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A PROFESSIONAL CORPORATION
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January 24, 2007 (VIA EMAIL)

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024

FT Interactive Data
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041

State of New Mexico

Ladies and Gentlemen:

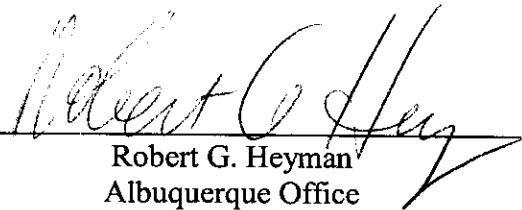
Attached is the Continuing Disclosure Annual Financial Information Filing (the "Annual Filing") of the State of New Mexico for Fiscal Year 2006. The Annual Filing is being filed in accordance with the New Mexico State Board of Finance's ("SBOF") continuing disclosure undertakings, which require the SBOF to annually provide Annual Financial Information, as defined in its continuing disclosure undertakings, with each Nationally Recognized Municipal Securities Information Repository.

January 24, 2007
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The State Treasurer's Office has not finalized its audit for Fiscal Year 2006. Unaudited financial information is included with the Annual Filing. Pursuant to the requirements of the SBOF's continuing disclosure undertakings, the SBOF will file the State Treasurer's Office audit for Fiscal Year 2006 with each Nationally Recognized Municipal Securities Information Repository as soon as it becomes available.

Very truly yours,

SUTIN, THAYER & BROWNE
A Professional Corporation

By 
Robert G. Heyman
Albuquerque Office

959744.doc

cc: New Mexico State Board of Finance
Attn: Olivia Padilla-Jackson

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement (please include name of state where Issuer is located):

Provide nine-digit CUSIP* numbers if available, to which the information relates:

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IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): State of New Mexico

Other Obligated Person's Name (if any): _____
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s) if available, of Issuer: 647310, 647293

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

Electronic (number of pages attached) 106 Paper (number of pages attached) _____

If information is also available on the Internet, give URL: _____

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**
(Financial information and operating data should not be filed with the MSRB.)

Fiscal Period Covered: July 1, 2005 - June 30, 2006

B. **Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: July 1, 2005 - June 30, 2006 (unaudited; Audited statement to follow when available)

C. **Notice of a Material Event pursuant to Rule 15c2-12** (Check as appropriate)

- | | |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the tax-exempt status of the security |
| 2. <input type="checkbox"/> Non-payment related defaults | 7. <input type="checkbox"/> Modifications to rights of security holders |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties | 9. <input type="checkbox"/> Defeasances |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
| | 11. <input type="checkbox"/> Rating changes |

D. **Notice of Failure to Provide Annual Financial Information as Required**

E. **Other Secondary Market Information** (Specify): _____

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name Olivia Padilla-Jackson Title Director
Employer New Mexico State Board of Finance
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Dissemination Agent Contact, if any:

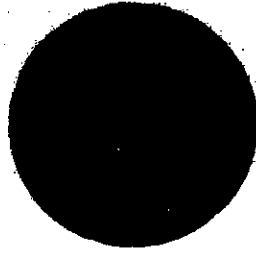
Name _____ Title _____
Employer _____
Address _____ City _____ State _____ Zip Code _____
Telephone _____ Fax _____
Email Address _____ Relationship to Issuer _____

Obligor Contact, if any:

Name _____ Title _____
Employer _____
Address _____ City _____ State _____ Zip Code _____
Telephone _____ Fax _____
Email Address _____ Obligor Web Site Address _____

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____



**THE STATE OF NEW MEXICO
CONTINUING DISCLOSURE
ANNUAL FINANCIAL INFORMATION FILING**

FISCAL YEAR 2006

**NEW MEXICO
STATE BOARD OF FINANCE**

January 2007

**STATE OF NEW MEXICO
OUTSTANDING AND ADDITIONAL BONDS**

CAPITAL PROGRAM

Capital projects funded by the State of New Mexico (the "State") are financed primarily by surplus State general fund balances, General Obligation Bonds, Severance Tax Bonds (including Supplemental or Subordinated Severance Tax Bonds), Transportation Bonds (backed primarily by the State Road Fund) and obligations of the New Mexico Finance Authority. Table 1 details capital funding, by source, for fiscal years 2002 through 2006 and for the first six months of Fiscal Year 2007.

**TABLE 1
Principal Sources of Capital Project Funding
Fiscal Year Ended June 30
(Dollars in millions)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u> (As of Dec. 31) ⁽³⁾
Proceeds from General Obligation Bonding Program						
General Obligation Bonds	\$ --	\$ 130.9	\$ --	\$ 111.9	\$ --	\$ --
Subtotal	\$ 0.0	\$ 130.9	\$ 0.0	\$ 111.9	\$ 0.0	\$ 0.0
Proceeds from Severance Tax Bonding Program						
Severance Tax Bonds	\$ 67.0	\$ 73.9	\$ 71.0	\$ 85.6	\$ 136.1	\$ --
Severance Tax Funding Notes ⁽¹⁾	103.0	56.3	63.7	87.8	102.1	24.4
Supplemental Severance Tax Bonds	65.0	45.0	10.0	10.0	--	--
Supplemental Severance Tax Funding Notes ⁽¹⁾	35.1	111.8	151.8	213.3	193.6	145.8
Subtotal	\$ 270.1	\$ 287.0	\$ 296.5	\$ 396.7	\$ 431.8	\$ 170.2
Proceeds From Other Sources						
General Fund	\$ 76.0	\$ 36.9	\$ 183.4	\$ 238.6	\$ 454.6	\$ --
Special Funds	9.7	31.5	72.0	95.0	5.6	--
Transportation Bonds ⁽²⁾	165.0	16.0	743.6	--	--	459.4
New Mexico Finance Authority ⁽⁴⁾	34.7	--	39.0	5.6	23.6	23.2
Subtotal	\$ 285.4	\$ 84.4	\$ 1,038.0	\$ 339.2	\$ 483.8	\$ 482.6
Total	\$ 555.5	\$ 502.3	\$ 1,334.5	\$ 847.8	\$ 915.6	\$ 652.8

⁽¹⁾ The Board, in order to take advantage of Severance Tax Bonding Fund revenue that would otherwise be transferred to the Severance Tax Permanent Fund, issues Funding Notes to the State Treasurer (which are retired within the same Fiscal Year with such revenue) to fund authorized projects.

⁽²⁾ On May 20, 2004, the New Mexico Finance Authority issued \$700,000,000 of new money bonds secured by a pledge of, and payable from, funds on deposit in the State Road Fund and the Highway Infrastructure Fund. On October 19, 2006, the New Mexico Finance Authority issued \$450,400,000 of new money bonds secured by a pledge of, and payable from, funds on deposit in the State Road Fund and the Highway Infrastructure Fund.

⁽³⁾ The Board, on December 28, 2006, issued \$24,423,000 in severance tax short term notes and \$145,788,000 in supplemental severance tax short term notes.

⁽⁴⁾ These include only those bonds issued by the New Mexico Finance Authority for State facilities.

GENERAL OBLIGATION BONDS

Sections 7 and 8 of Article IX of the Constitution of the State limits the power of State officials to incur general obligation indebtedness extending beyond the fiscal year in three ways:

- (a) The state may borrow money not exceeding the sum of two hundred thousand dollars (\$200,000) in the aggregate to meet casual deficits or failure in revenue, or for necessary expenses.
- (b) Other debt may be contracted by or on behalf of the State only when authorized by law for some specified work or object. Such a law takes effect only after being submitted to the qualified electors of the State and having received a majority of all votes cast thereon at a general election. No debt may be created if the total indebtedness of the State, exclusive of the debts of the territory and several counties thereof assumed by the State, would thereby be made to exceed one percent (1%) of the assessed valuation of all property subject to taxation in the State, as shown by the last preceding general assessment.
- (c) The State may also contract debts to suppress insurrection and to provide for the public defense.

Outstanding and Additional Parity General Obligation Bonds

The principal amounts of outstanding General Obligation Bonds, as of December 31, 2006, are shown in Table 2.

TABLE 2
Outstanding General Obligation Bonds

<u>Series</u>	<u>Principal Outstanding</u>
Series 2001	\$ 35,135,000
Series 2003	97,655,000
Refunding Series 2003B	19,515,000
Series 2005	<u>103,500,000</u>
Total	\$ 255,805,000

Future debt payments, by fiscal year, on General Obligation Bonds outstanding, as of December 31, 2006, are shown in Table 3.

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TABLE 3
Future General Obligation Bond Debt Service Requirements
on Outstanding Bonds

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Calendar Year Debt Service</u>	<u>Fiscal Year Debt Service</u>
03/01/07	\$ 27,940,000	\$ 5,815,043.75	\$ 33,755,043.75		\$ 33,755,043.75
09/01/07	9,515,000	5,148,393.75	14,663,393.75	\$ 48,418,437.50	
03/01/08	29,275,000	4,910,518.75	34,185,518.75		48,848,912.50
09/01/08	10,000,000	4,275,518.75	14,275,518.75	48,461,037.50	
03/01/09	30,670,000	4,025,518.75	34,695,518.75		48,971,037.50
09/01/09	0	3,355,837.50	3,355,837.50	38,051,356.25	
03/01/10	32,135,000	3,355,837.50	35,490,837.50		38,846,675.00
09/01/10	0	2,649,518.75	2,649,518.50	38,140,356.25	
03/01/11	33,670,000	2,649,518.75	36,319,518.75		38,969,037.50
09/01/11	0	1,909,400.00	1,909,400.00	38,228,918.75	
03/01/12	27,180,000	1,909,400.00	29,089,400.00		30,998,800.00
09/01/12	0	1,305,950.00	1,305,950.00	30,395,350.00	
03/01/13	28,460,000	1,305,950.00	29,765,950.00		31,071,900.00
09/01/13	0	674,000.00	674,000.00	30,439,950.00	
03/01/14	13,160,000	674,000.00	13,834,000.00		14,508,000.00
09/01/14		345,000.00	345,000.00	14,179,000.00	
03/01/15	13,800,000	345,000.00	14,145,000.00		14,490,000.00
09/01/15		0.00	0.00	14,145,000.00	
Total	\$255,805,000	\$44,654,406.25	\$300,459,406.25	\$300,459,406.25	\$300,459,406.25

The issuance of additional General Obligation Bonds, other than for refunding purposes, and the levy of additional *ad valorem* taxes are subject to approval of the voters. Any such additional General Obligation Bonds may be issued on a parity with, or subordinate to, all outstanding General Obligation Bonds.

Calculation of 1% Bonding Limitations

Net Taxable Value as of December 31, 2006	\$42,828,113,935
General obligation bond limitation @ 1% of Net Taxable Value	\$428,281,139
Total general obligation bonds outstanding as of December 31, 2006	\$255,805,000
Ratio of total debt to net taxable value	0.5974%

The State is proposing to issue its Series 2007 Capital Projects General Obligation Bonds in the approximate principal amount of \$143,075,000 on or about March 1, 2007.

Underlying General Obligation Bonds

The following table presents information on outstanding county, city, local and public school district debt outstanding as of June 30, 2006. The table does not include debt of special districts or community colleges.

Certain Underlying General Obligation Debt	
Counties	\$195,868,898
Cities	\$236,208,000
Schools	\$960,681,000

Source: Local Government Division, Department of Finance and Administration, Department of Education.

SEVERANCE TAX BONDS

Amendments to the Severance Tax Bonding Act enacted in 1999 and 2000 permit the Board to issue two categories of bonds against Severance Tax Bonding Fund revenues: "New Mexico Severance Tax Bonds" and "New Mexico Supplemental Severance Tax Bonds" which are referred to herein as "Senior Severance Tax Bonds" and "Supplemental Severance Tax Bonds", respectively. The Board is prohibited by statute from issuing Senior Severance Tax Bonds and short term Senior Severance Tax Funding Notes unless the aggregate amount of total Senior Severance Tax Bonds and Funding Notes outstanding, after giving effect to the proposed issuance, can be serviced with not more than 50% of the annual deposits into the Bonding Fund, from the preceding fiscal year. Pursuant to the 1999 and 2000 amendments to the Severance Tax Bonding Act, the Board is prohibited by statute from issuing Supplemental Severance Tax Bonds unless the aggregate amount of total Senior Severance Tax Bonds and Supplemental Severance Tax Bonds outstanding, after giving effect to the proposed issuance, can be serviced with not more than 62.5% of the annual deposits into the Bonding Fund, from the State's preceding fiscal year. In addition, short-term Supplemental Severance Tax Funding Notes may be issued if the debt service on such Supplemental Severance Tax Funding Notes, when added to the debt service previously paid or scheduled to be paid during that fiscal year on Senior and Supplemental Severance Tax Bonds and Funding Notes does not exceed 95% of the deposits into the Bonding Fund, from the preceding fiscal year. The Senior Severance Tax Bonds and Funding Notes fund all types of capital projects while Supplemental Severance Tax Bonds and Funding Notes are earmarked for capital projects for public education.

The Legislature had authorized \$600,000,000 of Supplemental Severance Tax Bonds (including short-term funding notes) for issuance by the Board from time to time after July 1, 1999. Effective April 5, 2001, as a result of an amendment made to the Act in the 2001 Regular Session of the Legislature and other previous legislation, the Legislature repealed the authority of the Board to issue the remaining authorized but unissued Supplemental Severance Tax Bonds and replaced it with authority to issue Supplemental Severance Tax Bonds for public school projects in amounts certified to the Board from time to time by the Public School Capital Outlay Council of the State. The lien of the pledge of such Supplemental Severance Tax Bonds (including short-term funding notes) is subordinate to any outstanding Senior Severance Tax Bonds.

Outstanding Senior Severance Tax Bonds

The principal amounts of outstanding Senior Severance Tax Bonds, as of December 31, 2006, are shown in Table 4.

TABLE 4
Outstanding Senior Severance Tax Bonds

Severance Tax Bonds, Refunding Series 2001A	\$ 42,835,000
Severance Tax Bonds, Series 2002A	13,275,000
Severance Tax Bonds, Series 2003A	55,380,000
Severance Tax Bonds, Series 2004A	58,495,000
Severance Tax Bonds, Series 2005A	80,950,000
Severance Tax Bonds, Refunding Series 2005B-1	37,040,000
Severance Tax Bonds, Series 2006A	<u>135,000,000</u>
Total	\$422,975,000

Future payments, by fiscal year, on outstanding Senior Severance Tax Bonds, as of December 31, 2006, are shown in Table 5.

TABLE 5
Future Senior Severance Tax Bond Debt Service

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 0	\$ 9,624,104.69	\$ 9,624,104.69
2008	60,935,000	17,357,950.00	78,292,950.00
2009	61,995,000	14,342,425.00	76,337,425.00
2010	47,225,000	11,755,587.50	58,980,587.50
2011	42,970,000	9,719,093.75	52,689,093.75
2012	45,035,000	7,851,012.50	52,886,012.50
2013	47,260,000	5,942,462.50	53,202,462.50
2014	41,210,000	4,118,400.00	45,328,400.00
2015	33,610,000	2,543,218.75	36,153,218.75
2016	26,395,000	1,262,350.00	27,657,350.00
2017	<u>16,340,000</u>	<u>357,437.50</u>	<u>16,697,437.50</u>
Total	\$422,975,000	\$84,874,042.19	\$507,849,042.19

Outstanding Supplemental Severance Tax Bonds

The principal amounts of Supplemental Severance Tax Bonds that are outstanding, as of December 31, 2006 are shown in Table 6.

TABLE 6
Outstanding Supplemental Severance Tax Bonds

Supplemental Severance Tax Bonds, Series 2000C	\$ 2,015,000
Supplemental Severance Tax Bonds, Series 2002A	13,335,000
Supplemental Severance Tax Bonds, Series 2002B	29,580,000
Supplemental Severance Tax Bonds, Series 2003B	7,545,000
Supplemental Severance Tax Bonds, Series 2004B	8,240,000
Supplemental Severance Tax Bonds, Refunding Series 2005B-2	<u>21,095,000</u>
Total	\$81,810,000

The future fiscal year debt payments on outstanding Supplemental Severance Tax Bonds, as of December 31, 2006, are shown in Table 7.

TABLE 7
Future Supplemental Severance Tax Bond Debt Service

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 0	\$ 1,800,028.75	\$ 1,800,028.75
2008	14,765,000	3,255,276.25	18,020,276.25
2009	13,275,000	2,624,232.50	15,899,232.50
2010	13,555,000	2,043,982.50	15,598,982.50
2011	14,145,000	1,444,920.00	15,589,920.00
2012	14,760,000	808,238.75	15,568,238.75
2013	7,805,000	317,848.75	8,122,848.75
2014	2,355,000	108,282.50	2,463,282.50
2015	<u>1,150,000</u>	<u>28,750.00</u>	<u>1,178,750.00</u>
Total	\$81,810,000	\$12,431,560.00	\$94,241,560.00

The lien of the pledge of such Supplemental Severance Tax Bonds is subordinate to any outstanding Senior Severance Tax Bonds.

TAX AND REVENUE ANTICIPATION NOTES

The State has issued, and expects to issue from time to time, Tax and Revenue Anticipation Notes. The Notes are not general obligations of the State. The purpose of the Notes is to fund a portion of the State's cash flow needs during the fiscal year in which the Notes are sold. As of December 31, 2006, \$400,000,000 Tax and Revenue Anticipation Notes, Series 2006 and \$300,000,000 Tax and Revenue Anticipation Notes, Series 2006A were outstanding and are due to mature on June 30, 2007.

ENHANCED 911 REVENUE BONDS

The E-911 Act was adopted in response to a perceived need to upgrade basic 911 service throughout most areas of the state. The primary objectives of the E-911 Program are to provide statewide funding, administrative and technical services leading to the installation of better telecommunications and computer equipment for faster location of and response to emergency calls. The Act authorizes the Board of Finance to issue and sell Enhanced 911 bonds to provide grant funds to local governments to acquire, extend, enlarge, better, repair, improve, construct, purchase, furnish, equip or rehabilitate E-911 systems. The Act initially imposed an Equipment Surcharge of twenty-five cents (\$.25) to be billed monthly, with certain exceptions as set forth in the Act by local exchange telephone companies on all local exchange lines in the state, and to be remitted to the Taxation and Revenue Department for deposit into the E-911 Fund. In 2005, the Legislature consolidated the twenty-five cent (\$.25) Equipment Surcharge and a twenty-six cent (\$.26) Network and Database Surcharge into one fifty-one cent (\$.51) Emergency Surcharge on all lines (land and wireless) and directed that the entire surcharge be deposited into the E-911 Fund. The Bonds are payable from amounts on deposit in the E-911 Fund.

Outstanding Enhanced 911 Revenue Bonds

The principal amounts of Enhanced 911 Revenue Bonds outstanding, as of December 31, 2006, and interest payments due on or after January 1, 2007, are shown in Table 8.

TABLE 8

A. Outstanding Enhanced 911 Revenue Bonds

Enhanced 911 Revenue Bonds, Series 2000 \$745,000

B. Future Enhanced 911 Revenue Bond Debt Service

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 0	\$16,762.50	\$ 16,762.50
2008	<u>745,000</u>	<u>16,762.50</u>	<u>761,762.50</u>
Total	\$ 745,000	\$33,525.00	\$ 778,525.00

SEVERANCE TAX BONDING FUND AND DEBT SERVICE REQUIREMENTS

Severance tax receipts contributed over 93% percent of total revenue to the Severance Tax Bonding Fund in Fiscal Year 2006, with the remainder attributable to interest and other investment income. Severance taxes are almost entirely attributable to natural gas, crude oil and coal sales. Natural gas and crude oil together accounted for approximately 89.6% percent of total Fiscal Year 2006 severance tax receipts as shown in Table 9.

