20,028,200	5,394
FEDERAL HOME LOAN MORTGAGE CORP 1.75% NTS	1.750%	8/27/2014	15,252,003	15,271,350	19,347
FEDERAL HOME LOAN MORTGAGE CORP 2% BDS 25/AUG/2016	2.000%	8/25/2016	25,382,427	25,752,500	370,073
FEDERAL HOME LOAN MORTGAGE CORP 2.50% NTS	2.500%	5/27/2016	10,382,817	10,372,100	(10,717)
FREDDIE MAC 0.305% 23/FEB/2015	0.350%	2/23/2015	<u>9,005,349</u>	<u>9,009,810</u>	<u>4,461</u>
Total Federal Home Loan Mortgage Co.			<u>120,154,402</u>	<u>120,559,060</u>	<u>404,658</u>
Federal National Mortgage Association:					
FANNIE MAE ZCP 05/JUL/2014	0.000%	7/5/2014	9,174,834	9,174,817	(18)
FED NATL MORT ASSC 1.625% BDS 26/OCT/2015 USD1000	1.625%	10/26/2015	20,200,873	20,341,800	140,927
FEDERAL NATIONAL MORTGAGE ASSOC 0.375% BDS	0.375%	12/21/2015	19,977,750	20,021,800	44,050
FEDERAL NATIONAL MORTGAGE ASSOC 0.5% BDS	0.500%	3/30/2016	14,990,385	15,025,500	35,115
FEDERAL NATIONAL MORTGAGE ASSOC 2.25% NTS	2.250%	3/15/2016	8,983,077	8,975,931	(7,146)
FEDERAL NATIONAL MORTGAGE ASSOC 5% BDS 15/MAR/2016	5.000%	3/15/2016	<u>13,444,997</u>	<u>13,475,125</u>	<u>30,128</u>
Total Federal National Mortgage Association			<u>86,771,916</u>	<u>87,014,972</u>	<u>243,057</u>
Federal Home Loan Banks:					
FEDERAL HOME LOAN BANK 4.50% 18/FEB/2015	4.500%	2/18/2015	9,418,996	9,422,725	3,729
FEDERAL HOME LOAN BANKS 1% BDS 09/JUN/2017 USD5000	1.000%	6/9/2017	15,075,985	15,044,100	(31,885)
FEDERAL HOME LOAN BANKS BOND FIXED .19%	0.190%	1/6/2015	9,999,866	10,003,500	3,634
FEDERAL HOME LOAN BANKS CONS BD 0.5% 12/JUN/2015	0.500%	6/12/2015	<u>15,034,800</u>	<u>15,038,250</u>	<u>3,450</u>
Total Federal Home Loan Banks			<u>49,529,647</u>	<u>49,508,575</u>	<u>(21,072)</u>
Total US Government Securities			<u>667,495,744</u>	<u>668,659,687</u>	<u>1,163,944</u>
Total Bond Proceeds Investment Pool #2 (Taxable) (Part 1 of the Consolidated Investment Pool)			<u>781,462,499</u>	<u>782,653,301</u>	<u>1,190,802</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2013

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	51,856,949	51,856,949	-
Mutual Funds (LGIP Pool Participant)	Various	Various	2,019,089	2,019,089	-
Miscellaneous Cash	Various	Various	1,479	1,479	-
Municipal Bonds:					
ALBUQUERQUE N MEX GROSS RCPTS TAX REV IMPT	5.000%	8/1/2015	914,070	915,993	1,923
ALBUQUERQUE N MEX MUN SCH DIST NO 012 ED	2.000%	6/1/2014	500,658	500,700	42
ALBUQUERQUE N MEX MUN SCH DIST NO 012 ED	2.000%	6/1/2015	558,373	560,428	2,055
ALBUQUERQUE N MEX MUN SCH DIST NO 012 EDUCATION	2.000%	9/1/2013	421,288	421,340	52
ALBUQUERQUE N MEX MUN SCH DIST NO 012 RFDG	2.000%	8/15/2013	5,582,135	5,582,533	398
CLOUDCROFT N MEX MUN SCH DIST NO 11 RFDG	2.000%	8/15/2014	270,369	270,346	(23)
CLOUDCROFT N MEX MUN SCH DIST NO 11 RFDG	8/15/2013	8/15/2013	558,971	559,647	676
NEW MEXICO ST SEVERANCE TAX RFDG-SER A-2	2.000%	7/1/2015	6,485,000	6,485,000	-
NEW MEXICO ST SEVERANCE TAX SER A-1 01/JUL/2014	2.000%	8/1/2013	4,780,000	4,780,000	-
RIO RANCHO N MEX WTR & WASTEWTR SYS REV RFDG	4.125%	8/1/2013	1,275,579	1,279,890	4,311
SANTA FE N MEX GROSS RCPTS TAX REV RFDG-SER A	1.000%	5/12/2014	1,256,932	1,264,898	7,966
TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8	1.000%	5/12/2014	403,334	404,768	1,434
Total Municipal Bonds			<u>23,006,709</u>	<u>23,025,542</u>	<u>18,833</u>
US Government Securities:					
US Treasury Notes:					
UNITED STATES OF AMER TREAS NOTES 2.625% BDS	2.625%	2/29/2016	10,369,944	10,384,000	14,056
UNITED STATES OF AMERICA NOTES FIXED .25%	0.250%	7/31/2015	15,013,274	15,015,750	2,476
UNITED STATES OF AMERICA NOTES FIXED .375%	0.375%	3/31/2016	14,991,873	15,002,850	10,977
UNITED STATES OF AMERICA NOTES FIXED .5%	0.500%	8/15/2014	10,004,226	10,004,700	474
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	12/15/2016	14,962,746	14,991,750	29,004
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	11/15/2016	14,976,139	15,003,450	27,311
UNITED STATES OF AMERICA NOTES FIXED .75%	0.750%	6/30/2017	4,962,218	4,979,700	17,482
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2017	15,063,281	15,066,750	3,469
UNITED STATES OF AMERICA NOTES FIXED 1.5%	1.500%	6/30/2016	15,294,644	15,309,450	14,806
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	10/31/2016	10,132,522	10,092,969	(39,553)
UNITED STATES OF AMERICA NOTES FIXED 2.125%	2.125%	11/30/2014	10,079,681	10,084,375	4,694
UNITED STATES OF AMERICA NOTES FIXED 2.125%	2.125%	12/31/2015	15,378,259	15,418,350	40,091
UNITED STATES TREAS NTS 0.25%15/APR/2016	0.250%	4/15/2016	14,935,616	14,965,350	29,734
UNITED STATES TREAS NTS 0.25%15/SEP/2015	0.250%	9/15/2015	9,996,636	10,010,200	13,564
UNITED STATES TREAS NTS 0.25%31/MAR/2015	0.250%	3/31/2015	10,003,206	10,011,300	8,094
UNITED STATES TREAS NTS 0.375%15/JAN/2016	0.375%	1/15/2016	15,012,754	15,023,400	10,646
UNITED STATES TREAS NTS 0.5%31/JUL/2017	0.500%	7/31/2017	4,938,438	4,934,000	(4,438)
UNITED STATES TREAS NTS 0.625%15/JUL/2016	0.625%	7/15/2016	15,028,481	15,045,750	17,269
UNITED STATES TREAS NTS 0.875%28/FEB/2017	0.875%	2/28/2017	15,034,256	15,055,050	20,794
UNITED STATES TREAS NTS 1.375% 30/NOV/2015	1.375%	11/30/2015	15,216,483	15,242,550	26,067
UNITED STATES TREAS NTS 1.750% 31/MAY/2016	1.750%	5/31/2016	15,350,604	15,379,650	29,046
UNITED STATES TREAS NTS 1%30/SEP/2016	1.000%	9/30/2016	14,114,996	14,135,660	20,664