TABLE 9
Severance Tax Bonding Fund
Receipts, Disbursements and Transfers
Fiscal Year Ended June 30⁽¹⁾⁽²⁾⁽³⁾
(Dollars in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006⁽⁹⁾</u>
Beginning Balance	\$80,749	\$8,258	\$10,184	\$27,175	\$103,909
Receipts:					
Oil & Gas Severance Tax	\$206,552	\$218,411	\$287,320	\$372,943	\$477,139
Other Minerals Severance Taxes	<u>23,954</u>	<u>19,232</u>	<u>18,273</u>	<u>18,637</u>	<u>20,198</u>
Total Severance Taxes	\$230,506	\$237,642	\$305,594	\$391,581	\$497,336
Other Income:					
Interest on Investments	\$11,007	\$5,526	\$5,475	\$10,994	\$25,284
Bond Proceeds	-	-	-	-	-
Other financial sources	<u>4,531</u>	<u>13,988</u>	<u>8,268</u>	<u>2,975</u>	<u>9,766</u>
Subtotal	\$15,539	\$19,514	\$13,743	\$13,969	\$35,050
Total Receipts	<u>\$246,045</u>	<u>\$257,157</u>	<u>\$319,337</u>	<u>\$405,549</u>	<u>\$532,386</u>
Disbursements:					
Senior Bond Debt Service ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	\$132,510	\$71,425	\$67,590	\$7,551	\$132,594
Senior Short-term Obligations ⁽⁸⁾	103,077	54,026	63,657	87,793	102,158
Supplemental Bond Debt Service ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	14,947	17,569	18,215	3,290	38,011
Supplemental Short-term Obligations ⁽⁸⁾	35,077	111,752	151,859	213,345	193,577
Fiscal Charges	<u>890</u>	<u>459</u>	<u>618</u>	<u>518</u>	<u>738</u>
Total Disbursements	\$286,501	\$255,230	\$301,940	\$312,497	\$467,076
Transfers:					
To Severance Tax Permanent Fund	<u>\$32,035</u>	\$0	\$406	\$16,318	\$12,372
Total transfers	\$32,035	\$0	\$406	\$16,318	\$12,372
Ending Balance, June 30	\$8,258 ⁽⁴⁾	\$10,184 ⁽⁵⁾	\$27,175 ⁽⁶⁾	\$103,909	\$156,847 ⁽⁷⁾

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

(2) Balances exclude loan receivable from Department of Labor. Loan repayment amounts are included as other income received.

(3) Proceeds and expenditures attributable to refunding bonds are excludable from this table because these amounts are reserved for payment to the escrow agent and are not available for debt service payments.

(4) Includes payment of \$71.5 million of debt service due 7/1/02 on senior and supplemental bonds that was paid on 6/29/02. Ending balance would have been \$79.8 million if this payment was not made during the period.

(5) Includes payment of \$77.4 million of debt service due 7/1/03 on senior and supplemental bonds that was paid on 6/19/03. Ending balance would have been \$87.6 million if this payment was not made during the period.

(6) Includes payment of \$77.43 million of debt service due 7/1/04 on senior and supplemental bonds that was paid on 6/29/04. Ending balance would have been \$104.5 million if this payment was not made during the period.

(7) Includes payment of \$81.6 million of debt service due 7/1/06 on senior and supplemental bonds that was paid on 6/28/06. Ending balance would have been \$238.4 million if this payment was not made during the period. The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on July 12, 2006 in the amount of \$123,217,260.81 and additional transfer of \$22,254,808.30 made on December 11, 2006.

(8) The Board, in order to take advantage of Bonding Fund revenues that would otherwise be transferred to the Severance Tax Permanent Fund, issues short-term Severance Tax funding notes and Supplemental Severance Tax funding notes to the State Treasurer which are retired within the same fiscal year with such revenue to fund authorized projects.

(9) Preliminary.

Source: State Board of Finance based on the Comprehensive Financial Reporting Accounting System.

TABLE 9A
State of New Mexico Severance Tax Bonds
Projected Receipts, Debt Service Requirements and Coverage

Fiscal Year Ending 6/30	Projected STBF Revenues	Scheduled Senior Debt Service⁽¹⁾	Projected Senior Coverage	Scheduled Supplemental Debt Service	Projected Parity Coverage
2007	\$463,889,254	\$72,885,573	6.36x	\$20,118,842	4.99x
2008	460,976,229	78,292,950	5.89x	18,020,276	4.79x
2009	433,662,288	76,337,425	5.68x	15,899,233	4.70x
2010	414,643,210	58,980,588	7.03x	15,598,983	5.56x
2011	398,160,942	52,689,094	7.56x	15,589,920	5.83x
2012	349,336,164	52,886,013	6.61x	15,568,239	5.10x
2013	344,264,395	53,202,463	6.47x	8,122,849	5.61x
2014	339,208,828	45,328,400	7.48x	2,463,283	7.10x
2015	334,366,085	36,153,219	9.25x	1,178,750	8.96x
2016	329,539,544	27,657,350	11.92x	--	11.92x
2017	324,745,407	16,697,438	19.45x	--	19.45x

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

Source: NM Department of Finance and Administration and Fiscal Strategies Group.

Investments

Funds on deposit in the Severance Tax Bonding Fund, including the Debt Service Account and Project Fund (established in accordance with the Bond Resolutions) are invested by the State Treasurer at the direction and approval of the Board, pursuant to the State Treasurer's Investment Policy. 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 Resolutions), interest earned on the amounts on deposit in the Debt Service Account shall be retained therein, and interest earned on the 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 loss resulting from any such investment shall be charged to the applicable account from which such investments were made.

Severance Tax Collections and Reporting

Operators, purchasers and working interest owners are required to submit monthly reports to the Taxation and Revenue Department 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 is reported by "production unit" and a designation for a well or group of wells that is assigned by the Taxation and Revenue Department 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 districts, and municipalities.

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 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 tax amounts received by the Taxation and Revenue Department are deposited into the Oil and Gas Suspense Fund. Using the ONGARD system, the Taxation and Revenue Department 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 are then transferred, once a month, to the bonding fund. Table 10 presents sales volume and total sales revenue for oil and natural gas subject to severance tax.

TABLE 10
New Mexico Oil and Natural Gas Subject to Taxation
Fiscal Years Ended June 30

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Oil						
Sales volume (million barrels)	70.3	69.0	68.5	66.5	63.5	61.96
Value (\$millions)	\$2,018	\$1,521	\$1,904	\$2,126	\$2,794	\$3,651
Average price (\$ barrel)	\$28.71	\$22.04	\$27.80	\$31.97	\$44.00	\$58.62
Natural Gas						
Sales Volume (bcf)	\$1,627	\$1,614	\$1,570	\$1,534	\$1,550	\$1,503
Value (\$ millions)	\$8,105	\$4,318	\$5,652	\$7,179	\$8,990	\$11,212
Average Price (\$/mcf)	\$4.98	\$2.68	\$3.60	\$4.68	\$5.80	\$7.46

Source: NM Taxation and Revenue Department.

Severance Taxes on Oil, Natural Gas, and Carbon Dioxide

The State collects taxes on the severance and sale of oil, natural gas and carbon dioxide. Table 11 summarizes the history of statutory tax rates imposed on natural gas, oil, and carbon dioxide. Tax rates are set by statute and are levied on the volume and/or value of product sold. With the exceptions noted below, tax rates have been imposed on an *ad valorem* basis, with deductions allowed for royalties paid to governments and also for certain expenses of transporting and processing products downstream of the production facility.

TABLE 11
History of Severance Tax Rates on Oil, Natural Gas and Carbon Dioxide

<u>Year of Statutory Change</u>	<u>Natural Gas</u>	<u>Oil</u>	<u>Carbon Dioxide</u>
1959	2.5%	2.5%	
1974	3.75%	3.75%	
1977	\$0.05/mcf + surtax	\$0.45/bbl + surtax	
1980	\$0.087/mcf + surtax	3.75%	
1987	3.75%	3.75%	3.75%

Source: NM Department of Finance and Administration.

Oil and Natural Gas Incentives

Although the State now offers reduced severance tax rates for several categories of production, the cumulative effect of these programs on severance tax receipts is expected to be small. Table 12 summarizes incentive tax rates applying to various categories of production as of Fiscal Year 2006. Due to the rise in oil and gas prices, most of these incentive programs are not currently in effect. Should prices decline in the future, some of these incentives will be applicable again.

TABLE 12
Oil and Gas Tax Incentive Programs

<u>Incentive Category</u>	<u>Incentive Tax Rate</u>	<u>Threshold Price Below Which Incentive Rate Applies</u>	<u>Qualified Production As a Percent of Fiscal Year 2006 Total</u>
Restoration wells	0.0%	\$24.00 per barrel ⁽¹⁾	0.0% Oil ⁽³⁾ 0.0% Natural Gas ⁽³⁾
Well workover wells	2.45%	\$24.00 per barrel ⁽¹⁾	0.0% Oil ⁽³⁾ 0.0% Natural Gas ⁽³⁾
Stripper wells	1.875%	\$1.15 per mcf-Gas ⁽²⁾ \$15.00 per barrel-Oil ⁽²⁾	0.0% Natural Gas ⁽³⁾ 0.0% Oil ⁽³⁾
	2.8125%	\$1.35 per mcf-Gas ⁽²⁾ \$18.00 per barrel-Oil ⁽²⁾	0.0% Natural Gas ⁽³⁾ 0.0% Oil ⁽³⁾
Enhanced oil recovery	1.875%	\$28.00 per barrel ⁽¹⁾	0.0% Oil ⁽³⁾

⁽¹⁾ Twelve-month average price for West Texas Intermediate crude oil as reported on Oil Postings for last day of each month.

⁽²⁾ Average annual taxable value of natural gas or oil sold in New Mexico during the preceding calendar year.

⁽³⁾ No natural gas volumes are expected to qualify for these incentives during the period because average taxable value exceeds the threshold levels.

Source: NM Department of Finance and Administration.

Severance Tax on Indian Land

The United States Supreme Court has ruled that the state can tax non-Indian oil and gas production on tribal land (*Cotton Petroleum Co. v. State of New Mexico*, 490 US 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 (1989)). The authority of the state to impose severance taxes on Indian oil and gas production on

tribal land was upheld by the United States District Court in New Mexico (Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department, No. USDC 87-922). The Taxation and Revenue Department reports that natural gas production and crude oil production on Indian land was approximately 3.7% and 0.8%, respectively, of total taxable statewide production in 2006. The Department of Finance and Administration estimates that oil and gas production on Indian land, generated \$12.3 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2006. The Tax Department estimates that coal production on Indian land ranges from 40-45 percent of total statewide production from year to year. No potash or copper is produced on Indian land.

The Laws of 1995, Chapter 171 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% 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 Department of Finance and Administration estimates that total credits claimed under this provision were about \$4.65 million in 2006. About \$2.3 million of these credits were applied against oil and gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

Laws 2001, Chapter 134, provides a similar 75 percent intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo Nation. The Taxation and Revenue Department reports that this credit reduced Severance Tax Bonding Fund revenue by \$6.9 million in Fiscal Year 2006. Laws 2002, Chapter 15, created the Jicarilla Apache Tribal Capital Improvement Tax Credit, but this credit does not apply against the severance tax revenues due on the same production.

Carbon Dioxide

The Bravo Dome carbon dioxide field, encompassing 1.2 million acres in Harding, Union and Quay Counties in the northeastern area of the State, 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 carbon dioxide (CO₂) for use in the food and the engineering industries, the main commercial value of carbon dioxide 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 are expected to remain near 125 bcf per year. The wellhead value of CO₂ sales currently is approximately \$0.35 per mcf reported at the production facility, and is expected to remain stable over the forecast period. Severance taxes on CO₂ are levied at the rate of 3.75 percent of sales value.

Severance Taxes on Coal

Excise taxes have been imposed on coal sales in New Mexico since 1937 and tax rates have been changed several times over the years. Revenues were initially earmarked to the Severance Tax Bonding Fund in 1961. At that time the tax rate on coal was 0.125 percent.

The 1999 Legislature reexamined coal severance taxes in the light of deregulation of the electric power market. Increased competition in power markets makes it harder for utilities to pass on the cost of high production taxes on coal used in generation. A study of New Mexico's coal taxes by economists at the Tax Department and the DFA indicated that New Mexico's taxes were among the highest in the region.¹ In view of these facts, the 1999 Legislature and Governor acted to repeal the sunset of the severance surtax exemption. Thus, as existing contracts expire which are currently subject to the surtax, any subsequent contracts will be exempt from the surtax. Although a total of \$9.6 million in severance surtax was collected in Fiscal Year 2006, the impacts of the new statute are expected to be small, as most contracts subject to the surtax do not expire for a number of years. The full impact of the provision will not be felt until all existing contracts expire, in about 10 years.

TABLE 13
Coal Production, Pricing and Tax Rates
Fiscal Years 2001-2006

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004*</u>	<u>2005</u>	<u>2006</u>
Total Sales Volume (short tons)	27,131,704	26,589,634	26,704,979	25,584,920	26,555,045	26,566,669
Surface Mined Surtax Exempt Volume	10,318,045	10,405,420	10,918,338	10,104,895	6,207,544	6,455,233
Surface Mined Non-Exempt Volume	15,705,560	14,715,458	13,626,804	14,066,790	13,434,239	13,140,540
Underground Non-Exempt Volume	1,108,099	1,468,656	2,159,837	1,512,643	6,913,261	6,970,895
Total Sales Revenue	\$548,233,652	\$528,324,790	\$611,561,557	\$583,588,317	\$659,066,157	\$659,678,864
Average Price Per Ton	\$20	\$20	\$22	\$23	\$25	\$26
Total Intergovernmental Tax Credits	NA	\$4,154,255	\$6,180,464	\$6,965,252	\$6,463,061	\$6,927,776
Estimated Net Severance Tax Liability	\$25,677,079	\$20,761,702	\$18,712,346	\$17,161,561	\$16,729,934	\$17,142,780
Average Tax Rate (dollars per ton)	\$0.95	\$0.78	\$0.67	\$0.67	\$0.63	\$0.65

* Total Volumes for 2004 are actual; Exempt and Non-Exempt Volumes are estimates from previous years' trends.
Source: NM Taxation and Revenue Department.

(1) "Taxation of Coal Production in Western States," by Kelly O'Donnell, N.M. Taxation and Revenue Department and Dr. Thomas Clifford, N.M. Department of Finance and Administration, presentation to the Revenue Stabilization and Tax Policy Committee, November, 1998.

Severance Taxes on 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 14. In many cases, flat percentage deductions are allowed to account for certain production costs. The result is that the taxable value is a percentage of the "full value." The "full value," in turn, is sometimes based upon published prices rather than actual revenues, as noted in Table 14.

TABLE 14
Severance Tax Rates on Other Minerals

<u>Mineral Resources</u>	<u>Tax Rate</u>	<u>Taxable Value as % of Full Value</u>
Potash	2.500%	16.67%
Copper	0.500	16.67 ⁽¹⁾
Timber, Pumice, Gypsum, Sand, Gravel, Clay, Fluorspar, Other	0.125	100.00 ⁽²⁾
Molybdenum	0.125	50.00
Lead, Zinc	0.125	16.67 ⁽¹⁾
Gold	0.200	50.00 ⁽¹⁾
Silver	0.200	30.00 ⁽¹⁾
Uranium	3.500	50.00

⁽¹⁾ Value based upon the indicated percentage of specified Comex, LME or London spot prices published in Metals Week.

⁽²⁾ 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, which must be processed before sale, deductions are allowed for cost of processing and freight charges to the point of sale.

Source: NM Energy Minerals and Natural Resources Department.

Copper prices have rebounded due to strong world demand, particularly in China. Prices increased \$1/lb in Fiscal Year 2006, to \$2.41/lb. Prices for 2007 are expected to be in the \$3.20 to \$3.50 range and remain in the high \$2 to low \$3 range through 2011. Revenues in FY 2006 were \$474,809, up from \$228,414 in 2005.

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 State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than 70 percent sunshine year-round. Humidity ranges from 60 percent (mornings) to 30 percent (afternoons). Evenings are crisp and cool in all seasons because of low humidity.

The State has a semiarid subtropical climate with light precipitation. 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).

New Mexico is currently experiencing a statewide drought, which has been detrimental to the State's agricultural sector, as well as to many tourist activities on which limitations have been imposed to preserve water and protect against wildfires.

Major industries in the State are energy resources, manufacturing, services, tourism, 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. Agriculture plays a major role in the State's economy with irrigation and a variety of climatic conditions, a diverse assortment of quality agriculture products are produced.

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, who are elected to four-year terms beginning the 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 20 cabinet departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature.

The Board of Finance has seven members consisting of the Governor, the Lieutenant Governor, the Treasurer and four members appointed by the Governor with the advice and consent of the Senate; no more than two such appointed members may be from the same political party. 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 Department of Finance and Administration ("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, and who also serves as Executive Officer of the State Board of Finance.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms, members of the House 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 sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature may be convened by the Governor, and under certain limited circumstances, extraordinary sessions may be convened by the Legislature. Legislators receive no 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 court is the trial court of record with general jurisdiction.

Pension Funds

Two retirement plans, covering most of the employees of the State and its political subdivisions, have been established by statute. These retirement plans are described below. All financing of the plans, including employer and employee contributions and fund investment provisions, as well as all benefit provisions, are established by the Legislature and are not subject to negotiation.

Educational Retirement Board

Total Educational Retirement Board ("ERB") membership as of June 30, 2005 was officially reported as 114,890. The annual actuarial valuation of the Educational Retirement Fund of the State was conducted and reported as of June 30, 2005 by Gabriel Roeder, Smith & Co. Accrued assets at fair value on June 30, 2005 were \$7.451 billion and the unfunded liability was \$3.134 billion. As of June 30, 2005, ERB's underfunded actuarial liability had an amortization period of infinity. This is the same as the prior year's funding period.

Member and employer contribution rates are established by statute. Since the prior actuarial valuation, Senate Bill 181 was signed into law and will increase the employer contribution rate by 75 basis points (0.75%) each of the seven years beginning July 1, 2005, and increase member contribution rates by 7.50 basis points (0.075%) for each of the four years beginning July 1, 2005. As of July 1, 2006, the current employer contribution rate is 10.15% and the current member contribution rate is 7.75%. The member rate will reach its ultimate level of 7.90% in FY 2009, and the employer rate will reach its ultimate level of 13.90% in FY 2012.

These rates are intended to be sufficient to pay ERB's normal cost and to amortize ERB's unfunded actuarial liability (UAAL) in payments which are level as a percentage of payroll. Except for short-term fluctuations, the amortization period should not exceed the maximum period allowed under GASB No. 25 (30 years after a transition period expires at the end of FY 2006). (The amortization period, also referred to as the funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that ERB's experience exactly follows the actuarial assumptions).

As indicated above, as of June 30, 2006, ERB has an infinite funding period. Therefore, if the employer contribution rate (10.15% as of July 1, 2006) and member contribution rate (7.75% as of July 1, 2006) were to remain in place, and all actuarial assumptions are exactly realized, including an 8.00% investment return on the actuarial value of assets, then the UAAL will never achieve complete amortization. The employer contribution in 2005 that would be required in order to amortize the UAAL over 40 years was 12.50%. Forty years is the maximum funding period under GASB 25, effective through FY 2006, when a GASB 25 transition period ended and the maximum amortization period became 30 years. As mentioned above, under current law, the employer and member rates will increase to 13.90% and 7.90%, respectively. However, GASB 25 does not permit the consideration of contribution rates not yet in effect, so an infinite funding period must be reported.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio at June 30, 2004 was 75.4%, and at June 30, 2005 was 70.4%.

Over the course of seven years ending June 30, 2012, assuming the fund continues to earn an 8% investment return, overall contributions to the system will increase from 16.25 percent of salaries to 21.8 percent of salaries and the funding period will be reduced to less than 10 years by the early 2020s.

The Public Employees Retirement Association

Gabriel, Roeder, Smith & Co. completed an actuarial valuation of the Public Employees Retirement Fund (PERA), Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund (VFF) as of June 30, 2006. The Public Employees Retirement Board accepted the actuary's conclusions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 5 percent per annum, compounded annually, and other risk assumption changes including salary increases for longevity and merit, the real rate of return on investments, mortality, active member withdrawals, disability and retirement rates to allow for expected future experience. Actuarial information, for each fund, as of June 30, 2006, is shown below.