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2013

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (loss)
US Treasury Notes - continued:					
UNITED STATES TREAS NTS 2.375% 31/OCT/2014	2.375%	10/31/2014	\$ 15,108,550	\$ 15,113,700	\$ 5,150
UNITED STATES TREAS NTS 2.375%30/SEP/2014	2.375%	9/30/2014	15,081,956	15,085,500	3,544
UNITED STATES TREAS NTS 2.625% 31/DEC/2014	2.625%	12/31/2014	10,122,265	10,126,200	3,935
Total US Treasury Notes			<u>321,173,048</u>	<u>321,482,404</u>	<u>309,356</u>
Federal Farm Credit Banks Cons Long:					
FEDERAL AGRIC MTG CORP MTNS B FR 0.675%19/JAN/2016	0.675%	1/19/2016	3,013,647	3,010,800	(2,847)
FEDERAL AGRIC MTG CORP MTNS B FR 0.27%17/APR/2015	0.270%	4/17/2015	6,399,092	6,406,976	7,884
FEDERAL AGRIC MTG CORP MTNS B FR 0.65%10/JUL/2017	0.650%	7/10/2017	4,968,455	4,963,050	(5,405)
Total Federal Farm Credit Banks			<u>14,381,194</u>	<u>14,380,826</u>	<u>(368)</u>
Federal Home Loan Mortgage Co:					
FEDERAL HOME LOAN MORTGAGE CORP 0.5% BDS	0.500%	8/28/2015	15,009,648	15,051,450	41,802
FEDERAL HOME LOAN MORTGAGE CORP 1% BDS 03/MAR/2017	1.000%	3/8/2017	10,064,860	10,034,500	(30,360)
FEDERAL HOME LOAN MORTGAGE CORP 2% BDS 25/AUG/2016	2.000%	8/25/2016	20,363,019	20,602,000	238,981
FEDERAL HOME LOAN MORTGAGE CORP 2.50% NTS	2.500%	5/27/2016	10,382,817	10,372,100	(10,717)
Total Federal Home Loan Mortgage Co.			<u>55,820,344</u>	<u>56,060,050</u>	<u>239,706</u>
Federal National Mortgage Association:					
FEDERAL NATIONAL MORTGAGE ASSOC 0.5% NTS	0.500%	7/2/2015	5,011,675	5,016,200	4,525
FED NATL MORT ASSC 1.375% NTS 15/NOV/2016 USD1000	1.375%	11/15/2016	5,019,254	5,072,000	52,746
FED NATL MORT ASSC 1.625% BDS 26/OCT/2015 USD1000	0.163%	10/26/2015	10,172,444	10,170,900	(1,544)
FEDERAL NATIONAL MORTGAGE ASSOC 0.375% BDS	0.375%	12/21/2015	9,988,875	10,010,900	22,025
FEDERAL NATIONAL MORTGAGE ASSOC 5% BDS 15/MAR/2016	0.500%	3/15/2016	8,066,998	8,085,075	18,077
Total Federal National Mortgage Association			<u>38,259,246</u>	<u>38,355,075</u>	<u>95,829</u>
Federal Home Loan Banks:					
FEDERAL HOME LOAN BANKS BOND FIXED .19%	0.190%	1/6/2015	14,999,800	15,005,250	5,450
FEDERAL HOME LOAN BANKS CONS BD 0.5% 12/JUN/2015	0.500%	6/12/2015	10,023,200	10,025,500	2,300
Total Federal Home Loan Banks			<u>25,023,000</u>	<u>25,030,750</u>	<u>7,750</u>
Financing Corp					
FINANCING CORP CPN FICO STRIPS SER 12 INT PMT ON	0.000%	6/6/2015	5,867,389	5,852,908	(14,482)
FINANCING CORP CPN FICO STRIPS SER 19-INT PMT ON	0.000%	6/6/2015	2,830,059	2,823,074	(6,985)
Total Financing Corp			<u>8,697,448</u>	<u>8,675,981</u>	<u>(21,467)</u>
Financing Federal Bank					
FINANCING-FED BK ENTY CPN STRP GENINTPMT	0.000%	4/6/2015	7,286,104	7,270,420	(15,684)
Total Financing Federal Bank			<u>7,286,104</u>	<u>7,270,420</u>	<u>(15,684)</u>
Total US Government Securities			<u>470,640,384</u>	<u>471,255,506</u>	<u>615,122</u>
Total Bond Proceeds Investment Pool #1 (Tax Exempt) (Part 2 of the Consolidated Investment Pool)			<u>550,523,131</u>	<u>551,158,565</u>	<u>635,435</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
Year Ended June 30, 2014