TABLE 15
Summary of Certain State Retirement Funds
(Dollars in thousands)

	<u>PERA⁽¹⁾</u>	<u>Judicial</u>	<u>Magistrate</u>	<u>VFF</u>	<u>Legislative</u>
Membership	77,349	226	111	6,147	258
Actuarial Information					
Accrued Liability ⁽²⁾	\$11,781,722	\$ 95,216	\$33,362	\$23,743	\$19,434
Value of Assets	\$10,850,217	\$ 74,003	\$33,694	\$39,512	\$13,678
Unfunded (Overfunded)					
Accrued Liability	\$ 931,505	\$ 21,213	\$ (332)	\$(15,769)	\$ 5,756
Present Value of Statutory Obligations	\$15,065,365	\$124,324	\$42,446	\$40,834	\$21,246

⁽¹⁾ Includes both the state and municipal divisions.

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

New Mexico Retiree Health Care Authority

In addition to the pension funds described above, the Retiree Health Care Act was enacted by Laws 1990, Chapter 6, Sections 1-16, codified as Sections 10-7C-1 through 10-7C-19 NMSA 1978, for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service in the State and eligible dependents. The New Mexico Retiree Health Care Authority (the "NMRHCA"), the agency which administers the Act, has a fund base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and an amount provided annually from the Taxation and Revenue Suspense Fund.

Total NMRHCA membership as of June 30, 2006 was reported as 36,268. Accrued assets at fair value on June 30, 2005 were \$168,307,187, and on June 30, 2006 were \$180,289,837.

The annual actuarial valuation under GASB 43 and the UAAL have been calculated for the fiscal year ended June 30, 2006. NMRHCA's UAAL is approximately \$5.0 billion based on a discount rate of 3.5% and giving no effect to the actuarial value of its assets. NMRHCA is seeking legislation during the upcoming session to place the assets in an irrevocable trust, thereby allowing the calculation of the unfunded liability to include assets held by NMRHCA and the future flow of funds, thereby reducing the unfunded liability projection by approximately \$1.3 billion to approximately \$3.7 billion.

Employer and employee contribution rates are established by statute. Such contribution rates are currently 1.3% and 0.65% of the participating employee's salary, respectively. These rates combined are significantly less than the rates necessary to fund the normal cost and amortization of the UAAL over a 30-year period. The Legislature is required by statute to review and adjust the employer and employee contribution rates and the distribution from the Taxation and Revenue Suspense Fund at the first session of the Legislature following July 1, 2010 in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

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 it does not create any contract, trust or other rights in public employees to health care benefits. The State will be studying the results of the actuarial report and will address the issues raised by it.

Because total revenues for the NMRHCA's largest sponsor are over \$100 million per year, the NMRHCA must comply with GASB 43 for fiscal years beginning after December 15, 2005.

Laws 2002, Chapter 75, Section 2 and Laws 2002, Chapter 382, Section 2, codified as Section 10-7C-17 NMSA 1978, also created the senior prescription drug program in the NMRHCA. Laws 2006, Chapter 26, amended Sections 10-7C-17 through 19 NMSA 1978, extending the program to all New Mexicans regardless of age.

FINANCIAL OVERVIEW

State Auditing and Accounting Systems

By statute, the financial affairs of every agency in the State are thoroughly examined and audited each year by the State Auditor, personnel of his office designated by him, or by the independent auditors approved by him. 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.

On or about July 1, 2006, the State implemented a Statewide Human Resources, Accounting and Management Reporting System (the "SHARE System"). The SHARE System replaced the State's current Central Accounting System, central payroll system, personnel system, treasury warrant accounting reporting system and 114 additional systems currently in place at various State agencies. The State is currently in the process of making adjustments to the SHARE System to ensure it meets the State's accounting needs.

During the 2003 Fiscal Year, the State proceeded with the implementation of GASB 34. In the 2004 Fiscal Year, the State implemented a change in its revenue availability policy from 30 to 60 days. This change resulted in a one-time, non-recurring increase in revenues of approximately \$280.4 million in the State General Fund balance in comparison with the prior policy.

State Budgetary and Appropriation Process

All State agencies are required to submit their budget requests to the Budget Division of the DFA by September 1 of each year following guidelines and forms provided in advance for this purpose. Budget hearings are scheduled for the purpose of examining the merits of budget requests through the fall and are usually completed by mid-December. Statutes require the Budget Division to present comprehensive budget recommendations to the Governor annually by January 2.

By statute, the Governor is required to submit a budget for the upcoming fiscal year to the Legislature by the twenty-fifth legislative day (in mid-February). The Governor's budget includes the executive recommendations for higher education, public education and State agencies as well as historical information on prior expenditures and revenues and revenue projections, among other information. The State budget is contained in a General Appropriation Act, which may also contain proposals for supplemental and deficiency appropriations for the then 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 Budget Division of the DFA 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

By statute the State Treasurer is responsible for the investment of the operating and capital funds of the State. These responsibilities are conducted in accordance with the State Treasurer's Investment Policy (the "Investment Policy") 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 governs the investment activities of the State Treasurer. This policy applies to all public money of the State invested by the Treasurer in the exercise of his statutory authority or invested on behalf of other agencies which have specific investment authority and for which the Treasurer acts as the investing authority. The public money includes the State's General Fund, the Local Government Investment Pool, bond proceeds, bond debt service funds, pension and permanent funds and other special funds with respect to which the State Treasurer is the investing authority.

According to the Investment Policy, an Investment Committee must be appointed by the State Treasurer with the specific purpose and responsibility of establishing, maintaining and administering the Investment Policy. The Investment Committee consists of five (5) voting members: the State Treasurer, or designee, who serves as Chairman; the State Cash Manager; the Director of the Board or designee; and two members that are participants in the private investment community or have expert knowledge or professional experience in the subject of public finance or public fund investing, of which one member will be appointed by the State Treasurer and approved by the Board and one member will be appointed by the Board and approved by the State Treasurer.

The Investment Committee is charged with the following responsibilities:

- Reviewing the Investment Policy, no less than annually, and recommending, if advisable, modifications in the Investment Policy from time to time;
- Assessing, no less than annually, the utility and efficacy of established internal controls as loss prevention measures with respect to the investment portfolio;
- Determining, no less than annually, whether legislation affecting the investment activities of the State Treasurer should be recommended;
- Recommending investment procedures that may be useful or required in maintaining currency with public money investment practices;
- Deliberating such topics as: economic outlook, portfolio diversification and maturity structure, potential risks, the target rate of return on the investment portfolio;
- Identifying potential violations of and suggesting remedial actions to achieve conformity with the Investment Policy;
- Recommending, no less than annually, action on depositories, custodians, broker/dealers and investment managers and advisors; and
- Assessing whether the Investment Policy is being properly implemented by the individuals and entities involved in the administration and management of investment activities.

In an effort to continue to strengthen the Investment Policy, the State Treasurer and the Board have revised the Investment Policy in a process that included public comment. The revisions and additions to the Investment Policy increase transparency and oversight, ensure better operating

procedures in the State Treasurer's Office, and incorporate legislative changes. Some of these changes include: a requirement to use electronic trading; a requirement to attain a financing rating for the Local Government Investment Pool from a national rating agency; a provision that the investment consultants used by the State Treasurer establish performance benchmarks for the State Treasurer's Office and report performance relative to that benchmark; various technical clarifications to reporting requirements and trading activity; requirements for the State Treasurer to adopt an employee code of conduct policy, a campaign contributions policy, and a whistleblower policy applicable to the public officers and employees subject to the State Treasurer's policies and supervision; and a requirement for the State Treasurer and employees involved in the investment process to refrain from personal business activity that may impair their ability to make impartial investment decisions. Final revisions to the Investment Policy were approved by the State Board of Finance at its meeting on June 22, 2006. The State Treasurer's Office is operating under this new Investment Policy.

On October 26, 2005, following indictment on multiple charges of extortion, money laundering and conspiracy related to his time in office, then-New Mexico State Treasurer Robert Vigil resigned. On September 30, 2006 he was convicted of one count of attempted extortion and acquitted on 23 other charges related to his time in office. The previous State Treasurer had pleaded guilty to extortion for actions he took as State Treasurer. An Interim State Treasurer, Douglas Minge Brown, was appointed by the Governor on November 3, 2005. On November 7, 2006, James B. Lewis was elected State Treasurer. The Interim State Treasurer served until James B. Lewis took the oath of office on December 15, 2006. Following the indictment of Robert Vigil, the State engaged the law firm of Hogan and Hartson, LLP and Deloitte Financial Advisory Services L.L.P. to conduct a special audit of the State Treasurer's Office. The special audit found a significant number of internal control weaknesses and deficiencies in the operations of the State Treasurer's Office; however, the special audit did not find that the integrity of funds held at the State Treasurer's Office had been compromised. The special audit recommended a slate of legislative, rulemaking and control enhancements designed to ensure that the funds held by the State Treasurer's Office are prudently invested and safely handled. The State Treasurer's Office has undertaken to implement the recommendations of the special audit and has implemented a detailed corrective action plan of the type necessary to establish an effective internal control management program.

General Fund

The State derives the majority of its recurring General Fund revenues from four major sources: general and selective sales taxes, income taxes, taxes and royalties on natural resource production, and investment earnings from its two permanent funds and investments made by the State Treasurer's Office.

Weakness in crude oil and natural gas markets in the 1980's contributed to a major restructuring of the State's tax base by the 1986, 1987, 1988, 1990, 1993 and 1994 Legislatures. Reliance on sales and income taxes were increased to offset declines in mineral resource taxes and royalty revenues. In recent years, volatility in oil and gas markets have resulted in an increased percentage of General Fund revenues generated from oil and gas taxes. Table 16 lists revenues, expenditures and ending fund balances for Fiscal Years 2003, 2004 and 2005, preliminary results for Fiscal Year 2006 and projected results for Fiscal Year 2007.

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General Fund Financial Summary
Fiscal Year 2003 – Fiscal Year 2007
(Dollars in thousands)

	<u>Actual 2003</u>	<u>Actual 2004</u>	<u>Actual 2005</u>	<u>Preliminary 2006</u>	<u>Estimated 2007</u>
A. APPROPRIATION ACCOUNT					
Recurring Receipts					
General and Selective Sales Taxes	\$1,651,614	\$1,797,835	\$1,946,395	\$2,150,620	\$2,292,298
Income Taxes	1,040,203	1,153,133	1,333,402	1,512,300	1,538,000
Mineral Production Taxes	268,411	329,559	426,998	551,400	483,800
License Fees	38,420	42,885	44,265	48,300	49,647
Investment Income	478,596	484,324	547,287	585,500	643,100
Rents & Royalties	283,552	356,944	476,198	609,100	550,000
Miscellaneous Receipts	30,625	26,146	40,850	30,660	29,532
Tribal Revenue Sharing	32,596	35,097	41,263	49,200	51,450
Tobacco Settlement	43,759	37,449	38,009	34,860	0
Reversions/adjustments	23,288	19,623	11,592	22,100	23,400
Total Recurring Receipts	\$3,891,064	\$4,282,996	\$4,906,259	\$5,594,040	\$5,661,227
Non-Recurring & Adjustments					
Accounting Policy Change	57,821	48,324	62,769	(95,232)	1,000
	0	280,392	0		
Total Non-Recurring & Adjustments	\$57,821	\$328,716	\$62,769	\$(95,232)	\$1,000
Total Receipts	\$3,948,885	\$4,611,711	\$4,969,028	\$5,498,808	\$5,662,227
Recurring Appropriations					
Legislative	\$21,198	\$14,892	\$15,435	\$16,113	\$17,334
Judicial	133,555	136,557	146,705	161,500	180,824
General Control	142,331	135,479	144,008	151,048	165,476
Commerce & Ind./Exam. & Lic.	45,409	47,285	48,595	47,695	51,599
Agric., Energy & Nat. Res.	59,192	58,708	62,022	70,449	75,409
Health & Human Services	814,136	911,320	1,003,064	1,119,210	1,234,053
Public Safety	266,699	280,690	286,758	295,766	333,262
Other Education	20,112	20,365	17,950	24,705	27,805
Higher Education	605,050	639,328	670,121	714,951	761,957
Public Schools	1,788,566	1,863,274	1,974,906	2,107,196	2,265,662
Recurring Appropriations	3,896,136	4,107,896	4,369,564	4,708,633	5,113,382
Other Recurring Appropriations	0	11,908	15,435	0	(400)
Total Recurring Appropriations	\$3,896,136	\$4,119,803	\$4,384,999	\$4,708,633	\$5,112,982
Non-recurring Appropriations ⁽¹⁾					
Capital Outlay/Supplemental/Contingency	155,289	178,319	8,900	617,522	71,057
Other Non-recurring adj for leg	-	84,871	315,833	38,633	0
Total Non-recurring	\$155,289	\$263,190	\$324,733	\$656,155	\$71,057
Total Expenditures	\$4,051,536	\$4,382,993	\$4,709,732	\$5,364,788	\$5,184,039
Transfer to Appropriation Contingency Fund	0	(120,000)	0	0	0
TRANSFER TO RESERVES	(102,650)	108,718	259,295	134,020	478,188
B. OPERATING RESERVE					
Beginning Balance	\$154,778	\$46,931	\$128,832	\$330,147	\$350,792
Revenues/Loan Repayments	3	0	0	0	0
Appropriations:					
Contingencies	0	0	0	(277)	0
Other Appropriations & Adjustments	(5,200)	(26,817)	(2,644)	(1,500)	(1,500)
Total Appropriations ⁽²⁾	\$(5,200)	\$(26,817)	\$(2,644)	\$(1,777)	\$(1,500)
Transfers:					
From General Fund (Approp. Account)	(102,650)	108,718	259,295	134,020	478,188
To Tax Stabilization Reserve Fund	0	0	(55,336)	(111,598)	0
Total Transfers	\$(102,650)	\$108,718	\$203,959	\$22,422	\$478,188
Other Adjustments	0	0	0	0	0
Change in Loan Repay Balances	0	0	0	0	0
Ending Balance	\$46,931	\$128,832	\$330,147	\$350,792	\$827,480

Notes: Detail may not add to column total due to independent rounding.

General Fund Financial Summary
Fiscal Year 2003 – Fiscal Year 2007
(Dollars in thousands)

	<u>Actual 2003</u>	<u>Actual 2004</u>	<u>Actual 2005</u>	<u>Preliminary 2006</u>	<u>Estimated 2007</u>
C. STATE SUPPORT RESERVE					
Beginning Balance	0	0	0	0	0
Ending Balance	0	0	0	0	0
D. APPROPRIATION CONTINGENCY FUND					
Beginning Balance, Excluding Education Reform	\$77,934	\$58,535	\$49,903	\$42,276	\$17,751
Expenditures/Appropriations ⁽³⁾					
Disasters	(8,117)	(10,248)	(8,113)	(15,000)	(16,916)
Medicaid	(19,500)	0	0	0	0
Other	0	(2,381)	(6,178)	(9,525)	(2,000)
Allot. Reversions	8,218	3,997	6,664	0	0
Ending Balance, Excluding Education Reform	\$58,535	\$49,903	\$42,276	\$17,751	\$(1,165)
Beginning Balance, Education Reform	0		\$120,000	\$105,350	\$79,828
Transfers In	0	120,000	0	0	0
Expenditures	0		(14,650)	(25,523)	0
Ending Balance, Education Reform	0	\$120,000	\$105,350	\$79,828	\$79,828
Ending Balance	\$58,535	\$169,903	\$147,626	\$97,578	\$78,663
E. RISK RESERVE FUND					
Beginning Balance	0	0	0	0	0
Ending Balance	0	0	0	0	0
F. TAX STABILIZATION RESERVE					
Beginning Balance	\$87,715	\$77,715	\$77,715	\$133,051	\$244,649
Transfers In		0	55,336	111,598	0
Transfers Out ⁽⁴⁾	(10,000)	0	0	0	0
Ending Balance	\$77,715	\$77,715	\$133,051	\$244,649	\$244,649
G. TOBACCO SETTLEMENT PERMANENT FUND RESERVE⁽⁵⁾					
Beginning Balance	\$59,642	\$62,009	\$70,689	\$77,333	\$84,995
Transfers In	42,900	46,129	38,009	34,892	36,190
Transfers Out	(42,900)	(37,449)	(38,009)	(34,892)	(18,095)
Gains/Losses	2,400	0	6,644	7,662	7,193
Ending Balance	\$62,042	\$70,689	\$77,333	\$84,995	\$110,283
H. TOTAL BALANCES					
Beginning of Period	\$380,068	\$245,190	\$447,139	\$688,157	\$778,015
End of Period	\$245,222	\$447,139	\$688,157	\$778,015	\$1,261,076
Reserves as a percent of recurring appropriations	6.3%	10.9%	15.7%	16.5%	24.7%

NOTES TO GENERAL FUND FINANCIAL SUMMARY:

Appropriation Account, Nonrecurring Appropriations:

⁽¹⁾ FY03 includes \$3.6 million for the purchase of Eagle Nest Lake and a \$151.7 million appropriation from the 2002 legislative session.

FY05 includes \$8.9 million from the General Appropriation Act of 2004; \$69.813 million HB2, \$7.429 million SB190, \$238.592 million HB885.

FY06 includes \$0.06 million from the General Appropriations Act of 2005; \$0.817 million SB190; \$0.2562 HB901; \$37.5 million from the 2005 Special Session (LIHEAP). 2006 Regular Session includes \$158.6 million from the General Appropriations Act; \$4.3 million from HB1; \$487.6 million from HB622.

FY07 includes 2006 Regular Session appropriations of \$68.681 in the General Appropriations Act and \$0.2835 from HB337 (Additional Judgeships).

Appropriations from the Operating Reserve:

- (2) FY03 includes \$3.5 million appropriation for the Department of Corrections, \$0.664 million appropriation to the Computer Systems Enhancement Fund, and \$1.036 million for BOF Emergency Fund.
FY04 includes \$0.434 million for BOF Emergency Fund, \$18.911 million for capital outlay (Laws 2004, Chapter 126), \$5.0 million for Economic Development Department for X-Prize (Laws 2004, Chapter 114, Section 5), \$1.5 million for Economic Development Department for X-Prize (Laws 2001, Chapter 64, Section 6), and \$0.972 to New Mexico State University.
FY05 includes \$1.144 million for BOF Emergency Fund and \$1.5 million contingency for corrections.
FY06 includes \$1.5 million for BOF Emergency Fund and \$0.2774 million for the Corrections Department (Laws 2005, Chapter 33, Section 4, Subsection G).
FY07 includes \$1.5 million for BOF Emergency Fund (Laws 2006, Chapter 109).

Appropriation Contingency Fund:

- (3) FY03 includes \$8.1 million for disaster allotments, \$19.5 million for Medicaid (\$0.1 million for the Racing Commission was excluded), and \$8.2 million for federal reimbursements for fire season 2002.
FY05 includes \$8.113 million for disasters, \$548.0 for the Secretary of State (Laws 2004, Chapter 114, Section 5, Item 28), \$630.0 for the Department of Public Safety (Laws 2004, Chapter 114, Section 5, Subsection G), \$5.0 million to Public Education Department for emergency supplemental funds to public schools (Laws 2005, Chapter 33, Section 5, Item 109). Education Reform Initiatives include \$14.65 million to Public Education Department (Laws 2005, Chapter 33, Section 5 Subsection 5, Items 104, 105, 106, & 128). Includes reversions of \$6.664 million for federal reimbursements for fire season 2003-2005.
FY06 includes \$15.0 million for disaster allotments and \$525.0 to Department of Public Safety for criminal background check contingency (Laws 2005, Chapter 33, Section 4 Subsection G). \$4.5 million for Interstate Stream Commission (ISC) for land and water rights for augmentation; \$4.5 million to ISC for augmentation services (Laws 2006, Chapter 111); and \$25.553 for Public Education Reform.
FY07 includes \$15.0 million for disaster allotments, \$2.0 million for DOH Behavioral Health Services Program (Laws 2006, Chapter 109) and 1,912.5 for Santa Fe Community College (Laws 2006, Chapter 109).
- (4) FY03 includes \$10.0 million to purchase water rights (Laws 2002, Chapter 109).
- (5) Tobacco Settlement Permanent Fund Reserve established (Laws 2003, Chapter 312).

Review of Historical Results in the General Fund

Fiscal Year 2003. Recurring general fund revenue was \$3.89 billion in Fiscal Year 2003, growing 1.1 percent over Fiscal Year 2002. High oil and natural gas prices led to strong growth in mineral production taxes and rents, royalties, and bonuses, but were offset by weakness in income tax collections. Total appropriations were \$4.05 billion, representing growth of only 0.1 percent over the previous Fiscal Year. To meet appropriations, \$102.7 million was transferred from the operating reserve to the general fund. Total General Fund reserves at the close of Fiscal Year 2003 were \$245.2 million, or 6.3 percent of recurring appropriations.

Fiscal Year 2004. In Fiscal Year 2004, recurring General Fund revenue totaled \$4.283 billion or 10.1 percent above Fiscal Year 2003. Abnormally high oil and natural gas prices resulted in 22.8 percent growth in severances taxes, and 25.9 percent growth in rents and royalties. Sales and income taxes grew 8.6 and 10.9 percent, respectively. Total appropriations were \$4.120 billion, growing by 5.7 percent over Fiscal Year 2003. Year-end results included a transfer to reserves of \$108.7 million, increasing year-end reserves in the General Fund to \$447.1 million, or 10.9 percent of recurring appropriations.

Fiscal Year 2005. In Fiscal Year 2005, recurring General Fund revenue totaled \$4.906 billion, representing growth of 14.6 percent over Fiscal Year 2004. Prices for oil and natural gas remained elevated, leading to growth of 29.6 percent in mineral production taxes and 33.4 percent in rents and royalties. General and selective sales taxes grew by 8.3 percent. Growth in selective sales was due to adoption of a health insurance premium surtax and to the opening of a new casino in Hobbs that increased gaming excise tax collections. Income taxes grew 15.6 percent in Fiscal Year 2005. Revenues from investments increased by 13.0 percent in Fiscal Year 2005. Total recurring appropriations were \$4.385 billion, representing 6.4 percent growth over the previous year. Non-recurring appropriations of \$324.7 million were appropriated by the Legislature, largely for capital

investments. Year-end reserves in the General Fund increased by \$241.0 million to \$688.2 million or 15.5 percent of recurring appropriations.

Fiscal Year 2006. Based upon preliminary results for the 2006 Fiscal Year, recurring General Fund revenue grew by 14.0 percent to \$5.594 billion. Prices for oil and natural gas remained high, as Hurricane Katrina resulted in a spike in natural gas prices and international oil prices remained elevated through the year, leading to growth of 29.1 percent in mineral production taxes and 27.9 percent in rents and royalties. General and selective sales taxes grew by 10.5 percent, while income tax growth was 13.4 percent. Revenues from investments increased by 7.0 percent. Total recurring appropriations in the budget for the Fiscal Year totaled \$4.709 billion, representing 7.4 percent growth over the previous year. Non-recurring appropriations of \$656.2 million were appropriated by the legislature, largely for capital investments. Year-end reserves in the General Fund increased by \$99.9 million to \$788.0 million, or 16.5 percent of recurring appropriations. Because year-ending General Fund operating reserves exceeded 8.0% of the 2005 Fiscal Year recurring appropriations, \$111.6 million was transferred from the General Fund Operating Reserve to the Tax Stabilization Reserve.

Fiscal Year 2007. Based upon the approved operating budget and projected results for the 2007 Fiscal Year, recurring General Fund revenue are projected to increase by 1.2 percent to \$5.661 billion. Prices for oil have moderated and natural gas prices in particular have declined to pre-Katrina levels, resulting in a projected decline in mineral production taxes and rents and royalties of 12.3 percent and 9.7 percent, respectively. General and selective sales taxes are projected to grow by 6.6 percent, while income taxes are projected to grow by 4.5 percent. Higher short-term interest rates are projected to result in a 9.8 percent increase in investment income. Total recurring appropriations in the budget for the Fiscal Year total \$5.113 billion, representing 8.6 percent growth over the previous year. Non-recurring appropriations of \$71.1 million were appropriated by the legislature, largely for capital investments. Without regard to any supplemental appropriations that may be made during the legislative session beginning in January 2007, year-end reserves in the General Fund are projected to increase by \$483.1 million to \$1.261 billion, or 24.7 percent of recurring appropriations. It is possible that this will be the first year that amounts transferred from the General Fund to the Tax Stabilization Reserve Fund, plus the balance currently in the Tax Stabilization Reserve Fund, will be greater than 6.0 percent of the aggregate recurring appropriations from the General Fund for the previous fiscal year, triggering a transfer of the smaller of either the amount transferred to the Tax Stabilization Reserve Fund or the difference between the total and 6.0 percent of the aggregate recurring appropriation from the General Fund for the previous fiscal year to the Taxpayer's Dividend Fund. By statute, Section 6-4-5, NMSA 1978, if the balance in the Taxpayer's Dividend Fund exceeds 1.0 percent of the tax liabilities reported to the Taxation and Revenue Department during that fiscal year, the Governor shall propose at the next session of the State Legislature a method for refunding the balance to the taxpayers.

General Fund Taxes and Revenues

Programs and operations of the State are predominantly funded through a system of 29 major taxes administered by the Taxation and Revenue Department. The Public Regulation Commission collects taxes on insurance premiums. In addition, interest income and earnings from the Land Grant Permanent Fund and the Severance Tax Permanent Fund provide important sources of revenue for State purposes. The most important tax and revenue sources, as measured by magnitude of revenue generation, and the application of the monies to certain funds and purposes are described below.

Gross Receipts and Compensating Taxes

The gross receipts tax is levied on the total amount of money or the value of other consideration received from selling property, tangible and certain intangible personal property in the State, from leasing property employed in the State, from performing services in the State and from research and development services performed outside the State on a product which is initially used in the State. The tax is remitted by the seller but generally passed on to the purchaser. The compensating tax is imposed generally on property used in the State but purchased elsewhere. Gross receipts and compensating taxes are due on the 25th day of the month following the month in which the transaction occurs.

Exemptions from the gross receipts tax include, but are not limited to, certain receipts of governmental agencies and certain non-profit organizations and receipts from the sale of certain vehicles, occasional sales of property or services, wages, certain agricultural products, dividends and interest and receipts from the sale of or lease of natural gas, oil or mineral interests. Deductions from the gross receipts tax include, but are not limited to, receipts from various types of sales or leases of tangible personal property or service, receipts from certain sales of property to governmental agencies or to certain non-profit organizations, receipts from certain processing of some agricultural products, receipts from certain publication sales, certain receipts from interstate commerce transactions, and as set forth below, beginning January 1, 2005, certain food and medical services. There are over 50 specified exemptions and deductions from gross receipts taxation; nevertheless, the general presumption is that all receipts of a person engaging in business are subject to the gross receipts tax.

The gross receipts and compensating taxes are the largest single source of State General Fund revenue. The gross receipts tax is also a significant source of revenue for cities and counties. The gross receipts tax includes the statewide gross receipts tax levy of 5 percent plus several city and county local-option gross receipts taxes. Until January 1, 2005, a credit of 0.5 percent against the statewide rate of 5 percent was allowed for municipal local-option taxes. Receipts from the statewide gross receipts tax levy, less disbursement to each incorporated municipality of 1.225 percent of the taxable gross receipts reported in that municipality and less disbursement to the State Aviation Fund of 3.59 percent of the value of jet fuel sales, are deposited in the State General Fund. After all other distributions, the General Fund share of gross receipts tax collections is about 63 percent. Receipts from the compensating tax, less distribution of 10 percent to the small cities assistance fund and less 10 percent to the small counties assistance fund, are deposited in the State General Fund.

Laws of 2004, Chapter 116, effective January 1, 2005, made a number of changes to the state gross receipts tax laws. The credit of 0.5 percent granted to municipalities against the statewide rate was eliminated. The taxes on food and certain medical services were eliminated. The legislation created a deduction for gross receipts tax from retail sales of food as defined for federal food stamp program purposes. The legislation requires retailers to report receipts from sales of these groceries and then claim a deduction for the receipts. The deduction does not apply to receipts of restaurants and sellers of prepared foods. The legislation also created a gross receipts tax deduction for some receipts of licensed health care providers (broadly defined) from Medicare Part C and managed health care plans, and health care insurers. The legislation also provides for payments from the State to reimburse local governments for lost gross receipts tax revenues. The legislation enacts significant penalties for improper filings.

Based upon preliminary results for Fiscal Year 2006, total distributions to the General Fund from gross receipts and compensating taxes grew by 12.1 percent over the previous Fiscal Year to \$1.74 billion, comprising 31.7 percent of recurring General Fund revenue.

Personal Income Tax

The personal income tax is imposed on the net income of every resident individual and upon the net income from business, property, or employment of non-resident individuals. State taxable income is generally equal to federal adjusted gross income less standard deductions or itemized deductions and amounts not taxable by the laws or Constitution of the State or the United States. The State also allows deductions for income earned by Indians on reservations and graduated deductions for income earned by taxpayers 65 years or older. Collections, net of refunds, are placed in the General Fund.

Significant changes have been made to New Mexico's personal income tax structure in the last three years. Income tax incentives were enacted to encourage economic development and investment in New Mexico as well as assist low and middle-income taxpayers. The Laws of 2003, Chapter 2 and Laws of 2005, Chapter 104 enacted significant personal income tax reductions that will reduce the top marginal personal income tax rate from 8.2 percent in 2002 to 4.9 percent by 2008. Chapter 104 combined the tax rates of those filing Head of Household with those filing Married Joint and Surviving Spouse beginning in 2006. This provides single parents with the same tax rates as married couples. The Laws of 2005 also provided low and middle-income tax exemptions, a personal income tax exemption for medical expenses, and several additional incentives to encourage business formation in rural areas and encourage renewable energy production in the State.

Based upon preliminary results for the 2006 Fiscal Year, total distributions to the General Fund from personal income tax grew by 3.7 percent over the previous Fiscal Year to \$1.127 billion, and generated 20.1 percent of total recurring General Fund revenue.

State tax rates by filing status effective Calendar Year 2006 are set forth below:

If the taxable income is:	Married Filing Separate:	If the taxable income is:	Surviving Spouse, Married Filing Joint & Head of Household
Not over \$4,000	1.7% of taxable income	Not over \$8,000	1.7% of taxable income
\$4,001 to \$8,000	\$68.00 plus 3.2% of excess over \$4,000	\$8,001 to \$16,000	\$136.00 plus 3.2% of excess over \$8,000
\$8,001 to \$12,000	\$196.00 plus 4.7% of excess over \$8,000	\$16,001 to \$24,000	\$392.00 plus 4.7% of excess over \$16,000
Over \$12,000	\$384.00 plus 5.3% of excess over \$12,000	Over \$24,000	\$768.00 plus 5.3% of excess over \$24,000
If the taxable income is:	Single Including Trust and Estates:		
Not over \$5,500	1.7% of taxable income		
\$5,501 to \$11,000	\$93.50 plus 3.2% of excess over \$5,500		
\$11,001 to \$16,000	\$269.50 plus 4.7% of excess over \$11,000		
Over \$16,000	\$504.50 plus 5.3% of excess over \$16,000		

State tax rates by filing status effective Calendar Year 2007 are set forth below:

If the taxable income is: Married Filing Separate:		If the taxable income is: Surviving Spouse, Married Filing Joint & Head of Household	
Not over \$4,000	1.7% of taxable income	Not over \$8,000	1.7% of taxable income
\$4,001 to \$8,000	\$68.00 plus 3.2% of excess over \$4,000	\$8,001 to \$16,000	\$136.00 plus 3.2% of excess over \$8,000
\$8,001 to \$12,000	\$196.00 plus 4.7% of excess over \$8,000	\$16,001 to \$24,000	\$392.00 plus 4.7% of excess over \$16,000
Over \$12,000	\$384.00 plus 4.9% of excess over \$12,000	Over \$24,000	\$768.00 plus 4.9% of excess over \$24,000

If the taxable income is: Single Including Trust and Estates:	
Not over \$5,500	1.7% of taxable income
\$5,501 to \$11,000	\$93.50 plus 3.2% of excess over \$5,500
\$11,001 to \$16,000	\$269.50 plus 4.7% of excess over \$11,000
Over \$16,000	\$504.50 plus 4.9% of excess over \$16,000

State tax rates by filing status effective Calendar Year 2008 and subsequent calendar years are set forth below:

If the taxable income is: Married Filing Separate:		If the taxable income is: Surviving Spouse, Married Filing Joint & Head of Household	
Not over \$4,000	1.7% of taxable income	Not over \$8,000	1.7% of taxable income
\$4,001 to \$8,000	\$68.00 plus 3.2% of excess over \$4,000	\$8,001 to \$16,000	\$136.00 plus 3.2% of excess over \$8,000
\$8,001 to \$12,000	\$196.00 plus 4.7% of excess over \$8,000	\$16,000 to \$24,000	\$392.00 plus 4.7% of excess over \$16,000
Over \$12,000	\$384.00 plus 4.9% of excess over \$12,000	Over \$24,000	\$768.00 plus 4.9% of excess over \$24,000

If the taxable income is: Single Including Trust and Estates:	
Not over \$5,500	1.7% of taxable income
\$5,501 to \$11,000	\$93.50 plus 3.2% of excess over \$5,500
\$11,001 to \$16,000	\$269.50 plus 4.7% of excess over \$11,000
Over \$16,000	\$504.50 plus 4.9% of excess over \$16,000

Corporate Income Tax

The corporate income tax is imposed on the net income of a corporation doing business in the State or deriving any income from property and employment in the State. No corporate income tax is imposed upon insurance companies, which pay a premium tax to the State, or on nonprofit organizations or retirement trust funds. Collections, net of refunds, are placed in the General Fund. Corporations are required to file a return on or before the fifteenth day of the third month following the end of each taxable year at which time corporate income taxes are also due. A corporation is required to file estimated tax payments if the tax, net of credits, is \$5,000 or more.

Tax rates are established under a graduated table and range from 4.8 percent on the first \$500,000 or less of taxable income to 7.6 percent on income in excess of \$1,000,000. Based upon preliminary results for the 2006 Fiscal Year, total distributions to the General Fund net receipts from corporate income taxes totaled \$382.6 million, representing an increase of 57.8 percent from the prior Fiscal Year, and generated 6.8 percent of recurring General Fund revenue.

Mineral Production Taxes

Mineral production taxes (Resource Excise Tax, Natural Gas Processors Tax, Oil and Gas Conservation Tax and Oil and Gas Emergency School Tax) are levied on producers and others on the value of severed minerals and material resources from within the State and are disbursed to the General Fund. The Oil and Gas Emergency School Tax is imposed for the privilege of engaging in the business of severing oil, natural gas, liquid hydrocarbons and carbon dioxide from the soil of the State. The Oil and Gas Emergency School Tax is imposed at a rate of 3.15 percent of taxable value of oil and 4.0 percent of taxable value for natural gas. Taxable value reflects gross sales value less deductions for royalties paid to government entities and for certain processing and transportation expenses. The same definition of taxable value is used for calculation of oil and gas severance tax liability.

Based upon preliminary results for the 2006 Fiscal Year, total distributions to the General Fund from Oil and Gas Emergency School Tax receipts totaled \$491.6 million, representing an increase of 29.1 percent from the prior Fiscal Year. Other General Fund taxes on natural resources production totaled \$59.8 million. Based on these estimates, mineral production taxes contributed 9.9 percent of recurring General Fund revenue in the 2006 Fiscal Year.

Laws 2002, Chapter 15, created the Jicarilla Apache Tribal Capital Improvement Tax Credit. This tax credit can reduce the Oil and Gas Emergency School Tax on products severed from wells drilled on the Jicarilla Apache Nation by up to 0.7 percent of the taxable value of production.

Royalties, Rents and Bonuses

Federal Lands. Under terms of the 1920 Federal Mineral Leasing Act the State receives a 50 percent share of all income generated from the leasing of federally held lands located in the State for mineral production. Principal sources of income on federal lands are royalty payments on oil and gas production. Additional income is derived from bonus payments for oil and gas leases and royalty payments on production of coal, potash and other minerals. The U.S. Minerals Management Service collects federal mineral lease income where the State's share of administrative costs is deducted. The State receives payments on a monthly basis and makes the deposits to the General Fund. Based upon preliminary results for the 2006 Fiscal Year, total distributions to the General Fund from Federal mineral leases totaled \$556.4 million, representing 9.9 percent of recurring General Fund receipts for the Fiscal Year.

State Lands. The State Land Office manages lands acquired by the State under the federal Fergusson Act enacted prior to statehood, as well as under the State Constitution. All income from such lands is dedicated to specific educational purposes and institutions. As with federal lands, the oil and gas industry is the principal source of revenue from State lands. Bonus income is also collected in the form of cash payments as a result of competitive bidding for State leases. Rentals and bonus income are distributed to the respective beneficiary institutions, with the single largest beneficiary being the State's public schools. Minerals production from State trust lands also generates royalty income which is deposited in the State Land Grant Permanent Fund ("LGPF"). Royalties are imposed on most minerals production values at the rate of 12.5 percent, although there is a provision for rates of up to 20 percent for new leases on developed acreage. Beneficiaries of the LGPF are the same as those educational institutions and public schools benefiting from "State lands."

In September 2003, the electorate of the State of New Mexico approved a constitutional amendment regarding distributions for educational purposes from the LGPF. The amendment provided that beginning in Fiscal Year 2006 and ending in Fiscal Year 2016, certain additional distributions shall be

made to implement and maintain educational reforms as provided by law. A three-fifths majority of members elected to each house of the Legislature may suspend this additional distribution.

Severance Tax Permanent Fund and the Land Grant Permanent Fund

The Severance Tax Permanent Fund was established in the State Treasury in 1973 to receive the residual revenues from the Severance Tax Bonding Fund and serve as an endowment for future capital projects. In the General Election of 1976, the electorate approved a constitutional amendment giving the Severance Tax Permanent Fund constitutional status. In the General Election of 1982, the electorate approved a second constitutional amendment that removed the discretionary power of the Legislature to appropriate funds from the corpus of the Severance Tax Permanent Fund. Distributions from investments of the Severance Tax Permanent Fund, 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 Severance Tax Permanent Fund. The State Investment Officer under the direction of the State Investment Council invests the corpus and non-appropriated income of the Severance Tax Permanent Fund. The market value of the Severance Tax Permanent Fund as of June 30, 2006 was approximately \$4.02 billion, an increase of approximately 6.5 percent from the prior Fiscal Year. Money on deposit in the Severance Tax Permanent Fund is not pledged to and may not be used to pay any Bonds.

The LGPF is designed solely to benefit the educational system of the State and other specified institutions. The origins of the LGPF are found in the 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, with the latter receiving 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), bringing the current total to nine million surface acres and 12.8 million subsurface acres.

The State Land Office is charged with the custody and disposition of the land granted to the State. Through the Commissioner of Public Lands these properties granted to the State are sold and/or leased in accordance with the provisions of the appropriate statutes. The State Investment Officer under the direction of the State Investment Council invests the corpus and income of the LGPF. As of June 30, 2006, the market value of the LGPF was approximately \$9.1 billion, an increase of approximately 10.3 percent from the prior Fiscal Year. **The corpus of the LGPF is constitutionally protected from appropriation and amounts on deposit therein are not pledged to and may not be used to pay the Notes.** The LGPF is also protected by the Federal Enabling Act of 1910.

In November 1996, the electorate of the State of New Mexico approved a constitutional amendment regarding distributions from the State's permanent funds. Distributions are now based on a total return basis rather than an income distribution method. Distributions to beneficiaries are based on a formula under which 4.7 percent of the previous average five-year market value of the fund is distributed.

In September 2003, the electorate of the State of New Mexico approved a constitutional amendment increasing the rate of distribution from the LGPF from 4.7 percent to 5.0 percent of the average fiscal year market value of the LGPF beginning in Fiscal Year 2005. Certain additional distributions shall be made to implement and maintain educational reforms as provided by law. An additional 0.8 percent will be distributed in Fiscal Years 2005 through 2012 and an additional 0.5 percent will be distributed in Fiscal

Years 2013 through 2016. A three-fifths majority of members elected to each house of the Legislature may suspend this additional distribution.