Security Description	Book Value	Market Value	Unrealized Gain (loss)
Local Government Investment Pool (Short-term Investment Pool)	\$ 567,033,429	\$ 567,088,417	\$ 54,988
General Fund Investment Pool (State Funds Investment Pool)	2,566,715,057	2,571,917,829	5,202,772
Bond Proceeds Taxable (Consolidated Investment Pool)	781,462,499	782,653,301	1,190,802
Bond Proceeds Tax Exempt (Consolidated Investment Pool)	<u>550,523,131</u>	<u>551,158,565</u>	<u>635,435</u>
Grand total of all funds	<u>\$ 4,465,734,116</u>	<u>\$ 4,472,818,112</u>	<u>\$ 7,083,996</u>

Reconciliation to financial statements:

Per Schedule of Investments	\$ 4,472,818,112
Less: Interfund Investments in Local Government Investment Pool, General Fund Investment Pool*	(30,001,301)
Bond Proceeds Taxable*	(1,308,818)
Bond Proceeds Tax Exempt*	<u>(2,019,089)</u>
Total Interfund Investments	<u>(33,329,208)</u>
Total Cash and Investments, Statement of Fiduciary Net Position	<u>\$ 4,439,488,904</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, 2014

	<u>Investment Trust Funds</u>			
	<u>LGIP Short-term Investment Pool</u>	<u>Consolidated Investment Pool BPIP # 1 and # 2</u>	<u>State Funds Investment Pool</u>	<u>Total (Memorandum Only)</u>
ASSETS				
Cash and investments:				
Fiscal Agent Bank Account	\$ -	\$ -	\$ 177,579,035	\$ 177,579,035
Cash in banks	263,988,806	11,682,455	104,244,852	379,916,113
Certificates of Deposit	-	21,200,000	68,500,000	89,700,000
U.S. Government securities	303,099,611	1,139,915,193	1,415,490,570	2,858,505,373
Corporate Bonds	-	-	-	-
Municipal Bonds	-	38,029,501	51,758,881	89,788,382
Interfund Investments	(33,329,208)	3,327,906.97	30,001,301.00	-
Repurchase agreements	-	119,656,810	724,343,190	844,000,000
	<u>533,759,209</u>	<u>1,333,811,866</u>	<u>2,571,917,829</u>	<u>4,439,488,904</u>
Total cash and investments				
Securities receivable	-	160,047	22,292	182,339
Other receivables	-	-	-	-
Accrued interest receivable	295,970	3,182,727	6,594,531	10,073,228
	<u>295,970</u>	<u>3,182,727</u>	<u>6,594,531</u>	<u>10,073,228</u>
TOTAL ASSETS	<u>\$ 534,055,179</u>	<u>\$ 1,337,154,640</u>	<u>\$ 2,578,534,652</u>	<u>\$ 4,449,744,471</u>
LIABILITIES				
Due to Broker	\$ -	\$ 36,398,328	\$ 8,749,811	\$ 45,148,139
Other liabilities	-	-	28,307	28,307
	<u>-</u>	<u>36,398,328</u>	<u>8,778,118</u>	<u>45,176,446</u>
TOTAL LIABILITIES	<u>-</u>	<u>36,398,328</u>	<u>8,778,118</u>	<u>45,176,446</u>
NET POSITION - HELD IN TRUST	<u>534,055,179</u>	<u>1,300,756,312</u>	<u>2,569,756,534</u>	<u>4,404,568,025</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 534,055,179</u>	<u>\$ 1,337,154,640</u>	<u>\$ 2,578,534,652</u>	<u>\$ 4,449,744,471</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 9 - COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2014

	Investment Trust Fund			
	LGIP Short-term Investment Pool	Consolidated Investment Pool BPIP # 1 and # 2	State Funds Investment Pool	Total (Memorandum Only)
Additions:				
Investment income	\$ 996,835	\$ 7,130,246	\$ 18,530,964	\$ 26,658,045
Deposits	35,502,737	106,342,435	28,057,434,041	28,199,279,213
Deductions:				
Expenses - management fees	(295,680)	-	-	(295,680)
Withdrawals	(33,329,208)	-	(27,958,234,954)	(27,991,564,162)
Subtotal of Change in Net Position	<u>2,874,684</u>	<u>113,472,681</u>	<u>117,730,051</u>	<u>234,077,416</u>
Net position, held in trust for pool participants, June 30, 2013	<u>531,180,495</u>	<u>1,187,283,631</u>	<u>2,452,026,483</u>	<u>4,170,490,609</u>
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>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
June 30, 2014