Investment Income

Investment earnings are generated from three primary sources: the LGPF, the Severance Tax Permanent Fund, and cash balances held by the State Treasurer. Income from the LGPF is distributed among the beneficiary educational institutions and public schools. The 82.8 percent share dedicated to public schools is deposited in the General Fund. Based on preliminary results for the 2006 Fiscal Year, \$354.0 million of LGPF distributions were transferred to the General Fund for public school purposes. \$171.8 million of income was distributed from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In the 2006 Fiscal Year, Treasurer's cash balances produced \$97.3 million of which \$59.7 million was credited to the General Fund. Total investment income credited to the General Fund was \$585.5 million, representing 10.5 percent of recurring General Fund receipts.

PROPERTY VALUATION AND TAXATION

A revaluation assessment started in property tax year 1986, as mandated by statute, and was completed within a 10-year period. In 1995, strong growth in residential valuations occurred as a result of timely revaluation assessment to comply with the statute. The valuation of oil and gas production and the assessment of the *ad valorem* production tax are based on the actual value of production on a monthly basis from September 1 to August 31 of each year. Pursuant to Section 7-32-15 NMSA 1978 as amended, oil and gas valuation is from the calendar year preceding the property tax year. For rate setting, Local Government Division ("LGD") may adjust levy for changes in oil and gas values.

On November 3, 1998, as a result of approval by the New Mexico electorate, Article VIII, Section 1 of the New Mexico Constitution was amended to authorize the Legislature to limit increases in valuation of residential property for property taxes. The limitation may be applied to classes of residential property taxpayers based on owner-occupancy, age or income. The limitations may be authorized statewide or at the option of a local jurisdiction and may include conditions under which the limitation is applied. Any valuation limitations authorized, as a local jurisdiction option, shall provide for applying statewide or multi-jurisdictional property tax rates to the value of the property as if the valuations increase limitation did not apply. This amendment and related legislation may have an impact on future property taxation increases.

The 2000 Legislature passed and the Governor signed legislation limiting the increase in the value of residential property for property valuation purposes. Laws of 2000, Chapter 21, codified as Section 7-36-21.3, NMSA 1978, provides for a freezing of values for single-family dwellings occupied by certain low-income owners 65 years of age or older. Laws of 2000, Chapter 10, codified as Section 7-36-21.2, NMSA 1978, provides that the value of a residential property in any tax year, starting with the year 2001, shall not exceed certain percentage increases based on whether the county where the property is situated has a sales assessment ratio of at least 85 percent. Sales assessment ratios are computed annually by TRD and measure a county's assessment valuations against current sales information. Counties that have at least an 85 percent sales assessment ratio are considered "current and correct" while counties that fall below that threshold are considered not "current and correct." If a property is situated in a current and correct county, the law limits the annual increase to no more than 3 percent (and 6.1 percent over the value two years ago). If a property is situated in a county that is not current and correct, the law limits the annual increase to 5 percent. In addition, in such a non-current and correct county, the law limits the aggregate annual increases for all properties

(excluding net new properties added to the tax rolls) in that county to 3 percent. The annual limitations do not apply to new improvements or to any property that has had a change in ownership, use or zoning during the year.

The 2005 Legislature passed and the Governor signed Laws of 2005, Chapter 24, amending Section 7-38-12.1 of the Property Tax Code. The statute requires the disclosure of sale prices and other items of value upon the sale of residential real property. This amendment to the statute may lead to an increase in the assessed value of residential property.

The following Table 17 sets forth the aggregate statewide net taxable valuations for the last ten years.

TABLE 17
Final Net Taxable Valuations
(Dollars in thousands)

<u>Property Tax Year</u>	<u>Residential</u>	<u>Non-Residential</u>	<u>Oil and Gas</u>	<u>Copper</u>	<u>Net Taxable Value</u>
1997	\$12,228,583	\$8,563,893	\$2,371,034	\$235,557	\$23,399,067
1998	12,678,034	8,750,029	2,520,530	236,629	24,185,223
1999	14,660,993	9,311,907	1,852,447	192,897	26,018,245
2000	15,311,042	9,946,121	2,166,427	160,906	27,584,497
2001	16,336,147	10,209,818	4,238,592	117,376	30,901,933
2002	17,133,856	10,336,906	3,024,570	—	30,495,332
2003	18,279,692	10,778,559	3,024,570	66,614	32,149,435
2004	19,421,800	10,839,281	5,563,785	65,157	35,890,023
2005	21,120,378	12,161,447	4,643,270	65,157	38,910,768
2006 ⁽¹⁾	22,981,639	12,483,183	6,057,763	103,402	42,828,114

⁽¹⁾ Estimate.

Source: Department of Finance and Administration.

Production and Property Taxes on Oil and Gas

Statutory tax rates on oil and gas for the School Tax (3.15% and 4.0%, respectively), the Oil and Gas Severance Tax (3.75%) and the Conservation Tax (0.19%) are effectively reduced by deductions for royalties paid to governments and for certain transportation expenses. The *ad valorem* taxes are imposed in lieu of property taxes on reserves and lease equipment, and local rates vary in accordance with jurisdiction.

The 2005 Legislature amended current severance tax laws to include helium and hydrocarbon gases in the definition of products subject to the oil and gas severance tax, the oil and gas conservation tax, the oil and gas school emergency tax and the oil and gas production equipment *ad valorem* tax. The Taxation and Revenue Department is not aware of any wells currently producing commercial helium in the State. However, according to a study by the New Mexico Bureau of Geology and Mineral Resources,² the State has produced commercial volumes of helium in the recent past. If the historical production volumes are reached in the future, increased taxes on helium and new hydrocarbon gases could generate as much as \$1.3 million in revenue for the Bonding Fund.

⁽²⁾ "Helium in New Mexico: Geologic Distribution and Exploration Possibilities," Ronald F. Broadhead and Lewis Gillard, N.M. Bureau of Geology and Mineral Resources.

Current effective production and property tax rates expressed on *ad valorem* and unit bases are shown below. The rates were based on data from Fiscal Year 2006 and reflect an average sales price of \$61.96 per barrel for oil and \$7.46 per thousand cubic feet (mcf) for natural gas. The effective rates presented in Table 18 shows taxes paid as a percentage of gross sales value before subtracting allowable deductions.

TABLE 18
Effective Tax Rates

<u>Type of Tax</u> Price	<u>Crude Oil</u>		<u>Natural Gas</u>	
	<u>Ad Valorem</u>	<u>Per Barrel</u>	<u>Ad Valorem</u>	<u>Per mcf</u>
		\$61.96		\$7.46
Oil and Gas School Tax	2.87%	\$1.78	3.33%	\$0.25
Oil and Gas Severance Tax	3.41%	\$2.12	3.13%	\$0.23
Oil and Gas Conservation Tax	0.17%	\$0.11	0.16%	\$0.01
Natural Gas Processors Tax	N/A	N/A	0.23%	\$0.02
Oil and Gas Production ad valorem Tax	1.05%	\$0.65	0.87%	\$0.06
Oil and Gas Production Equipment ad valorem Tax	0.13%	\$0.08	0.13%	\$0.01
Total	7.64%	\$2.42	7.86%	\$0.36
Subtotal-State tax only excludes ad valorem taxes	6.46%	\$4.00	6.86%	\$0.51

Production, Sales and Property Taxes on Coal

The average burden of production and property taxes on a ton of coal produced and sold during Fiscal Year 2006 are shown in Table 19:

TABLE 19
Tax Burden

<u>Type of Tax</u>	<u>Tax Burden Effective Rate</u>	<u>Amount</u>
Severance Tax & Surtax	\$.65 per ton	\$17,142,780
Resources Excise Tax	.20 per ton	5,217,591
Conservation Tax	.05 per ton	1,321,790
Property Tax	.23 per ton	6,208,294
Gross Receipts Tax	.70 per ton	18,574,000
Total	\$1.82 per ton	\$48,464,456
Price per Ton		\$26.19
Total Production		25,566,669
Total Value		\$695,678,864

Statutory rates for the Resources Excise 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 pertained 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. Currently, approximately 65.0 percent of all coal produced in the State is subject to gross receipts tax, even though a substantial portion is shipped out of the State for ultimate consumption. The combined state and local tax rate is 6.97 percent of value. To convert taxes per unit of output to tax rates per dollar of sales, the taxes shown above may be divided by the average price per ton of coal in Fiscal Year 2006, which was approximately \$26.19.

Excluding Gross Receipts Tax	$\$1.12/\$26.19 = 4.30\%$
Including Gross Receipts Tax	$\$1.82/\$26.19 = 6.97\%$

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STATE OF NEW MEXICO
OFFICE OF THE
STATE TREASURER
Financial Statements
for the Year Ended
June 30, 2006

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Management's Discussion and Analysis



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

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

Financial Highlights

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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Management's Discussion and Analysis - continued



Fund Financial Statements

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

Governmental Funds:

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

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

The State Treasurer maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, the Bond Issuance Fund, General Obligation Bond Fund, and Severance Tax Bond Fund, all of which are considered to be major funds. The General Obligation and Severance Tax Bond funds combine into a single, aggregated presentation of the activity of each individual bond issue. Individual bond transaction data of these governmental funds is provided in the form of combining statements elsewhere in this report.

The State Treasurer adopts an annual operating budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

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Management's Discussion and Analysis - continued

Fund Financial Statements - continued

Fiduciary Funds:

Fiduciary funds are used to account for resources held for the benefit of parties outside the State Treasurer. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the State Treasurer's own programs.

Fiduciary funds provide the same type of information as the government-wide financial statements, only in more detail. The fiduciary fund financial statements provide separate information for the Short-term Investment Pool, Consolidated Investment Pool, and State Funds Investment Pool. The State Treasurer's fiduciary funds account for cash, securities, and other investments identified and held in custody on behalf of local and state government agencies, and are separately identified by the types of State and local agencies for which the funds are held. The Short-term Investment Pool accounts for the Local Government Investment Pool (LGIP), the Consolidated Investment Pool accounts for funds held in custody for both State and local government agencies, and the State Funds Investment Pool accounts for funds identified and held in custody on behalf of State agencies.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a user's full understanding of the data provided in the government-wide and fund financial statements, and begin on page 22 of this report.

Other Information

The combining statements referred to earlier in connection with the General Obligation and Severance Tax Bond funds are presented immediately following the notes to the financial statements. Combining statements, schedules of capital assets, and schedules of long-term debt can be found beginning on page 62 of this report. Fiduciary schedules begin on page 77.

Required Supplementary Information (Other than MD&A)

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

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Management's Discussion and Analysis - continued

Government-wide Financial Analysis

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

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

	Total	
	2006	2005
Assets:		
Cash, cash equivalents and repurchase agreements	\$ 289,469,620	153,041,655
Due from other agencies	39,385,885	36,638,001
Accrued interest receivable	1,594,736	43,319
Investment in NM Business Development Corp.	1,359,766	1,357,139
Capital assets, net	65,883	97,725
Total assets	\$ 331,876,351	191,177,839
Current liabilities:		
Accounts payable and other	\$ 132,823,251	12,729,873
Compensated absences, amounts due in one year	95,980	100,000
Compensated absences, amounts due beyond one year	-	1,251
Total liabilities	132,919,231	12,831,124
Net assets:		
Invested in capital assets	65,883	97,725
Restricted	199,253,120	178,421,080
Unrestricted	(361,883)	(172,090)
Total net assets	198,957,120	178,346,715
Total liabilities and net assets	\$ 331,876,351	191,177,839

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

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Management's Discussion and Analysis - continued



Government-wide Financial Analysis - continued

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

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

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

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

	Total	
	2006	2005
Revenues:		
Federal funds	\$ 8,936	13,883
State appropriation	3,822,500	3,426,400
Interest income	40,120,599	16,259,668
Total revenues	43,952,035	19,699,951
Expenses:		
Current:		
Personnel services and employee benefits	2,502,020	2,480,492
Operating costs	918,122	963,432
Contractual services	185,622	232,063
Debt Service:		
Interest on long-term debt	59,237,511	51,349,828
Debt service activity	(459,952,907)	389,032,224
Other charges	2,709,501	4,116,899
Non-operating (revenue) and expense	421,409,904	(439,914,466)
Total expenses	23,404,009	(4,584,485)

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Management's Discussion and Analysis - continued



Government-wide Financial Analysis - continued

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

	Total	
	2006	Restated 2005
Change in net assets	\$ 20,548,026	24,284,436
Net assets, beginning, restated	<u>178,409,094</u>	<u>154,124,658</u>
Net assets, ending	<u>\$ 198,957,120</u>	<u>178,409,094</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 governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State Treasurer's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the State Treasurer's governmental funds reported combined ending fund balances of \$198,987,217, an increase of \$20,754,598 in comparison with the prior year. The primary reason for the significant increase in the overall change in net assets is the increase in severance tax receipts of \$98,734,435 due to the increase in the price of oil and natural gas. The increase was used for debt service payments or retained for future debt service payments after \$123,217,261 reverted to the permanent fund.

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

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Management's Discussion and Analysis - continued



General Fund Budgetary Highlights

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

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

There were no significant variances between final budget amounts and actual budget results for the General Fund. The General Fund actual expenditures were less than the final budgeted amounts by less than one percent. The only significant variances between final budget amounts and actual budget results for the General Fund were for contractual services, which were 50 percent less than actual expenditures.

Capital Assets and Debt Administration

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

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

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

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

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

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Management's Discussion and Analysis - continued



Economic Factors and Next Year's Budgets and Rates

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

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

Contacting the State Treasurer's Financial Management

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

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

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FINANCIAL STATEMENTS

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Statement of Net Assets



AS OF JUNE 30, 2006

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

See Notes to Financial Statements.

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Statement of Activities

YEAR ENDED JUNE 30, 2006

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

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Balance Sheet - Governmental Funds

AS OF JUNE 30, 2006

	Major Funds							Total Governmental Funds
	General Fund	NM Business Development Corp. Fund	Bond Insurance Fund	General Obligation Bond Fund	Sovereign Tax Bond Fund	Tax & Revenue Anticipation Notes	Gaining Suspense Fund	
ASSETS								
Cash and cash equivalents	\$ 380,127	-	-	-	-	-	581,278	961,405
Repurchase agreements	-	-	-	46,049,693	234,458,522	8,000,000	-	288,508,215
Investment in NM Business Development Corp.	-	1,359,766	-	-	-	-	-	1,359,766
Other receivables	461	-	-	2,444,281	36,941,604	-	-	461
Due from other agencies	-	-	-	17,792	1,576,944	-	-	89,385,885
Insurance receivable	-	-	-	-	-	-	-	1,594,736
TOTAL ASSETS	380,588	1,359,766		48,511,766	279,977,070	8,000,000	581,278	331,810,468
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ 102,064	-	-	-	214,518	180,278	-	497,760
Due to Sovereign Tax Permanent Fund	-	-	-	-	123,217,261	-	-	123,217,261
Due to other agencies	-	-	-	-	163,703	8,000,000	-	8,163,703
Due to State General Fund	267,150	-	-	-	-	-	581,278	848,428
Accrued payroll	96,099	-	-	-	-	-	-	96,099
Other payables	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	466,213				123,595,482	8,180,278	581,278	132,823,251
FUND BALANCES								
Reserved for:								
New Mexico Business Development Corp.	-	1,359,766	-	47,131,980	148,206,709	-	-	1,359,766
Data service	-	-	-	1,879,786	1,174,879	-	-	195,388,689
Arbitrage	(85,625)	-	-	-	-	-	-	2,554,665
Unreserved, reported in general fund								(85,625)
Unreserved, reported in:								
Taxation & Revenue Anticipation Notes	-	-	-	-	-	(180,278)	-	(180,278)
TOTAL FUND BALANCES	(85,625)	1,359,766		48,511,766	149,381,588	(180,278)		198,987,217
TOTAL LIABILITIES AND FUND BALANCES	\$ 380,588	1,359,766		48,511,766	279,977,070	8,000,000	581,278	331,810,468

See Notes to Financial Statements.

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

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



YEAR ENDED JUNE 30, 2006

**Total Fund Balance - Governmental Funds
(Governmental Fund Balance Sheet)**

\$ 198,987,217

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

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

65,883

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

(95,980)

Net assets of governmental activities (Statement of Net Assets)

\$ 198,957,120

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds

YEAR ENDED JUNE 30, 2006

	General Fund	NM Revenues Development Corp. Fund	Bond Issuance Fund	General Obligations Bond Fund	Revenue Tax Bond Fund	Tax & Revenue Anticipation Notes	Granting Responsible Fund	Total Governmental Funds
REVENUES								
Federal Inlay	8,956							8,956
State general fund appropriations	3,417,300							3,417,300
Special appropriation	378,300							378,300
Other income	120							120
Interest income		2,627						2,627
Interest income - debt service				6,023,172	31,883,308			37,906,480
Interest income - arbitrage				568,132	546,360			1,114,492
TOTAL REVENUES	3,891,556	2,627		7,591,304	32,529,668			43,995,155
EXPENDITURES								
Current								
Personnel services and employee benefits	2,502,020							2,502,020
Operating costs	185,622							185,622
Contractual services	881,381							881,381
Other infrastructure expenditures								
Debt service				57,483,950	389,614,432	576,184,166		1,023,282,538
Principal and interest on long-term debt				4,290	1,754,171	624,778		2,709,239
Other charge	9,868							9,868
Capital outlay	3,273,122		346,002	57,437,300	391,348,903	576,778,934		1,029,395,341
TOTAL EXPENDITURES	252,394	2,627	(346,002)	(49,840,196)	(396,810,235)	(576,778,934)		(965,338,366)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(260,838)							(260,838)
OTHER FINANCING SOURCES (USES)								
Revenue bonds								
State projects act levy				48,079,157	178,602,295			226,681,452
Bond proceeds			430,698,575			550,000,000		980,698,575
Bond premium (discount)			1,480,434			12,902,999		14,383,433
Other lease				768,706	4,472,365			5,241,071
Capital projects, revenue in								
Payment to secure debt								
Miscellaneous other income								
Governmental investment fund, revenues out								
Transfer to other state agency			(481,832,807)					(481,832,807)
TOTAL OTHER FINANCING SOURCES (USES)	260,838		(481,832,807)	(49,840,196)	(396,810,235)	(576,778,934)		(965,338,366)
NET CHANGE IN FUND BALANCES	(14,766)	2,627	(346,002)	(49,840,196)	(396,810,235)	(576,778,934)		(1,023,282,538)
FUND BALANCES, June 30, 2005	(70,839)	1,537,139		(48,794,061)	128,269,879	(180,278)		178,569,240
PLUS FUND ADJUSTMENTS	(70,839)	1,537,139		(48,794,061)	128,269,879	(180,278)		178,569,240
FUND BALANCES, June 30, 2006	(141,678)	3,074,278		(97,588,122)	256,539,758	(360,556)		278,430,810
FUND BALANCES, June 30, 2006	(141,678)	3,074,278		(97,588,122)	256,539,758	(360,556)		278,430,810

See Notes to Financial Statements.

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

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



YEAR ENDED JUNE 30, 2006

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

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

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

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

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

Rounding _____ (1)

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

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

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



YEAR ENDED JUNE 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
State General Fund appropriation	\$ 3,408,300	3,447,300	3,447,300	-
Special appropriation	39,000	375,200	375,200	-
Other grants	25,400	25,400	8,936	(16,464)
Other	-	-	120	120
TOTAL REVENUES	\$ 3,472,700	3,847,900	3,831,556	(16,344)
EXPENDITURES:				
Current:				
Personnel services and benefits	\$ 2,540,600	2,553,600	2,502,020	51,580
Contractual services	174,600	441,900	327,434	114,466
Operating costs	757,500	852,400	852,400	-
TOTAL EXPENDITURES	3,472,700	3,847,900	3,681,854	166,046
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ -	-	149,702	(149,702)

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Statement of Fiduciary Net Assets



AS OF JUNE 30, 2006

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

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

Statement of Changes in Fiduciary Net Assets



AS OF JUNE 30, 2006

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

UNAUDITED

OFFICE OF THE STATE TREASURER

Notes to Financial Statements

NATURE OF ORGANIZATION

The Office of the State Treasurer (State Treasurer) has existed continuously since 1851 (Laws 1851-1852). The Legislative Assembly of the Territory of New Mexico passed an act to establish and regulate the Treasury Department of the Territory of New Mexico. This act established the office of territorial Treasurer and designed the duties of Treasurer. The Office of the State Treasurer is established by the New Mexico Constitution, Article V, Section 1, which provides in part:

"The executive department shall consist of a governor, lieutenant governor, secretary of state, state auditor, state treasurer, attorney general, and commissioner of public lands, who shall, unless otherwise provided in the constitution of New Mexico, be elected for the term of four years beginning on the first day of January next after their election. The governor and lieutenant governor shall be elected jointly by the casting by each voter of a single vote applicable to both offices."