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	\$ 124,138	\$ 124,138	\$ -	\$ -	\$ 1,579,184	\$ 1,579,184
(FHLB)	Western Bank	3,612,064	250,000	2,521,548	-	3,043,771	522,223
Albuquerque							
(WFB)	Bank of America	906,199	250,000	328,100	-	4,924,507	4,596,408
(WFB)	Bank of the West	240,223,238	250,000	119,986,619	-	197,254,452	77,267,832
(WFB)	Compass Bank	2,105,997	250,000	1,893,117	-	6,690,625	4,797,508
(FHLB)	U.S. Bank N.A.	31,293,779	250,000	15,521,889	35,000,000	-	19,478,111
(WFB)	New Mexico Bank & Trust	154,281	154,281	-	-	273,070	273,070
(USB)	Wells Fargo Bank, N.A.	173,035,759	250,000	86,392,879	-	183,022,567	96,629,688
Artesia							
(FHLB)	First American Bank	58,632	58,632	-	-	-	-
(FHLB)	Western Bank	-	-	-	-	-	-
Belen							
(USB)	My Bank	-	-	-	-	-	-
Carlsbad							
(FHLB)	Carlsbad National Bank	820	820	-	-	-	-
(FHLB)	Western Commerce Bank	4,099,156	250,000	1,924,578	-	2,254,510	329,932
Clayton							
(FHLB)	Farmers & Stockmens Bank	10,070,288	250,000	4,910,144	-	5,117,778	207,634
(FHLB)	First National Bank of NM	4,573,304	250,000	2,161,652	-	2,333,080	171,428
Clovis							
(TIB)	Bank of Clovis	667,658	250,000	208,829	-	827,080	618,251
	Citizens Bank	15,078	15,078	-	-	-	-
(FHLB)	Western Bank	3,100,000	250,000	1,425,000	-	1,985,080	560,080
Espanola							
(USB)	Valley National Bank	500	500	-	-	-	-
Gallup							
(FHLB)	Pinnacle Bank	-	-	-	-	-	-
Grants							
(TIB)	Grants State Bank	30,106	30,106	-	-	-	-
Hobbs							
(TIB)	Lea County State Bank	203,592	203,592	-	100,000	-	100,000
Las Cruces							
(WFB)	Bank of the Rio Grande	-	-	-	-	-	-
(TIB)	Citizens Bank	3,597	3,597	-	-	-	-
Las Vegas							
(FHLB)	Southwest Capital Bank	10,785,251	250,000	5,267,626	-	5,352,098	84,472
(FHLB)	Community First Bank LV	205,571	250,000	(45,318)	-	556,467	601,785
SUBTOTAL		<u>485,269,009</u>	<u>3,840,745</u>	<u>242,496,663</u>	<u>35,100,000</u>	<u>415,214,269</u>	<u>207,817,606</u>

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)
June 30, 2014

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	\$ 135,854	\$ 135,854	\$ -	\$ -	\$ -	\$ -
Los Alamos							
(FHLB)	Los Alamos National Bank	16,809	16,809	-	-	-	-
Portales							
(TIB)	James Polk Stone Community Bank	168,050	168,050	-	-	158,703	158,703
Raton							
(TIB)	International State Bank	91,421	91,421	-	-	-	-
Roswell							
(FHLB)	Bank of the Southwest	395,440	250,000	72,720	-	329,365	256,645
(TIB)	Valley Bank of Commerce	128,776	128,776	-	-	-	-
Ruidoso							
(FHLB)	First National Bank	-	-	-	-	-	-
Santa Fe							
(FHLB)	Century Bank	250,000	250,000	-	-	17,090,221	17,090,221
(FHLB)	Community Bank	162,462	162,462	-	-	-	-
(WFB)	First National Bank	10,000,000	250,000	4,875,000	-	7,629,113	2,754,113
Silver City							
(FHLB)	AM Bank	19,031	24,150	(2,560)	-	-	2,560
Socorro							
(BA)	First State Bank	74,234	74,234	-	-	-	-
Taos							
(TIB)	Centinel Bank	97,650	97,650	-	-	-	-
(FHLB)	Peoples Bank	18,751	18,751	-	-	-	-
SAVINGS AND LOANS:							
Alamogordo							
(FHLB)	BANK'34	2,000,935	250,000	1,785,954	-	2,268,925	482,971
Albuquerque							
(FHLB)	Union Savings Bank	4,000,000	250,000	2,812,500	-	2,941,745	129,245
Roswell							
(FHLB)	Washington Federal	27,633	27,633	-	-	-	-
Santa Fe							
(FHLB)	Charter Bank for Savings	-	-	-	-	-	-
CREDIT UNION:							
Santa Fe							
	Guadalupe Credit Union	250,000	250,000	-	-	-	-
SUBTOTAL		<u>17,837,046</u>	<u>2,445,790</u>	<u>9,543,614</u>	<u>-</u>	<u>30,418,072</u>	<u>20,874,457</u>

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, 2014

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required	Collateral Pledged		Excess (under)
					Surety Bond Letter of Credit	Securities	
ANCILLARY RECEIVERSHIP ACCOUNTS:							
Albuquerque							
(BA)	Bank of America, N.A.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(FHLB)	First Community Bank	-	-	-	-	-	-
(WFB)	Wells Fargo Bank, N.A.	-	-	-	-	-	-
Espanola							
(TIB)	Valley National Bank	-	-	-	-	-	-
Los Alamos							
(FHLB)	Los Alamos National Bank	-	-	-	-	-	-
Santa Fe							
(WFB)	Century Bank	727,110	250,000	357,833	-	528,110	170,278
(WFB)	First National Bank	-	-	-	-	-	-
FISCAL AGENT BANK:							
(USB)	Wells Fargo Bank N.A.	51,138,278	-	25,569,139	-	80,490,971	54,921,832
(BA)	Bank of America	-	-	-	-	-	-
SUBTOTAL		<u>51,865,388</u>	<u>250,000</u>	<u>25,926,971</u>	<u>-</u>	<u>81,019,081</u>	<u>55,092,110</u>
TOTAL		<u>\$ 554,971,442</u>	<u>\$ 6,536,534</u>	<u>\$ 277,967,249</u>	<u>\$ 35,100,000</u>	<u>\$ 526,651,422</u>	<u>\$ 283,784,173</u>
Reconciliation to Note 3:							
Fiscal Agent Account		\$ 51,138,278	\$ -	\$ 25,569,139	\$ -	\$ 80,490,971	\$ 54,921,832
Certificates of Deposit		59,950,000	1,873,023	31,825,989	-	35,384,724	3,558,735
		<u>111,088,278</u>	<u>1,873,023</u>	<u>57,395,128</u>	<u>-</u>	<u>115,875,695</u>	<u>58,480,567</u>
Add:							
Agency Deposits		472,078,200	4,565,017	235,608,606	35,100,000	410,531,587	210,022,981
Ancillary Receivership Accounts		727,110	250,000	357,833	-	528,110	170,278
		<u>472,805,310</u>	<u>4,815,017</u>	<u>235,966,439</u>	<u>35,100,000</u>	<u>411,059,697</u>	<u>210,193,259</u>
		<u>\$ 583,893,588</u>	<u>\$ 6,688,040</u>	<u>\$ 293,361,566</u>	<u>\$ 35,100,000</u>	<u>\$ 526,935,392</u>	<u>\$ 268,673,826</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, 2014

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	\$ 101,841,000	\$ 103,877,820	\$ 104,704,417	FNMA	3138W9S43	\$ 826,597
JP Morgan Chase	New York, NY	141,379,000	144,206,580	145,214,724	FNMA	31418VYC0	1,008,144
JP Morgan Chase	New York, NY	133,421,000	136,089,420	136,970,519	FNMA	312939WB3	881,099
JP Morgan Chase	New York, NY	167,359,000	170,706,180	171,919,864	FNMA	31418RGS4	1,213,684
JP Morgan Chase	New York, NY	200,000,000	204,000,000	206,781,296	FNMA	3132HLNH2	2,781,296
JP Morgan Chase	New York, NY	<u>100,000,000</u>	<u>102,000,000</u>	<u>107,867,826</u>	FNMA	31418AM39	<u>5,867,826</u>
Total		<u>\$ 844,000,000</u>	<u>\$ 860,880,000</u>	<u>\$ 873,458,645</u>			<u>\$ 12,578,645</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, 2014

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance,</u> <u>June 30, 2014</u>
ASSETS				
Investment in State General Fund Investment Pool	\$ 2,368,665	\$ -	\$ 2,368,665	\$ -
TOTAL ASSETS	<u>\$ 2,368,665</u>	<u>\$ -</u>	<u>\$ 2,368,665</u>	<u>\$ -</u>
LIABILITIES				
Due to State General Fund	\$ 2,368,665	\$ -	\$ 2,368,665	\$ -
TOTAL LIABILITIES	<u>\$ 2,368,665</u>	<u>\$ -</u>	<u>\$ 2,368,665</u>	<u>\$ -</u>

SCHEDULE OF FINDINGS AND RESPONSES



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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 James B. Lewis, State Treasurer
Honorable Hector H. Balderas, State Auditor
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, 2014, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated December 15, 2014.

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.

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 and 2014-002 to be a material weakness.

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. There were no significant deficiencies in fiscal year 2014.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Audit Findings and Responses as items 2014-001 and 2014-003.

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
December 15, 2014

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2014**

Section I – Financial Statement Findings

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

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.

Criteria: Payments made after year end that are submitted to FCD before 5:00 P.M. on July 31, 2014 can be included in fiscal year 2014 if the expenditures relate to fiscal year 2014.

Cause: All supporting documentation supports the fact that the expenditure for this accounts payable item relate to fiscal year 2014. There was a certification by the CFO also certifying the expenditures relate to fiscal year 2014 but when the voucher batch report for this payment was submitted to FCD the period was entered as fiscal year 2015.

Effect: Understatement of liabilities for the General Fund at year end.

Recommendation: We recommend that Management carefully review all supporting documentation for expenditures including review of the final voucher batch report before submitting them to FCD to make sure all expenditures are booked in the proper period.

State Treasurer's Office Response: The State Treasurer's Office concurs with this finding and has instituted procedures regarding the end of year processing of payments. All Voucher Batch Reports for previous FY invoices will be reviewed by the Budget and Finance Division Director and the Bureau Chief to ensure that the proper accounting date is recorded in SHARE.

2014-002 Interagency Transactions (Material Weakness)

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.

Criteria: MAPs FIN 3.1 establishes policies and procedures for state agencies to follow to ensure accurate recording and reporting of interagency transactions. Furthermore, as required by GASB 33, derived tax revenues should be recognized when the underlying exchange has occurred and the resources are available.

Cause: Management oversight, lack of timely communication among state agencies to ensure interagency transactions are being recorded consistently amongst each other and in accordance with generally accepted accounting principles.

Effect: Misstatement to the financial statements, inconsistencies with other State Agencies.

Auditor's Recommendation: We recommend management continue to be proactive in working with other state agencies in which the Department transacts with, to ensure timely and accurate reporting of these transactions. Furthermore, the Department should communicate with the Statewide Financial Reporting and Accounting Bureau regarding any interagency

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2014

Section I – Financial Statement Findings (continued)

2014-002 Interagency Transactions (Material Weakness) (continued)

transactions in which the Department is unable to resolve among the agency itself or guidance is needed regarding the appropriate recognition of the transactions.

State Treasurer’s Office Response: The State Treasurer’s Office understands that this is a statewide issue regarding state agencies’ interagency payables and receivables. The State Treasurer’s Office will continue to work with the Department of Finance and Administration and other state agencies in order to comply with MAPs FIN 3.1 and GASB 33.

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

Condition: On July 1, 2006, the State of New Mexico implemented the SHARE accounting system requiring changes to business processes at the State Treasurer’s Office, DFA and other State Agencies. The State Treasurer’s Office was not allowed to maintain the TRACS subsidiary system that provided for reporting of each State Agency’s interest in the State General Fund Investment Pool (SGFIP) when the transition to the SHARE system occurred due to lack of funding for redundant systems.