Statutory powers and duties of the State Treasurer are contained in numerous articles of the New Mexico Statutes Annotated. Principal statutory provisions related to the New Mexico State Treasurer's Investment Fund are listed below:

- (1) Sections 8-6-1 through 8-6-7 NMSA 1978 (1983 Repl.), as amended. Section 8-6-3 NMSA 1978 (1983 Repl.) provides that the State Treasurer shall receive and keep all monies of the state, except when otherwise provided, shall disburse the public money upon lawful warrants and shall keep a just, true and comprehensive account of all monies received and disbursed.
- (2) Section 6-1-13 NMSA 1978 (1978 Repl.) provides that the State Treasurer shall authorize all state agency deposit accounts and shall establish conditions and reports appropriate to the accounts.
- (3) Section 6-8-2 NMSA 1978 (1988 Repl.) provides that the State Treasurer shall be a member of the State Investment Council. Section 6-8-6 NMSA 1978 (1988 Repl.) states that the State Treasurer shall maintain custody of the state permanent fund.
- (4) Sections 6-10-11 (C), (H), and (I) NMSA 1978 (1988 Supp.) empower the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in demand deposits and not immediately needed for the operation of state government in certain specified securities or investments.
- (5) Section 12-6-4 NMSA 1978 provides that the cost of the annual audit of the State Treasurer shall be borne by special appropriations to the State Board of Finance. The cost of the audit and other expenses paid in behalf to the New Mexico State Treasurer's Investment Fund not material to the combined financial statements are not reflected in the accompanying financial statements.

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



NATURE OF ORGANIZATION – continued

- (6) Section 6-124-2 NMSA 1978 is to ensure an orderly and uninterrupted flow of money to the general fund by anticipating the receipt of taxes and other state revenue.
- (7) Section 61-10-10.1 Short-term investment fund created; distribution of earnings; report of investment.
- a. There is created in the state treasury the 'short-term investment fund'. The fund shall consist of all deposits from governmental entities and Indian tribes or pueblos that are placed in the custody of the State Treasurer for short-term investment purposes pursuant to this section. The State Treasurer shall maintain a separate account for each governmental entity and Indian tribe or pueblo having deposits in the fund.
 - b. If any local public body is unable to receive payment on public money at the rate of interest as set forth in Section 6-10-36 NMSA 1978 from financial institutions within the geographic boundaries of the governmental unit, then a local public finance official having money of that local public body in his custody required for expenditure within thirty days or less may, with the consent of the appropriate local board of finance, if any, remit some or all of such money to the state treasurer, bank, savings and loan association or credit union for deposit for the purpose of short-term investment as allowed by this section.
 - c. Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to this section, the local public body finance official shall notify and make sure funds are made available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the State Treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.
 - d. The local public body finance official shall specify the length of time each deposit shall be in the short-term investment fund, but in any event the deposit shall not be made for more than thirty days. The State Treasurer through the use of the state fiscal agent shall separately track each such deposit and shall make such information available to the public upon written request.
 - e. The State Treasurer shall invest the fund as provided for state funds under Section 6-10-10 NMSA 1978 and may elect to have the short-term investment fund consolidated for investment purposes with the state funds under the control of the State Treasurer, provided that accurate and detailed accounting records are maintained for the account of each participating entity and Indian tribe or pueblo and that a proportionate amount of interest earned is credited to each of

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



NATURE OF ORGANIZATION – continued

the separate government accounts. The fund shall be invested to achieve its objective, which is to realize the maximum return consistent with safe and prudent management.

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

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

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

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

Oversight by the State Board of Finance

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

The Board has the responsibility for the issuance of the general obligation and severance tax bonds and for the investment and distribution of the proceeds from such bonds. In that regard, the Board approves the issuance of all such bonds, and provides information for bond prospectuses in order to ensure compliance with financial disclosure requirements and to present information concerning bond issues in a meaningful

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



NATURE OF ORGANIZATION – continued

Oversight by the State Board of Finance - continued

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

◆ Financial Reporting Entity

The State Treasurer is a department of the State of New Mexico. The financial statements and notes to the financial statements include all funds for which the State Treasurer is responsible. These financial statements only present activity related to the State Treasurer's Office. The State Treasurer receives funding from state and federal sources and must comply with the requirements of these funding source entities. However, the State Treasurer is not included in any other governmental 'reporting entity' as defined by GASB pronouncements, since the State Treasurer is elected by the public and has decision making authority, the power to designate management, and the ability to significantly influence operations and have primary financial accountability for fiscal matters. In addition, there are no component units as defined in GASB Statement 14 which are included in the State Treasurer's reporting entity.

◆ Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

The *General Obligation Bond Funds* are to account for payment of principal and interest on general obligation bonds. Financing sources are provided through the collection of property tax levies by other state agencies.

The *Severance Tax Bond Funds* are to account for tax receipts levied by other state agencies upon natural resource products, severed and saved from the lands of the State of New Mexico, and to account for payment of principal and interest on severance tax bonds.

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

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

Additionally, the government reports the following fiduciary fund types:

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

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

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

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

◆ *Deposits and Investments*

The State Treasurer's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the State Treasurer to invest in, subject to various restrictions, U.S. government obligations, commercial paper, corporate bonds, asset backed obligations, repurchase agreements, certificates of deposit, securities lending transactions, variable rate notes, tax-exempt securities, and money market mutual funds.

◆ *Receivables and Payables*

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

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

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

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

◆ Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

◆ Compensated Absences

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

Employees are entitled to accumulate sick leave at the rate of 3.69 hours per pay period. There is no limit to the amount of sick leave which an employee may accumulate. State agencies are allowed to pay fifty (50) percent of each employee's hourly rate for accumulated sick leave over 600 hours up to 120 hours. Payment may be made only once per fiscal year at an employee-specified pay period in either January or July.

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

◆ Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are not reported as liabilities in the applicable governmental activities. The State Treasurer is not the issuer of the debt, nor is it ultimately responsible for the debt. The details of the long-term debt are reported in the Supplementary Information section of the financial statements as Schedule 6. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method, and are reported as Supplementary Information in Schedule 6 of the financial statements. Bonds payable are reported net of the applicable bond premium or discount in Schedule 6.

The State Treasurer reports the debt service activity of the State of New Mexico in its fund financial statements. Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Since the State Treasurer reports the debt service activity in its fund financial statements, but does not report the related liabilities in the governmental activities, the Office reports the debt service activity of the State of New Mexico in its government-wide financial statements under general revenues and program expenses as follows:

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

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

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

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

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

UNAUDITED

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

◆ *Fiduciary Net Assets*

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

◆ *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

◆ *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

◆ *Restricted Resources*

When the Office of the State Treasurer has both restricted and unrestricted resources available to finance a particular program, it is the Government's policy to use restricted resources before unrestricted resources. Net assets are restricted by the bond indenture for debt service. Restricted resources include special appropriations limited to use as described in Laws 2004, C 114, S9, and severance taxes limited to use for the debt service obligations of the State of New Mexico.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

◆ *Budgets and Budgetary Accounting*

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

1. By September 1, the State Treasurer prepares a budget appropriation request by category to be presented to the next legislature.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued

◆ Budgets and Budgetary Accounting - continued

4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the category level of the State Treasurer as a whole and changes are approved by the DFA.
7. Formal budgetary integration is employed as a management control device during the year for the General Fund.
8. The budget for the General Fund is adopted on a cash encumbrances basis. Current year encumbrances are included as expenditures and payment of prior year encumbrances is excluded from expenditures. There is no recognition of changes in prepaid expenses, accounts payable and property, plant and equipment. Budgetary comparisons presented for the General Fund in the report are on the non-GAAP budgetary basis, which does not conform to accounting principles generally accepted in the United States of America because encumbrances are treated as expenditures; increases to expenditures to be funded from fund balances do not cause a corresponding increase in revenues; and this procedure conforms to DFA and State requirements.

The General Appropriations Act of 2004 established the modified accrual basis of accounting as the budgetary basis of accounting for the State of New Mexico beginning July 1, 2004. Accordingly, future budgets will be prepared using the modified accrual basis of accounting.

9. The State Treasurer's budget for the fiscal year ending June 30, 2006 was amended in a legally permissible manner by reallocating line item category totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.

The New Mexico Business Development Corporation Special Revenue Fund and the Bond Issuance Fund are not budgeted. Debt Service funds are budgeted over the life of their respective bond issues and not on an annual basis.

The following is a reconciliation between the non-GAAP budgetary (cash) basis amounts and the governmental fund financial statements by fund type:

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued

	<u>General Fund</u>
Excess (deficiency) of revenues over expenditures	\$ (14,786)
Adjustments:	
Reversal of prior year accrual	(17,633)
Accounts payable	102,964
Outstanding encumbrances - 2006	(86,893)
Encumbrance transactions - 2005	1,752
Reversions	<u>164,298</u>
Excess (deficiency) of revenues over expenditures (Budget Basis)	\$ <u>149,702</u>

3. DEPOSITS AND INVESTMENTS

◆ *Fiscal Agent Bank*

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

◆ *Correspondent Bank*

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

◆ *Investment Trust Fund*

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

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

UNAUDITED

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



3. *DEPOSITS AND INVESTMENTS - continued*

◆ *Investment Trust Fund -- continued*

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

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

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

The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$100,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institution's operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50% of the average investment balance.

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Investment Trust Fund - continued

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

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

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

◆ Brokered Transactions

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

Broker Name	Number of Transactions
Merrill Lynch	106
Citigroup	79
Morgan Stanley	57
Bank of America	47
Goldman Sachs	41
Wachovia Securities	20
LPL Financial	20
UBS	5
Avests, Inc.	4

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Brokered Transactions - continued

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

◆ Direct Transactions

The State Treasurer made the following direct purchases:

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

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Investment Balances

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

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

The fair value includes repurchase agreements of \$288,508,215 of debt service funds reported in the Statement of Net Assets – Governmental Activities and Governmental Funds Activity for general obligation funds and severance tax bond funds. The remaining \$4,519,694,531 represents the investment portion of the investment trust fund reported in the Statement of Fiduciary Net Assets.

The State Treasurer also administers an investment of \$1,359,766 in New Mexico Business Development Corporation bonds on behalf of the State of New Mexico. The original bond investment of \$2,528,332 was called in October, 1991 (Note 11). This investment is reflected in the New Mexico Business Development Corporation Special Revenue Fund.

◆ Local Government Investment Pool

Cities, counties, and other non-state agencies invest monies in the State Treasurer external investment pool (Local Government Investment Pool). The investments are recorded at fair value based on quoted market prices as of the valuation date in the financial statements; however, the individual participant balances remain at their carrying cost. At June 30, 2006, the Local Government Investment Pool carrying cost approximated the fair value.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 1, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies, and are either direct obligations of the United States or are backed by the full faith and credit of the United States government, or are agencies sponsored by the United States government. The Local Government Investment Pool

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ *Local Government Investment Pool - continued*

investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the local government investment pool is voluntary.

◆ *Investment Guidelines and Limitations*

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

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

1. Preservation of Principal – to ensure the performance of basic governmental functions, clearly the highest priority must be accorded to the preservation and protection of capital or the principal of the funds and other assets to be invested;
2. Maintenance of Liquidity – similarly, the next level of priority must be accorded to maintaining sufficient liquidity to ensure the immediate availability of public funds to satisfy the reasonably anticipated, continuing operational requirements of State Government; and
3. Maximum Return – to serve the legislative policy of revenue enhancement, third priority will be accorded to maximizing investment yield, through budgetary and economic cycles, consistent with the higher priority accorded to the security and liquidity of principal.

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

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



3. *DEPOSITS AND INVESTMENTS - continued*

◆ *Investment Guidelines and Limitations - continued*

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

◆ *Investments Permitted by Policy*

The scope of investment authority of the State Treasurer is defined by law. The applicable investment statutes, principally Sections 6-10-10, 6-10-25, 6-10-26, 6-10-37, 6-10-44 and 6-1410,1, NMSA 1978, as well as Article VIII, Section 4 of the New Mexico Constitution, specify particular types of investments that may be made by the State Treasurer, and they establish certain prerequisites, limitations and other requirements relating to such investments. Moreover, the State Treasurer, in his discretion, may further limit or restrict such investments.

In this regard, the State Treasurer has determined that only the following statutorily authorized investments may presently be made, and these investments shall be subject to such further limitations or restrictions as follows:

1. U.S. Government Obligations – Securities, including discount notes, that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies sponsored by the United States government. Investments shall be limited to a maximum maturity of three (3) years at time of purchase, except securities for any advanced refunding escrow with a duration of more than three years.
2. Commercial Paper – Unsecured obligations with a maturity up to 270 days at time of purchase issued by corporations organized and operating with the United States. The commercial paper shall have short-term credit ratings of A-1, P-1 or equivalent or better by two national rating services. If the rating declines below A-1, P-1, then the Investment Committee will meet to evaluate a course of action.
3. Corporate Bonds – Debt instruments issued by a corporation organized and operating in the United States with a maturity not exceeding three (3) years at time of purchase and at the time of purchase rated A or its equivalent or better by Standard & Poor's and/or Moody's. If the rating declines below BBB+ or Baa1, then the Investment Committee will meet to evaluate a course of action.

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Investments Permitted by Policy – continued

4. Asset-Backed Obligations – Debt instruments which are backed by defined cash flows or receivables with a final maturity not exceeding three (3) years at time of purchase and rated AAA, or its equivalent by Standard & Poor's and/or Moody's. If the rating declines below AAA, then the Investment Committee will meet to evaluate a course of action.
5. Repurchase Agreements – Contracts for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by deliverable obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract. Repurchase agreements and flexible repurchase agreements shall be limited to a maximum maturity of one (1) year, but flexible repurchase agreements, in which bond proceeds are invested, may have a maximum maturity of three (3) years. Repurchase agreements for the Local Government Investment Pool shall be limited to the maximum maturity allowed by law, although any underlying U.S. government obligations may have maturities extending beyond the term of such repurchase agreements. Subject to these conditions and the prior approval of the State Board of Finance with respect to the custodial undertaking agreement, tri-party repurchase agreements are proper investments under this policy.
6. Bank, Savings and Loan Association or Credit Union Deposits – Deposits are allowed in certified and designated New Mexico financial institutions whose deposits are insured by an agency of the United States. All deposits will comply with the Interest Rate and Collateral Policies adopted by the State Board of Finance. Deposits shall be limited to a maximum maturity of three (3) years. A deposit in any credit union shall be limited to the amount insured by an agency of the United States.
7. Securities Lending – Following State Board of Finance approval of the terms and conditions under which securities lending may occur and including but not limited to specifics with respect to credit and collateral requirements, the State Treasurer may also invest in contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. Securities lending agreements shall be limited to a maximum maturity of one (1) year. No securities lending activity occurred during the year ended June 30, 2006.

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Investments Permitted by Policy - continued

8. Variable Rate Notes – Variable rate notes (VRN) may be United States government obligations, commercial paper, corporate bonds or repurchase agreements. The use of VRNs is considered to be prudent in the management of the portfolio within certain maturity, indexing and concentration restrictions.
9. Tax Exempt Securities – Pursuant to 6-14-10.1, the State Treasurer or designee may also invest in tax exempt securities that at time of purchase are rated in any of the three highest major rating categories by one or more national rating agencies and have a final maturity of up to three years. If the rating declines below A, then the Investment Committee will meet to evaluate a course of action.
10. Mutual Funds – Shares of an open-end money market mutual fund, registered under the Federal Investment Company Act of 1940 and managing total assets of at least one billion dollars (\$1,000,000,000), that invests in United States fixed income securities or debt instruments specified in Subsections I, J and N of Section 6-10-10 NMSA 1978, provided that the investments made by the State Treasurer in any particular money market mutual fund are less than 5 percent of the assets of the investment company. In addition, the State Treasurer may act as the investing authority for those agencies which have independent statutory authority to invest. The State Treasurer shall act in a manner consistent with each agency's guidelines and directives.

◆ Unauthorized Investments/Investment Actions

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

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

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Custodial Credit Risk

Custodial credit risk is the risk that the State Treasurer will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of State Treasurer and are held by either the counterparty of the counterparty's trust department of agent but not in State Treasurer's name.

The State Treasurer's Investment Policy for safekeeping and custody states that all investment securities purchased by the State, held as collateral on repurchase agreements or held as collateral on securities lending arrangements shall be held in third-party safekeeping at a fiduciary qualified to act in this capacity. All securities held for the State account will be held free and clear of any lien and all transactions will be conducted in compliance with Section 6-10-10(P) NMSA 1978, which requires contemporaneous transfer and same day settlement. On a monthly basis, the custodian will provide reports which list all transactions that occurred during the month and all securities held for the State at month-end, including the book and market value of holdings. The Fiscal agent and representatives of the custodian responsible for, or in any manner involved with, the safekeeping and custody process of the State shall be bonded in such a fashion as to protect from losses from malfeasance and misfeasance.

All investment and collateral securities were held by the State Treasurer or its Custodian in the name of the State Treasurer. As of June 30, 2006, the State Treasurer's bank balances were not exposed to custodial credit risk.

◆ Credit Risk

The State Treasurer's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub-asset classes and/or as outlined in each portfolio manager contract. The quality rating of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard and Poors) at June 30, 2006, are as follows:

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Credit Risk - continued

Quality Rating	Fair Value	Percentage of Portfolio
AAA:	\$ 953,567,705	
U.S. Government Agency Obligations	953,567,705	
A-1+:	161,674,910	3.36%
Commercial Paper	161,674,910	3.36%
A-1:	29,979,000	0.62%
Commercial Paper	29,979,000	0.62%
BB:	4,992,600	.10%
Corporate Bonds	4,992,600	.10%
Not rated and other:	3,657,988,529	76.09%
Flex Overnight Pool	1,937,000,000	40.29%
Short-term Government Bonds and Notes	1,265,153,733	26.32%
Flex Repurchase Agreements	455,834,798	9.48%
Grand Total	\$ 4,808,202,746	100.00%

◆ Concentration of Credit Risk

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

1. Investment maturities will be staggered to avoid undue concentration of assets in a specific maturity sector and to reflect cash flow requirements.
2. Investment in callable instruments is permitted for the State General Fund, but the amount invested in callable instruments should not exceed the range of twenty to twenty-five percent (20% to 25%) of the total amount invested from the State General Fund. Investment in callable investments is prohibited for Tax and Revenue Anticipation Note proceeds (and any other liquidity vehicle), the Local Government Investment Pool, bond proceeds, bond debt service funds, and such pension and permanent fund monies with respect to which the State Treasurer is the investing authority.

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Concentration of Credit Risk – continued

3. The maximum level of CD deposits for the entire portfolio shall be \$300 million with not more than \$30 million in any single financial institution. The State Board of Finance urges banks to loan this money out in their respective local communities to spur economic development.
4. Investments in commercial paper, corporate bonds and asset-backed obligations shall not exceed 40 percent of assets of a fund. Investments in corporate bonds shall not exceed 10 percent of a fund; provided that investments in commercial paper or bonds of any single corporation shall not exceed \$30 million; provided that investments in corporate bonds of a single corporation shall not exceed \$10 million.
5. Investments purchased with Tax Revenue Anticipation Note proceeds will be excluded from State General Fund investments for the purpose of determining investment allocation limits.

Investments greater than five percent with a single issuer include the following:

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

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ **Interest Rate Risk**

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

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

Maturities on investment are as follows:

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

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Interest Rate Risk - continued

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

◆ Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The State Treasurer's investment policy does not have a specific policy on foreign currency risk. However, the listing of permissible investments includes descriptions on the limitations related to each investment type.

All holdings at June 30, 2006, were denominated in United States Dollars.

◆ Securities Collateral

Securities collateral relates to Flex Repurchase Agreements. At June 30, 2006, investments in repurchase agreements were \$2,392,834,798. Collateral required by State statute at June 30, 2006 was \$2,440,691,491. The investments in repurchase agreements were collateralized by US Government Mortgage Backed Securities valued at \$2,515,156,560, held at Northern Trust Company in California, in the Office's name.