In June 2012, the State Controller of the Financial Control Division at the DFA commissioned a diagnostic report with the purpose of assessing the current state of cash reconciliation and determining recommendations for remediating the system configuration and business process issues pertaining to the book to bank processes. Some key observations revealed by the diagnostic report relating to the Treasury application are summarized below:

1. Complete functionality available in the SHARE Treasury application was not implemented. The premise of the reconciliation functionality in PeopleSoft is that all system transactions have an accounting entry on the GL and that each bank transaction reconciles to the system transaction. This is not the case for the current implementation of SHARE.

Criteria: A Treasury system should allow for proper reconciliation of bank transactions with the GL.

Cause: When SHARE was first implemented in fiscal year 2007, the implementation was not thoroughly and properly planned by the State, and 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:

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2014**

Section I – Financial Statement Findings (continued)

**Finding 2007-04 Reporting of Agency Interest in the State General Fund Investment Pool
(Material Weakness), Repeated (continued)**

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 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.

Section II – Federal Award Findings

There were no findings for the year ended June 30, 2014.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2014

Section III – Other Matters

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

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.

Criteria: NMSA 6-10-2.1 "The state treasurer shall identify and allocate to the general fund all earnings, including realized and unrealized gains and losses, from the investment of all accounts or funds in his custody unless the allocation of the earnings is:

- A. otherwise provided by law;
- B. prohibited by federal law creating the fund or the account or by specific court order; or
- C. from the investment of a permanent fund and the use of the interest and income from the fund is restricted by constitutional or statutory provisions to particular purposes.

Per NMSA 6-10-28 "The state treasurer, upon order of the state board of finance, shall invest the proceeds of state revenue and general obligation bonds until the money is needed for the purpose for which the bonds were authorized and sold. Income from these investments shall be applied to payment of principal of and interest on the bonds, for the purposes for which the bonds were issued or to pay rebate, penalty, interest and other obligations of the state relating to the bonds under the Internal Revenue Code of 1986, as amended, including any regulations applicable under the code.

Cause: The fiscal year 2014 earnings allocation erroneously included Bond Proceed Investment Pools' earnings. Additionally, the fiscal year 2014 earnings allocation calculation was determined on a cash basis, and did not include unrealized gains and losses, as required by Statute.

Effect: The State General Fund's recorded earnings from the State General Fund Investment Pool were overstated by \$17.2 million, requiring adjustment. Additionally, the State utilizes the earnings allocation to develop spending projections. Incorrect allocation of earnings could affect the reliability of the State's spending projections.

Recommendation: We recommend that Management change their process for the allocation of earnings to the State General Fund to be in compliance with state statutes.

State Treasurer's Office Response: NMSA 6-10-2.1 does not clearly defines= how "earnings" are calculated and distributed to the state general fund.

Since early 2014, the State Treasurer's Office has met with and has been in discussions with the Department of Finance & Administration (DFA) and the Legislative Finance Committee (LFC) to resolve the issues regarding earnings distribution to the state general fund.

A letter from the State Treasurer was sent to DFA asking for their input regarding the general fund earning this calculation. As of this date we have not received a response.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2014

Section III – Other Matters (continued)

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

The Legislative Finance Committee has agreed that they can determine what data they need based on the information the State Treasurer's Office provides.

The State Treasurer's Office has discussed the definition of "earnings" and the allocation of earnings with the State Treasurer's investment advisor, internal and external legal counsel.

The State Treasurer's Office can provide all information regarding earnings. The Office wants to ensure that stakeholders, such as DFA, receive information in the form and on the basis (cash or accrual) to fit their intended purpose.

Unless there are objections from DFA, the State Treasurer's Office will calculate earnings and transfer funds using the accrual method of accounting, using the fair value method which takes earnings and adjusts for unrealized and realized gains and losses, fees and expenses and amortization and accretion.

With regard to the cause listed that FY 2014 BPIP earnings are erroneously transferred to the general fund, the State Treasurer's office provides clarification and a resolution going forward. All BPIP earnings due to participants were distributed appropriately. However, excess income was erroneously allocated to the general fund. A new process will be implemented by the investment accounting bureau whereby they will prepare a letter to ensure the correct cash inflows are posted to Fund 80100 to make the appropriate distribution.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2014**

Section I – Financial Statement Findings

Finding 2013-02 Prior Year Understatement of Interest in State General Fund Investment Pool (Significant Deficiency), Resolved

Condition: The Severance Tax Bonding Fund's (STB) interest in the State General Fund Investment Pool (SGFIP) was understated by \$2,190,933 in fiscal year 2012, requiring a prior period adjustment in fiscal year 2013.

Finding 2009-06 Reporting of Additions and Deductions to Fiduciary Funds (Control Deficiency), Resolved

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

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

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 II – Federal Award Findings

There were no findings for the year ended June 30, 2013.

Section III – Other Matters

Finding 2013-01 Cash Receipts Not Deposited Within Statutory Time Frame (Compliance), Resolved

Condition: During our compliance test work over cash receipts, we noted one out of twenty-two cash receipts tested were not deposited within twenty-four hours. The dollar amount of this one item was \$431,667, and the total dollar amount of the entire sample of 22 items was \$19,166,312.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
EXIT CONFERENCE
June 30, 2014**

An exit conference was held with the State Treasurer's Office on December 12, 2014. 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**

James B. Lewis, State Treasurer
Marilyn Hill, Deputy State Treasurer
Linda T. Roseborough, Chief Investment Officer, Investment Division Director
Clarence L. Smith, Chief Operations Officer, Operations Division
Ronald Crespín, Chief Financial Officer and Budget and Finance Division Director
Patricia J. Ortiz, Finance & Budget Bureau Chief
Victor Vigil, Cash Management Bureau Chief
Kirene Bargas, Investment Transaction and Compliance Bureau Chief
Steve Vigil, Investment Accounting Bureau Chief

CLIFTONLARSONALLEN LLP

Janet Pacheco-Morton, CPA, CGFM, Principal
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

[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: \$129,195,000 State of New Mexico Severance Tax Bonds, Series 2015A
\$69,745,000 State of New Mexico Supplemental Severance Tax Bonds, Series 2015B

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 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).

Finally, at any given time, a number of protests/refund claims are pending at the administrative level. As of June 15, 2001, payments on severance tax assessments issued by TRD, including any on undervaluation assessments made after that date, typically are held in a suspense fund until the TRD Secretary determines that there is no substantial risk of protest or other litigation. *See* NMSA 1978, § 7-1-6.20(B) (2001).

While we are unable to predict with reasonable certainty the outcome of pending litigation and administrative proceedings, they would not, in our opinion, reasonably be expected to have a material effect on the bondholders.

This office is not aware of any other pending or threatened litigation that would affect the severance tax of the state or the authority of the state to issue these severance tax bonds.

Sincerely,

Assistant Attorney General

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APPENDIX D

FORM OF OPINION OF CO-BOND COUNSEL

**STATE OF NEW MEXICO SEVERANCE TAX BONDS
SERIES 2015A**

**STATE OF NEW MEXICO SUPPLEMENTAL SEVERANCE TAX BONDS
SERIES 2015B**

August __, 2015

State Board of Finance
State of New Mexico

\$129,195,000
State of New Mexico
Severance Tax Bonds
Series 2015A

\$69,745,000
State of New Mexico
Supplemental Severance Tax Bonds
Series 2015B

Ladies and Gentlemen:

We have acted as co-bond counsel to the New Mexico State Board of Finance (the "Board") in connection with the sale of the State of New Mexico, \$129,195,000 Severance Tax Bonds, Series 2015A (the "2015A Bonds") and the State of New Mexico, \$69,745,000 Supplemental Severance Tax Bonds, Series 2015B (the "2015B Bonds" and together with the 2015A 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, respectively, the issuance and sale of the 2015A Bonds and the 2015B Bonds adopted by the Board on June 24, 2015 and July 21, 2015 (collectively, the "Bond Legislation"), and the Tax Certificate of the State relating to the 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 Bond Legislation.

Regarding questions of fact material to our opinions, we have relied upon the State's and Board's respective 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. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Furthermore, we have assumed 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 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations of 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 of New Mexico. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or any other statements made in connection with any offer or sale of the Bonds and express herein no opinion relating thereto.

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

1. The Bonds constitute valid and binding special limited obligations of the State in accordance with the terms and provisions thereof.

2. The 2015A 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 2015A 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 the paragraph, we express no opinion regarding the priority of the pledge or lien of the 2015A Bonds on the moneys on deposit in the Severance Tax Bonding Fund.

3. The 2015B 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 2015B 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, provided however, that such pledge and any resulting lien is expressly made subordinate to the pledge or lien on such net receipts and other moneys in the Severance Tax Bonding Fund in favor of any Senior Obligations outstanding or hereafter issued. Pursuant to the terms and conditions of the Bond Legislation, the Board may also issue additional Supplemental Obligations on a parity with the Series 2015B Bonds, but subordinate to any Senior Obligations outstanding and hereafter issued. Except as described in the paragraph, we express no opinion regarding the priority of the pledge or lien of the 2015B Bonds on the moneys on deposit in the Severance Tax Bonding Fund.

4. 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.

5. The Bond Legislation is valid and binding on the Board and is enforceable in accordance with its terms.

6. Interest on the 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 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. We express no opinion regarding any other federal or state income tax consequences arising from the receipt or accrual of interest on or ownership or disposition of the Bonds.

7. The 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

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 \$129,195,000 State of New Mexico Severance Tax Bonds, Series 2015A (the “Series 2015A Bonds”) and the \$69,745,000 State of New Mexico Supplemental Severance Tax Bonds, Series 2015B (the Series 2015B Bonds,” and collectively with the Series 2015A Bonds, the “Bonds”). The Bonds are being issued pursuant to Bond Resolutions adopted by the Board on June 24, 2015 and July 21, 2015 collectively, the “Resolution”).

BACKGROUND

1. The Series 2015A Bonds are being issued to finance capital improvements approved by the State Legislature

2. In order to allow the underwriters of the Bonds to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2 12), to the date hereof, the State is required to make certain continuing disclosure undertakings for the benefit of owners (including beneficial owners) of the Bonds.

3. This Disclosure Undertaking is intended to satisfy the requirements of said Rule 15c2-12, as in effect on the date hereof.

STATE COVENANTS AND AGREEMENTS

Section 1. Definitions.

(a) “Annual Financial Information” means the financial information or operating data with respect to the State, delivered at least annually pursuant to Section 2(a) and 2(b) hereof, of the type set forth in the sections of the final Official Statement identified on Exhibit A hereto. Annual Financial Information includes Audited Financial Statements.

(b) “Audited Financial Statements” means the annual financial statements for the State, prepared in accordance with generally accepted accounting principles, as in effect from time to time, audited by a firm of certified public accountants.

(c) “Event Information” means the information delivered pursuant to Section 2(d) hereof.

(d) “MSRB” means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia, 22314, phone (703) 797-6600, fax (703) 797-6700.

(e) “National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following is the only National Repository:

Electronic Municipal Market Access (“EMMA”)
c/o Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, Virginia 22314
www.emma.msrb.org
(703)797-6600

(f) “Official Statement” means the Official Statement dated June __, 2015, delivered in connection with the original issue and sale of the Bonds.

(g) “Repository” means “EMMA” and any SID.

(h) “Rule” means Rule 15c2 12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2 12), as the same may be amended.

(i) “SEC” means the Securities and Exchange Commission.

(j) “SID” means any State Information Depository operated or designated by the State that receives information from all issuers within the State. As of the date of this Disclosure Undertaking, no SID exists for the State.

Section 2. Provision of Annual Information and Reporting of Event Information.

(a) Commencing with the fiscal year ending June 30, 2015 and annually while the Bonds remain outstanding, the State agrees to provide or cause to be provided the Annual Financial Information to each Repository annually.