The State's Investment Policy states that no such contract shall be invested in unless the contract is fully secured by deliverable obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent (102%) of the amount of the contract. The State's collateral requirements follow:

1. The market value of the collateral including accrued interest must be equal to 102% of the amount of cash transferred by the State to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 102% of the value of the cash transferred, then additional cash and/or acceptable securities must be delivered to the third party custodian sufficient to cure any deficiency; and

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Securities Collateral - continued

2. For repurchase agreements with terms to maturity of greater than one (1) day, the State will value the collateral securities continuously and require that, if additional collateral is required, then that collateral must be delivered within one business day. If a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated; and
3. The collateral on all repurchase agreements will have a maturity date that exceeds the term of the repurchase agreement. If the maturity date of the collateral is significantly longer than that of the repurchase agreement, then the collateral rate must be higher than 102% to compensate for market risk.

Credit ratings on collateral securities are as follows:

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

Concentrations of risk on collateral are as follows:

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

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



3. DEPOSITS AND INVESTMENTS - continued

◆ Securities Collateral - continued

Maturities on collateral are as follows:

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

4. CAPITAL ASSETS

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

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

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

Governmental activities:	
General government	\$ 41,811

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

Notes to Financial Statements - continued



5. LONG-TERM OBLIGATIONS

◆ *Compensated Absences*

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

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

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

State Treasurer's Investment Trust Fund - Balance Sheet



6. CONDENSED FINANCIAL STATEMENTS

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

ASSETS

Investments	\$ 4,812,044,531
Interest receivable	<u>13,618,667</u>

TOTAL ASSETS	\$ <u>4,825,663,198</u>
---------------------	--------------------------------

LIABILITY

Cash overdraft	\$ (394,180,837)
----------------	------------------

NET ASSETS

External Participant account balances	713,297,552
Other Internal Participant account balances:	
Primary government	4,514,938,971
Undistributed reserves and unrealized gains (losses)	<u>(8,392,488)</u>

TOTAL LIABILITIES AND NET ASSETS	\$ <u>4,825,663,198</u>
---	--------------------------------

INVESTMENT INCOME

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

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

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



7. APPROPRIATIONS

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

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

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

8. COLLATERAL IN TRUST

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

9. DUE TO SEVERANCE TAX PERMANENT FUND AND REVERSIONS

The State Treasurer is required by statute (Section 7-27-8 NMSA 1978, 1986 Repl.) to transfer to the Severance Tax Permanent Fund, all monies in the Severance Tax Bonding Fund, except the amount necessary to meet principal and interest payments on bonds payable of the next two ensuing semi-annual payment dates. A balance of \$123,217,261 remains in the Severance Tax Bonding Fund, payable to the Severance Tax Permanent Fund that was transferred in July 2006.

10. ARBITRAGE ON TAX EXEMPT BONDS

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

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



10. *ARBITRAGE ON TAX EXEMPT BONDS - continued*

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

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

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

	First Computation Date	First Payment Due to IRS	First Computation of Arbitrage Completed
General Obligation Capital Projects Bonds Series 1999	9/1/2004	10/1/2004	X
General Obligation Bonds Series 2001	3/21/2006	5/20/2006	X
General Obligation Bonds Refunding Series 2001A	9/1/2004	10/1/2004	X
General Obligation Bonds Refunding Series 2001B	9/1/2006	10/1/2006	X
General Obligation Bonds Series 2003	3/18/2008	5/17/2008	
General Obligation Bonds Refunding Series 2003B	4/16/2008	6/15/2008	
General Obligation Bonds Series 2005	3/1/2010	4/30/2010	
Severance Tax Bonds Series 1993B	7/1/1998	8/1/1998	X
Severance Tax Bonds Series 1994B	7/1/1999	8/1/1999	X
Severance Tax Bonds Series 1995A	7/1/2000	8/1/2000	X
Severance Tax Bonds Series 1995B	7/1/2000	8/1/2000	X
Severance Tax Bonds Series 1996A	12/20/2001	2/20/2002	X
Severance Tax Refunding Bonds Series 1997A	7/1/2001	8/1/2002	X
Severance Tax Refunding Bonds Series 1998A	7/1/2003	8/1/2003	X

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

Notes to Financial Statements - continued



10. ARBITRAGE ON TAX EXEMPT BONDS - continued

	Bond Year-End of First Rebate Computation	First Arbitrage Rebate Due Date	First Computation of Arbitrage Completed
Severance Tax Bonds Series 1999B	7/1/2004	8/1/2004	X
Severance Tax Bonds Series 1999A Supplemental	11/17/2004	1/17/2005	X
Severance Tax Bonds Series 2000	7/1/2005	8/1/2005	X
Severance Tax Bonds 2000C Supplemental	11/16/2005	1/16/2006	X
Severance Tax Bonds Refunding Series 2001A	12/20/2006	2/20/2007	
Severance Tax Bonds Series 2002A Supplemental	1/16/2007	3/16/2007	
Severance Tax Bonds Series 2002A	6/19/2007	8/18/2007	
Severance Tax Bonds Series 2002B Supplemental	11/14/2007	1/13/2008	
Severance Tax Bonds Series 2003A	6/27/2008	8/26/2008	
Severance Tax Bonds Series 2003B Supplemental	10/14/2008	12/13/2008	
Severance Tax Bonds Series 2004A	6/15/2009	8/14/2009	
Severance Tax Bonds Series 2004B Supplemental	11/17/2009	1/16/2010	
Severance Tax Bonds Series 2005A	6/15/2010	8/14/2010	
Severance Tax Bonds Series 2005B-1 Refunding	6/28/2010	8/27/2010	
Severance Tax Bonds Series 2005B-2 Supplemental	6/28/2010	8/27/2010	
Severance Tax Bonds Series 2006A	6/20/2011	8/16/2011	
Enhanced 911 Revenue Bonds Series 2000	9/12/2005	10/12/2005	X

Interest earnings on invested bond proceeds through June 30, 2006 did not exceed the interest costs of the bonds. Such amounts would have been included as a reservation of fund balance in the accompanying financial statements. Amounts due the Internal Revenue Service which are known and measurable are recorded as a liability - accrued arbitrage interest payable in the accompanying financial statements.

11. NEW MEXICO BUSINESS DEVELOPMENT CORPORATION (BDC)

In 1991, the State Treasurer called in the original investment of \$2,528,332 in bonds, issued by the BDC to protect the state's share of BDC's assets. This action forced a liquidation of BDC, and the remaining assets of BDC were turned over to a trustee, Wells Fargo Bank (formerly Norwest Bank), on behalf of the State Treasurer on October 1, 1991, pursuant to the terms of the "Realization of Assets

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



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

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

12. TRANSFERS

◆ **Bond Proceeds**

The Bond Issuance Fund transferred the net proceeds of the General Obligation and Revenue Bonds and Severance Tax Bonds to the Department of Finance and Administration (DFA). The proceeds were distributed as follows, and the proceeds are accounted for in DFA's June 30, 2006 financial statements:

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

◆ **Interfund Transfers**

Interfund transfers are completed to move revenue from Fund 410, Severance Tax Bonding Fund, to the specific Debt Service funds per bond resolutions. The debt on Sponge Notes (noted with S in description) is paid directly from Fund 410.

	Fund	Transfer From	Transfer To
Debt Service:			
Severance Tax Bonding Fund	410	\$ 77,028,246	-
Severance Tax Bond - 1996A Debt Service	963	-	3,185,000
Severance Tax Bond - 1995B2 Debt Service	571	-	1,035,000

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



12. TRANSFERS - continued

◆ Interfund Transfers - continued

	Fund	Transfer From	Transfer To
Severance Tax Bond - 1998A Rebate	486	\$ -	-
Severance Tax Bond - 1994A Debt Service	492	-	6,600,000
Severance Tax Bond - 1999A Debt Service	184	-	2,013,959
Severance Tax Bond - 2000 Debt Service	391	1,288,713	-
Severance Tax Bond - 2004B Debt Service	183	-	850,000
Severance Tax Bond - 2005B1 Debt Service	388	-	1,760,000
Severance Tax Bond - 2005A Debt Service	412	-	18,500,000
Severance Tax Bond - 2000C Debt Service	405	-	1,800,000
Severance Tax Bond - 2001A Debt Service	408	-	21,400,000
Severance Tax Bond - 2002A Debt Service	699	-	5,800,000
Severance Tax Bond - 2002A Debt Service	095	-	6,068,000
Severance Tax Bond - 2002B Supplemental Debt Service	390	-	1,100,000
Severance Tax Bond - 2003A Debt Service	884	-	7,200,000
Severance Tax Bond - 2003B Debt Service	484	-	<u>1,005,000</u>
Total		\$ <u>78,316,959</u>	<u>78,316,959</u>

CAS #	Transfer From:					Total
		031 CO 2003 Debt Service	414 CO 2001 Debt Service	418 CO 2003B Ref Debt Service	482 CO 2001B Refunding	
031	CO 2003 Debt Service	\$ -	-	-	3,776,347	3,776,347
414	CO 2001 Series Debt Service	-	-	3,081,765	-	3,081,765
418	CO 2003B Ref Debt Service	2,361,555	-	-	-	2,361,555
482	CO 2001B Refunding	-	1,657,595	-	-	1,657,595
	DFA	707,594	25,000	-	-	<u>732,594</u>
Total		\$ <u>3,069,149</u>	<u>1,682,595</u>	<u>3,081,765</u>	<u>3,776,347</u>	<u>11,609,856</u>

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued

12. *TRANSFERS - continued*

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

13. *EMPLOYEE RETIREMENT PLAN - STATE OF NEW MEXICO*

◆ *Plan Description*

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

◆ *Funding Policy*

Plan members are required to contribute 7.42% of their gross salary. The Office is required to contribute 16.59% depending upon the division of the gross covered salary. The contribution requirements of plan members and the State Treasurer are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Office's contributions to PERA for the years ending June 30, 2006, 2005, and 2004, were \$292,265, \$408,129 and \$374,200, respectively, equal to the amount of the required contributions for each year.

14. *POST EMPLOYMENT BENEFITS - RETIREE HEALTH CARE ACT CONTRIBUTIONS*

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

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

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued

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

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

Eligible retirees are: (1) retirees who made contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf unless that person retires before the employer's NMRHCA effective date, in which event the time period for contributions shall become the period of time between the employer's effective date and the date of retirement, and (2) retirees defined by the Act who retired prior to July 1, 1990 and former legislators who served at least two years.

◆ *Fund Contributions*

Each participating employer makes contributions to the fund in the amount of 1.3 percent of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65 percent of the employee's salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional participation fee of five dollars (\$5.00) if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree) and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Albuquerque State Government Center, 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, NM 87109.

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

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

Notes to Financial Statements - continued



15. DEFICIT FUND BALANCE

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

16. RISK MANAGEMENT

The State Treasurer is exposed to various risks of loss for which the State Treasurer carries insurance (auto; employee fidelity bond; general liability; civil rights and foreign jurisdiction; money and securities; property; and workers' compensation) with the State of New Mexico Risk Management Division. Public employee fidelity bonding coverage is self-insured by the State of New Mexico. The current policy year is July 1, 2005 to June 30, 2006. The limit of coverage is \$5,000,000, with \$1,000 deductible per occurrence. All State Treasurer employees are covered by this bond.

17. REVERSION TO THE STATE GENERAL FUND

Under State Statute 6-5-10 NMSA, 1978, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30, as adjusted, shall revert to the General Fund within forty-five days of release of the audit report for that fiscal year.

The amount expected to revert to the State General Fund as of June 30, 2006 is \$267,150, which relates to the fiscal year ended June 30, 2006.

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

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

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STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER

Notes to Financial Statements - continued



18. SUBSEQUENT EVENTS

◆ State Treasurer

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

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

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

◆ Local Government Investment Pool (LGIP)

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

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

The State Treasurer issues six month, fixed-rate taxation and revenue anticipation notes to provide short-term cash to carry on the State of New Mexico operations until tax revenues are received in June. Repayment of the Notes comes from tax payments received in the year.

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

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

The issuance cost represents services rendered in FY06 related to Taxation and Revenue Anticipation Notes that were issued July 7, 2006.

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STATE OF NEW MEXICO
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Notes to Financial Statements - continued



20. PRIOR PERIOD ADJUSTMENTS

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

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

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STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 2

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



YEAR ENDED JUNE 30, 2006

CAS Fund #	Description	Assets			Liabilities		Fund Equity		Total Liabilities & Fund Equity
		Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	Total Assets	Accrued Arbitrage Interest Payable	Unreserved- Designated for Debt Service	Unreserved- Designated for Arbitrage	
640	1999 Series - Debt Service	-	-	-	11,939,795	-	11,939,795	-	11,939,795
031	2003 Series - Debt Service	11,459,457	476,157	4,181	13,789,992	-	13,789,992	-	13,789,992
032	2005 Series - Debt Service	13,420,595	365,490	3,907	5,619,611	-	5,619,611	-	5,619,611
414	2001 Series - Debt Service	5,381,695	235,581	2,395	8,213,157	-	8,213,157	-	8,213,157
418	2003B Series - Refunding	6,977,702	1,231,904	3,551	6,799,714	-	6,799,714	-	6,799,714
482	2001B Series - Refunding	6,776,495	19,961	3,258	26	-	26	-	26
640	1999 Series - Debt Service	-	-	-	769,685	-	769,685	-	769,685
018	E911	769,685	-	26	-	-	-	-	-
	Total Debt Service	44,785,569	2,329,093	17,318	47,131,980	-	47,131,980	-	47,131,980
413	2003 Series - Rebate	90,975	10,564	62	101,601	-	101,601	-	101,601
415	2001 Series - Rebate	670,129	13,807	263	684,199	-	684,199	-	684,199
419	2003 Refunding Series - Rebate	102,588	24,411	49	127,048	-	127,048	-	127,048
426	2005 Series - Rebate	73,857	16,185	34	90,076	-	90,076	-	90,076
463	2001B Series - Rebate	63,965	15,321	30	78,716	-	78,716	-	78,716
488	911 - Rebate	92,151	760	36	92,947	-	92,947	-	92,947
712	2001A Series - Rebate	171,052	34,140	-	205,192	-	205,192	-	205,192
	Total Rebate Accounts	1,264,124	115,188	474	1,379,786	-	1,379,786	-	1,379,786
416	2003 Series - Cost of Issuance	-	-	-	-	-	-	-	-
	Total cost of issuance	-	-	-	-	-	-	-	-
	Combined total	\$ 46,049,693	2,444,281	17,792	48,511,766	-	47,131,980	1,379,786	48,511,766

See Independent Auditors' Report.

UNAUDITED

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 3

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

YEAR ENDED JUNE 30, 2006

Fund #	CAS	Revenues		Expenditures		Total Expenditures	Excess (Deficiency) of Revenues Over Expenditures
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges			
640							
091	\$	914,839	16,197,000			16,197,000	(15,283,167)
092		3,231,748	13,859,000			13,859,000	(8,627,252)
414		469,677	7,709,888	4,250		7,774,088	(7,304,411)
416		127,645	10,302,750			10,302,750	(10,175,105)
482		155,291	8,549,000			8,549,000	(8,393,709)
640		26					26
18		24,952	755,662			755,662	(730,710)
		6,924,172	57,433,250	4,250		57,437,500	(50,514,328)
409							
418		101,601					101,601
419		57,716					57,716
426		137,048					137,048
463		90,074					90,074
488		78,716					78,716
712		4,778					4,778
959		205,199					205,199
		665,192					665,192
416							
	\$	7,588,302	57,433,250	4,250		57,437,500	(49,849,196)

See Independent Auditors' Report.

UNAUDITED

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

Schedule 3

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

YEAR ENDED JUNE 30, 2006

Fund #	CAS	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	Fund Balances	
			June 30, 2005	June 30, 2006
640				
081	\$	(3,558,360)	13,478,155	11,989,795
082		2,354,940	11,285,052	13,789,992
414		(2,707,367)	8,826,978	5,619,611
418		1,081,249	7,131,908	8,213,157
482		1,688,245	5,161,469	6,799,714
487				
640		26		26
E911		33,936	734,682	769,685
		(936,371)	48,048,251	47,131,980
Total debt service				
409				
413		101,601		101,601
415		57,716	626,483	684,199
419		127,048		127,048
426		90,074	2	90,076
463		78,716		78,716
488		4,778	88,169	92,947
712		205,199		205,199
959				
		665,132	714,654	1,379,786
Total Refund Accounts				
416				
2003 Series - Cost of Issuance				
Total cost of issuance				
Committed total				
	\$	(271,132)	48,782,905	48,511,766

See Independent Auditors' Report.

UNAUDITED

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 4

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

1 2006

YEAR ENDED JUNE 30, 2006

CASH Fund #	Description	Assets			Liabilities		
		Due From Other Agencies	Accrued Interest Receivable	Total Assets	Due to Sovereign Tax Bonds	Due to Other State Agencies	Total Liabilities
005	2002A Supp. Series - DS	37,907	2,585	6,843,596			
183	2004B Series Debt Service	13,080	263	1,105,210			
19A	199A Series Debt Service	2,029,313	946	2,038,172			
388	2006B1 Series Debt Service	6,293	4	900,488			
389	2000 Series Debt Service						
400	2002B Supp. Series - DS	4,628	1,878	21,441			
405	2000C Series Debt Service	2,120,164	825	2,182,480			
408	2001A Series Refunding	22,940,260	8,628	22,408,064			
410	Sovereign Tax Bonding	150,614,610	1,544,186	188,274,500	123,217,261	214,518	123,191,779
412	2005A Series Debt Service	19,828,024	7,826	20,144,964			
484	2003B Series Debt Service	1,010,499	390	1,013,441			
492	2004A Series Debt Service	8,711,766	3,367	8,748,993			
571	2005B2 Series Debt Service	528,864		522,194			
609	2002A Series Debt Service	6,832,095	2,641	6,868,468			
884	2003A Series Debt Service	7,572,796	2,924	7,992,939		163,703	163,703
963	2006A Series Debt Service	3,185,000	32,282	3,217,282			
	Total debt service	253,571,351	1,576,516	271,802,191	123,217,261	163,703	123,695,482
019	2006A Series Refund	162,487		162,487			
185	1999A Series Refund	246,698	96	248,365			
391	2000 Series Refund						
392	2002B Series Refund	65,487	25	64,131			
406	2000C Series Refund	314,162	122	318,011			
411	2004B Series Refund	18,989	10	26,103			
420	2003RA Series Refund	9,011	4	10,565			
427	2004A Series Refund	16,560	11	23,823			
483	2005A Series Refund	126,292	117	204,662			
570	2005B1 Series Refund	7,917		9,237			
700	2002A Series Refund		4	4			
873	2003A Series Refund	47,457	39	102,070			
960	2006B2 Series Refund	4,638	773	5,421			
	Total refund amounts	887,121	429	1,174,820			
5	Combined total	254,458,522	1,616,944	272,477,070	123,217,261	163,703	123,695,482

See Independent Auditors' Report.