(b) Such Annual Financial Information shall be provided not later than 210 days after the end of each fiscal year for the State (i.e., each June 30). If the Audited Financial Statements are not available by the time the other Annual Financial Information must be provided, unaudited financial statements shall be provided as part of the Annual Financial Information. If not provided as a part of the Annual Financial Information, the Audited Financial Statements will be provided when available.

(c) The State may provide Annual Financial Information by specific reference to other documents, including information reports and official statements relating to other debt issues of the State, which have been submitted to each Repository; provided, however, that if the document so referenced is a final official statement within the meaning of the Rule, such final official statement must also be available from the MSRB.

(d) At any time the Bonds are outstanding, the State shall provide, in a timely manner, not in excess of ten business days, to the MSRB and any SID notice of any of the following events with respect to the Bonds (provided that any event under clauses (ii), (vii), (viii), (x), (xiv) and (xv) will be provided only if material):

- i. Principal and interest payment delinquencies;
- ii. Non-payment related defaults;

- iii. Unscheduled draws on debt service reserves reflecting financial difficulties;
- iv. Unscheduled draws on credit enhancements reflecting financial difficulties;
- v. Substitution of credit or liquidity providers, or their failure to perform;
- vi. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds;
- vii. Modifications to rights of Bond holders;
- viii. Bond calls, other than mandatory sinking fund redemption;
- ix. Defeasances;
- x. Release, substitution or sale of any property securing repayment of the securities;
- xi. Rating changes;
- xii. Tenders offers;
- xiii. Bankruptcy, insolvency, receivership or similar proceedings;
- xiv. Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated person or their termination; and
- xv. Appointment of a successor or additional trustee or the change of name of a trustee.

(e) At any time the Bonds are outstanding, the State shall provide, in a timely manner, to the MSRB and any SID notice of any failure of the State to timely provide the Annual Financial Information as specified in Sections 2(a) and 2(b) hereof.

Section 3. Method of Transmission. Subject to technical and economic feasibility, the State shall employ such methods of electronic or physical information transmission as is requested or recommended by the Repositories or the MSRB unless otherwise required by law.

Section 4. Enforcement. The obligations of the State hereunder shall be for the benefit of the owners (including the beneficial owners) of the Bonds. The owner or beneficial owner of any Bonds is authorized to take action to seek specific performance by court order to compel the State to comply with its obligations under this Disclosure Undertaking, which action shall be the exclusive remedy available to it or any other owners or beneficial owners of the Bonds. Any such action shall be brought only in a State court of competent jurisdiction in Santa Fe County, New Mexico. Breach of the obligations of the State hereunder shall not constitute an event of default under the Resolution and none of the rights and remedies provided by the Resolution shall be available to the owners (including the beneficial owners) of the Bonds.

Section 5. Additional Information. Nothing in the Disclosure Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other annual information or notice of occurrence of an event which is not Event Information, in addition to that which is required by this Disclosure Undertaking; provided that the State shall not be required to do so. If the State chooses to include any annual information or notice of occurrence of an event in addition to that which is specifically required by this Disclosure Undertaking, the State shall have no obligation under this Disclosure Undertaking to update such information or include it in any future annual filing or Event Information filing.

Section 6. Term. This Disclosure Undertaking shall be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of (i) the date all principal and interest on the Bonds shall have been paid or legally defeased pursuant to the terms of the Resolution; (ii) the date that the State shall no longer constitute an “obligated person” with respect to the Bonds within the meaning of the Rule; or (iii) the date on which those portions of the Rule which require this Disclosure Undertaking are determined to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds.

Section 7. Amendments and Waivers. Notwithstanding any other provision of this Disclosure Undertaking, the State may amend this Disclosure Undertaking from time to time, and any provision of this Disclosure Undertaking may be waived, without the consent of the owners or beneficial owners of the Bonds upon the State’s receipt of an opinion of counsel experienced in federal securities laws to the effect that such amendment or waiver will not adversely affect compliance with the Rule. Any Annual Financial Information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information and Audited Financial Statements for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The State shall provide notice of any such amendment or waiver to each Repository.

Section 8. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the State and the owners (including beneficial owners) from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 9. Governing Law. This Disclosure Undertaking shall be governed by the laws of the State.

Date: _____, 2015

STATE BOARD OF FINANCE

By _____
President

By _____
Secretary

EXHIBIT A

Portions of the Official Statement
Containing the Type of Information
To Be Included As Annual Financial Information

1. SEVERANCE TAX BONDING FUND AND DEBT SERVICE REQUIREMENTS
 - Investments
 - Issuance of Severance Tax Bonds
 - State Capital Program
 - Outstanding and Additional Senior Severance Tax Bonds
 - Outstanding and Additional Supplemental Severance Tax Bonds
 - Table entitled "Severance Tax Bonding Fund Receipts, Disbursements and Transfers"
 - Table entitled "State of New Mexico Severance Tax Bonds - Projected Cash Receipts, Debt Service Requirements and Coverage"
 - Fiscal Year and Scheduled Debt Service columns
2. SEVERANCE TAX REVENUE
 - All
3. NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE
 - Natural Gas Production
 - Data for chart entitled: "Natural Gas Subject to Taxation: Production, Revenues and Average Price"
 - Severance Taxes on Natural Gas
 - All
4. OIL PRODUCTION AND SEVERANCE TAX REVENUE
 - Severance Taxes on Oil
 - All
5. COAL PRODUCTION AND SEVERANCE TAX REVENUE
 - Severance Tax Revenue on Coal
 - All
6. OTHER MINERAL PRODUCTION AND SEVERANCE TAXES
 - Any statements therein relating to the severance tax collected and tax rates
7. OTHER TAXES OF NATURAL RESOURCES NOT PLEDGED
 - All
8. APPENDIX A - GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO
 - All
9. STATE OF NEW MEXICO FINANCIAL STATEMENTS (Audited)

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