UNAUDITED

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 1

Combining Balance Sheet - Securities Tax Bonds -
Securities Tax Bond Debt Service Funds - continue



YEAR ENDED JUNE 30, 2006

CAS Fund #	Description	Unreserved		Fund Equity		Total Fund Equity	Total Liabilities & Fund Equity
		Designated for Debt Service	Designated for Arbitrage	Fund Equity	Fund Equity		
095	2002A Supp. Series - DS	\$ 6,843,596	-	-	6,843,596	6,843,596	6,843,596
183	2004H Series Debt Service	1,105,210	-	-	1,105,210	1,105,210	1,105,210
184	1997A Series Debt Service	2,038,172	-	-	2,038,172	2,038,172	2,038,172
388	2005B1 Series Debt Service	900,488	-	-	900,488	900,488	900,488
389	2000 Series Debt Service	-	-	-	-	-	-
390	2002D Supp. Series - DS	21,441	-	-	21,441	21,441	21,441
405	2000C Series Debt Service	2,152,450	-	-	2,152,450	2,152,450	2,152,450
408	2001A Series Refunding	22,408,054	-	-	22,408,054	22,408,054	22,408,054
410	Securities Tax Bonding	64,802,721	-	-	64,802,721	64,802,721	64,802,721
412	2001A Series Debt Service	20,144,964	-	-	20,144,964	20,144,964	20,144,964
484	2003B Series Debt Service	1,013,441	-	-	1,013,441	1,013,441	1,013,441
492	2005B2 Series Debt Service	8,743,993	-	-	8,743,993	8,743,993	8,743,993
571	2002A Series Debt Service	522,194	-	-	522,194	522,194	522,194
699	2002A Series Debt Service	6,863,468	-	-	6,863,468	6,863,468	6,863,468
884	2003A Series Debt Service	7,429,230	-	-	7,429,230	7,429,230	7,429,230
963	2006A Series Debt Service	3,217,287	-	-	3,217,287	3,217,287	3,217,287
	Total debt service	148,206,709	-	-	148,206,709	148,206,709	148,206,709
019	2006A Series Rebate	162,487	-	-	162,487	162,487	162,487
185	1997A Series Rebate	248,365	-	-	248,365	248,365	248,365
391	2000 Series Rebate	-	-	-	-	-	-
392	2002B Series Rebate	64,131	-	-	64,131	64,131	64,131
406	2000C Series Rebate	318,011	-	-	318,011	318,011	318,011
411	2004H Series Rebate	26,103	-	-	26,103	26,103	26,103
420	2003BA Series Rebate	10,565	-	-	10,565	10,565	10,565
427	2004A Series Rebate	23,823	-	-	23,823	23,823	23,823
483	2005A Series Rebate	204,662	-	-	204,662	204,662	204,662
570	2005B1 Series Rebate	9,237	-	-	9,237	9,237	9,237
700	2002A Series Rebate	4	-	-	4	4	4
873	2003A Series Rebate	102,070	-	-	102,070	102,070	102,070
940	2005B2 Series Rebate	5,421	-	-	5,421	5,421	5,421
	Total rebate accounts	1,174,820	-	-	1,174,820	1,174,820	1,174,820
	Combined total	\$ 149,381,529	-	-	149,381,529	149,381,529	149,381,529

See Independent Auditors' Report.

UNAUDITED

STATE OF NEW HAMPSHIRE
OFFICE OF THE STATE TREASURER

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

Schedule 3

YEAR ENDED JUNE 30, 2006

C/S Fund #	Revenue		Expenditures		Total Expenditures	Excess (Deficiency) of Revenues Over Expenditures
	Interest Income	Principal and Interest on Long-Term Debt	Other Charges			
2002A Supp. Series - DS	\$ 260,017	7,229,838	-	-	7,229,838	(6,909,831)
2004R Series Debt Service	170,660	1,251,238	-	-	1,251,238	(1,090,576)
199A Series Debt Service	67,144	2,038,394	-	-	2,038,394	(1,971,250)
2005B1 Series Debt Service	37,080	896,592	-	-	896,592	(859,512)
2000 Series Debt Service	55,892	10,326,875	850,183	-	11,184,068	(11,190,166)
2002B Supp. Series - DS	174,623	10,314,450	-	-	10,314,450	(10,189,827)
2000C Series Debt Service	306,809	2,061,406	-	-	2,061,406	(1,744,597)
2001A Series Refunding	548,948	28,286,250	-	-	28,286,250	(24,467,282)
Severance Tax Bonding	23,943,097	293,734,071	878,288	-	296,609,389	(272,666,262)
2005A Series Debt Service	3,801,425	2,268,461	-	-	2,565,461	(1,585,964)
2003R Series Debt Service	30,979	1,113,033	-	-	1,113,033	(1,082,104)
2004A Series Debt Service	2,090,880	15,151,000	-	-	15,151,000	(13,060,120)
2003B2 Series Debt Service	16,305	829,111	-	-	829,111	(512,806)
2002A Series Debt Service	236,630	6,964,048	-	-	6,964,038	(6,727,408)
2003A Series Debt Service	90,562	8,512,675	-	-	8,512,675	(8,422,115)
2006A Series Debt Service	32,282	-	-	-	-	32,282
Total debt service	31,683,308	389,614,482	1,734,471	-	391,348,903	(399,465,895)
2006A Series Rebate	162,487	-	-	-	-	162,487
1999I Series Rebate	11,004	-	-	-	-	11,004
2000 Series Rebate	9,482	-	-	-	-	9,482
2002B Series Rebate	64,131	-	-	-	-	64,131
2000C Series Rebate	17,371	-	-	-	-	17,371
2004R Series Rebate	26,103	-	-	-	-	26,103
2003BA Series Rebate	10,565	-	-	-	-	10,565
2004A Series Rebate	33,823	-	-	-	-	33,823
2005A Series Rebate	204,683	-	-	-	-	204,683
2005B1 Series Rebate	9,237	-	-	-	-	9,237
2002A Series Rebate	4	-	-	-	-	4
2003A Series Rebate	102,070	-	-	-	-	102,070
2005B2 Series Rebate	5,421	-	-	-	-	5,421
Total Rebates Amounts	646,360	-	-	-	-	646,360
Combined total	\$ 32,320,668	389,614,482	1,734,471	-	391,348,903	(658,819,203)

See Independent Auditors' Report.

UNAUDITED

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Combining Schedules of Revenues, Expenditures
and Changes in Fund Balances -
Severance Tax Bond Debt Service Funds - continued

Schedule 2

YEAR ENDED JUNE 30, 2006

CAS Fund #	Severance Tax	Fund Transfer	Other Financing Sources (Less)			Payment to Escrow Agent	Severance Tax Payment Fund Revenue
			Capital Projects Revenues	Interfund Transfers			
085	\$			6,048,000			
2004B Series Debt Service				850,000			
197A Series Debt Service				2,017,959			
2004B Series Debt Service				1,760,000			
2000 Series Debt Service				1,100,000			
2002B Series Debt Service				1,800,000			
2000 Series Debt Service				21,400,000			
2000 Series Debt Service				(77,029,246)			(123,217,261)
2001A Series Refunding	498,602,285		4,472,385	18,500,000			
Severance Tax Issuing				1,000,000			
2005A Series Debt Service				6,600,000			
2005B Series Debt Service				1,000,000			
2004A Series Debt Service				1,000,000			
2005B Series Debt Service				5,000,000			
2002A Series Debt Service				7,200,000			
2005A Series Debt Service				3,185,000			
2006A Series Debt Service							
Trust (debt service)			4,472,385				
	498,602,285			1,288,713			(123,217,261)
2006A Series Refund							
1999A Series Refund							
2000 Series Refund							
2002B Series Refund				(1,288,713)			
2000C Series Refund							
2004B Series Refund							
2003B Series Refund							
2004A Series Refund							
2005A Series Refund							
2005B Series Refund							
2002A Series Refund							
2003A Series Refund							
2003B Series Refund							
Trust Refund Accounts				(1,288,713)			
Combined total	\$ 498,602,285		4,472,385				(123,217,261)

See Independent Auditors' Report.

UNAUDITED

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 ENDING JUNE 30, 2006

Fund #	CAS	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	Revised *		Fund Balances June 30, 2006
			June 30, 2005	June 30, 2006	
095	\$	(901,821)	7,745,417	6,843,596	
20018 Series Debt Service		(290,578)	1,205,784	1,015,210	
199A Series Debt Service		42,769	1,995,463	2,038,172	
2005H Series Debt Service		900,488		900,488	
2000 Series Debt Service		(11,190,166)			
2002B Supp. Series - DS		(9,039,827)	9,061,268	21,441	
2000C Series Debt Service		55,405	2,077,047	2,132,450	
2000A Series Debt Service		(1,267,282)	25,675,336	24,408,054	
2001A Series Refunding		30,162,901	34,639,820	64,802,721	
Severance Tax Bonding		20,038,964	109,000	20,147,964	
2005A Series Debt Service		(71,041)	1,090,345	1,019,304	
2005F Series Debt Service		(6,460,120)	15,204,173	8,743,993	
2004A Series Debt Service		722,194		722,194	
2002A Series Debt Service		(927,408)	7,790,376	6,862,968	
2005A Series Debt Service		(1,222,113)	8,651,343	7,429,230	
2006A Series Debt Service		3,211,282		3,211,282	
Total debt service		21,690,527	126,536,182	148,206,709	
019		162,487		162,487	
195		11,004	287,361	298,365	
391		(1,279,231)	1,279,231		
392		64,131		64,131	
406		17,371	300,640	318,011	
411		26,103		26,103	
420		10,565		10,565	
427		23,823		23,823	
483		204,662		204,662	
570		9,237		9,237	
700		4		4	
873		102,070		102,070	
960		5,421		5,421	
Total Refund Accounts		(642,353)	1,817,282	1,174,929	
Combined total	\$	21,048,174	128,353,414	149,381,638	

See Independent Auditor's Report.

UNAUDITED

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

Schedule 6

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

YEAR ENDED JUNE 30, 2006

Issue	Date	Amount	Interest Rate	Unpaid Balance June 30, 2003	New Bonds	Reductions			Unpaid Balance June 30, 2006	Interest to Maturity	Debt Service Requirements
						(Refunded) Debt	Principal Payments	Total Reductions			
General Obligation and Revenue Bonds											
Capital Projects - Series 2001 Enhanced 911 Revenue Bonds	03/01/01	\$ 62,550,000	4.00-5.00%	41,210,000	-	-	6,075,000	6,075,000	35,135,000	4,546,875	39,681,875
Series 2000	04/01/00	4,545,000	4.35-6.75%	2,130,000	-	-	675,000	675,000	1,455,000	66,263	1,521,263
2001-B Refunding	11/01/01	23,850,000	1.80-3.04%	16,345,000	-	-	7,930,000	7,930,000	8,415,000	210,375	8,625,375
Capital Projects - Series 2003	03/01/03	130,900,000	3.00-5.00%	109,245,000	-	-	11,590,000	11,590,000	97,655,000	16,451,700	114,106,700
Refunding Series 2003-B	04/01/03	41,955,000	2.00-5.00%	37,275,000	-	-	8,700,000	8,700,000	28,575,000	2,190,125	30,765,125
Series 2005 Debt Service	03/01/05	111,850,000	4.00-5.00%	111,850,000	-	-	8,350,000	8,350,000	103,500,000	27,507,284	131,007,284
Total General Obligation Bonds		378,490,000		318,955,000			43,320,000	43,320,000	274,735,000	50,972,568	325,707,568
Sovereign Tax Bonds											
Series 1999-A Supplemental	10/01/99	12,000,000	4.25-5.50%	3,660,000	-	-	1,885,000	1,885,000	1,975,000	54,313	2,029,313
Series 2000C	05/01/00	59,650,000	5.00-5.50%	10,076,000	-	-	10,076,000	10,076,000	-	-	-
Series 2000-C Supplemental	07/01/00	12,000,000	4.50-5.00%	5,760,000	-	-	1,820,000	1,820,000	3,940,000	195,409	4,135,409
Series 2001-A Refunding	11/01/01	113,980,000	1.85-3.00%	81,890,000	-	-	21,590,000	21,590,000	63,300,000	3,020,750	66,320,750
Series 2002-A	05/01/02	67,000,000	4.00-5.00%	25,310,000	-	-	5,870,000	5,870,000	19,440,000	1,474,898	20,914,898
Series 2002-A Supplemental	12/01/01	65,000,000	4.00-5.00%	25,770,000	-	-	6,115,000	6,115,000	19,655,000	1,497,025	21,152,025
Series 2002-B Supplemental	11/01/02	45,000,000	2.50-5.00%	37,665,000	-	-	3,945,000	3,945,000	33,720,000	5,069,550	38,789,550
Series 2003-A	06/01/03	89,660,000	2.50-5.00%	68,025,000	-	-	6,170,000	6,170,000	61,855,000	8,648,888	70,503,888
Series 2003-A Supplemental	11/01/03	10,000,000	2.00-3.70%	9,270,000	-	-	845,000	845,000	8,425,000	1,300,001	9,725,001
Series 2004-A	06/15/04	76,180,000	5.00%	76,180,000	-	-	11,620,000	11,620,000	64,560,000	15,994,264	80,554,264
Series 2004-B Supplemental	11/17/04	10,000,000	2.00-5.00%	10,000,000	-	-	850,000	850,000	9,150,000	1,481,350	10,631,350
Series 2005-A	06/15/05	97,000,000	4.00-5.60%	97,000,000	-	-	-	-	97,000,000	19,599,225	116,599,225
Series 2005B-1 Refunding	06/28/05	97,040,000	3.00-5.00%	97,040,000	-	-	-	-	97,040,000	8,084,819	105,124,819
Series 2005B-2 Supplemental	06/28/05	21,095,000	3.25-5.00%	21,095,000	-	-	-	-	21,095,000	4,712,438	25,807,438
Series 2006-A	04/20/06	135,000,000	4.00-5.00%	-	135,000,000	-	-	-	135,000,000	34,303,342	169,303,342
Total Sovereign Tax Bonds		852,255,000		512,180,000	135,000,000		70,225,000	70,225,000	576,455,000	107,216,108	683,671,108
Total General Long-Term Debt		\$ 1,230,885,000		830,235,000	135,000,000		114,045,000	114,045,000	851,190,000	158,188,786	1,009,378,786
Current Year Bond Premiums											
STB Series 2006A		\$ 1,380,384									

See Independent Auditors' Report.

UNAUDITED

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
Summary of Long-term Debt Obligations - continued
Schedule of Debt Service Maturities

Schedule 6 - continued

YEAR ENDED JUNE 30, 2006

Issue	Year Ending June 30,						Total
	2007	2008	2009	2010	2011	2012 - 2015	
General Obligation Bonds:							
Capital Projects - Series 2001							
Estimote 911 Revenue Bonds							
Series 2000	7,821,838	7,882,038	7,939,638	7,995,475	8,042,866		39,681,875
2001B Refunding	759,500	761,763					1,521,263
Capital Projects - Series 2003	8,625,375	16,111,000	16,193,400	16,277,200	16,366,400	33,001,200	8,625,375
Refunding Series 2003-B	10,262,250	10,252,875	10,250,000				114,106,700
Series 2005	14,615,000	14,603,000	14,588,000	14,574,000	14,559,750	58,067,500	30,765,125
	58,241,463	49,610,676	48,971,038	38,846,675	38,960,086	91,068,700	323,707,588
Total General Obligation Bonds							
Severance Tax Bonds:							
Series 1999-A Supplemental	2,029,319						2,029,319
Series 2000	2,060,034	2,063,375					4,125,409
Series 2000-C Supplemental	23,179,875	23,157,875	17,307,500				68,380,750
Series 2001-A Refunding	7,144,750	7,048,125	6,989,750	4,735,500			21,152,625
Series 2002-A Supplemental	6,967,463	6,976,875	6,970,000				20,914,338
Series 2002-A	5,470,200	5,467,950	5,482,900	5,525,700	5,569,100	11,273,700	38,789,550
Series 2002-B Supplemental	8,501,550	8,494,675	8,557,575	8,697,975	8,842,350	27,409,763	70,503,888
Series 2003-A	1,129,683	1,154,376	1,175,633	1,195,720	1,217,483	3,752,108	9,625,003
Series 2003-B Supplemental	9,397,625	9,208,625	9,047,250	8,911,750	8,805,250	34,833,750	80,204,250
Series 2004-A	1,244,300	1,243,575	1,240,075	1,243,500	1,243,650	4,816,250	11,091,350
Series 2004-H	19,890,050	12,289,175	10,353,325	10,395,475	10,378,000	53,342,200	116,588,225
Series 2005-A	1,763,788	1,763,788	7,531,088	9,742,700	8,119,056	16,204,400	48,124,820
Series 2005-B1	1,040,875	1,040,875	1,040,875	7,634,063	7,559,688	7,491,063	25,807,489
Series 2005-B2	3,185,223	16,401,938	16,570,688	16,557,188	16,544,338	100,134,763	169,394,238
	93,004,724	96,813,227	92,286,652	74,579,571	68,279,015	259,257,997	683,671,198
Total Severance Tax Bonds							
	151,246,192	145,928,903	141,207,697	113,426,246	107,248,031	350,326,697	1,009,378,786
Total Debt Service Requirements							

See Independent Auditors' Report.

UNAUDITED

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 6 - continued

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

YEAR ENDED JUNE 30, 2006

	Date	Original Cost	Amortization		Accumulated Amortization June 30, 2006	Net Book Value June 30, 2006
			Accumulated Amortization June 30, 2005	Current Amortization Expense		
GENERAL OBLIGATION:						
Capital Projects - Series 1999	3/1/1999	\$ 184,559	116,888	18,456	135,344	49,215
Capital Projects - Series 2001	03/01/01	142,706	61,841	14,271	76,112	66,594
Refunding Series 2001-A	09/01/01	76,692	24,499	6,391	30,890	45,802
Enhanced 911 Revenue						
Bonds - Series 2000	08/01/00	10,369	6,372	1,296	7,668	2,701
2001-B Refunding	11/01/01	156,167	95,436	26,028	121,464	34,703
Capital Projects - Series 2003	03/01/03	898,030	190,491	81,639	272,130	625,900
2003-B Refunding	04/01/03	187,165	84,224	37,433	121,657	65,508
Series 2005	01/11/05	801,503	80,150	80,150	160,300	641,203
SEVERANCE:						
Series 1999-A Supplemental	10/01/99	27,378	19,677	3,422	23,099	4,279
Series 1999-B	06/15/99	115,597	100,460	15,137	115,597	-
Series 2000	06/01/00	136,090	86,473	17,011	103,484	32,606
Series 2000-C Supplemental	07/01/00	27,378	17,110	3,422	20,532	6,846
Series 2001-A Refunding	11/01/01	491,432	200,214	54,604	254,818	236,614
Series 2002-A	05/01/02	201,625	58,045	18,330	76,375	125,250
Series 2002-A Supplemental	12/01/01	323,200	115,813	32,320	148,133	175,067
Series 2003-A Refunding	06/01/03	229,530	43,471	20,866	64,337	165,193
Series 2002-B Supplemental	11/01/02	206,444	50,048	18,768	68,816	137,628
Series 2003-B Supplemental	11/01/03	33,445	3,345	3,345	6,690	26,755
Series 2004-A	06/15/04	158,974	15,897	15,897	31,794	127,180
Series 2004-B	11/17/04	127,805	12,781	12,781	25,562	102,243
Series 2005-A	05/12/05	565,863	56,586	56,586	113,172	452,691
Series 2005-B1 Refunding	06/28/05	399,646	57,092	57,092	114,184	285,462
Series 2005-B2 Supplemental	06/28/05	110,254	18,376	18,376	36,752	73,502
Series 2006A	06/20/06	346,002	-	34,601	34,601	311,401
		<u>5,957,854</u>	<u>1,515,282</u>	<u>648,222</u>	<u>2,163,511</u>	<u>3,794,343</u>
BALANCES, JUNE 30, 2006		\$ <u>5,957,854</u>	<u>1,515,282</u>	<u>648,222</u>	<u>2,163,511</u>	<u>3,794,343</u>

See Notes to Financial Statements.

UNAUDITED

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Schedule 6 – continued

Summary of Long-term Debt Obligations - continued
Additional Information



ADDITIONAL INFORMATION RELATED TO LONG-TERM DEBT OBLIGATIONS:

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

GENERAL OBLIGATION BONDS:

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

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

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

Years ending June 30:

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

SEVERANCE TAX BONDS:

Severance tax bonds are for State agencies, local governments and public and higher education, including a broad range of state and local capital needs. Funds are provided through tax receipts levied upon natural resource products, severed and saved from the lands of the State of New Mexico. The following Severance Tax Bonds were issued during the fiscal year ended June 30, 2006:

Severance Tax Bonds Supplemental Series 2006A

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

UNAUDITED

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

Schedule 6 – continued

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

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

SEVERANCE TAX BONDS – continued:

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

Years ending June 30:

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

ADVANCE AND CURRENT REFUNDINGS:

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

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

Severance Tax Bonds, Series 2005B-1 Refunding:

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

Severance Tax Bonds, Series 2005B-2 Supplemental:

Severance Tax Bonds, Series 2002A Supplemental	\$	22,060,000
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