

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

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2004**

**(With Independent Auditors' Report Thereon)**

## INTRODUCTORY SECTION

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

Official Roster  
June 30, 2004

**Office of the State Treasurer**

Robert E. Vigil, CPA	State Treasurer
Elaine Olah	Deputy State Treasurer
Ann M. Gallegos	Asst. Deputy State Treasurer

**State Treasurer's Investment Committee**

Robert E. Vigil, CPA	Chairman
Ann M. Gallegos	Vice-chairman
George Everage	Member
Manny Ortiz	Member
Mark Valdes	State Board of Finance Member

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
ANNUAL FINANCIAL REPORT  
Year ended June 30, 2004

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**OFFICE OF THE STATE TREASURER**  
**ANNUAL FINANCIAL REPORT**  
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**FINANCIAL SECTION**



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## INDEPENDENT AUDITORS' REPORT

Honorable Bill Richardson, Governor  
State Board of Finance  
Honorable Robert Vigil, CPA, State Treasurer  
Honorable Domingo P. Martinez, CGFM, State Auditor  
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico, Office of the State Treasurer (State Treasurer) as of and for the year ended June 30, 2004, which collectively comprise the State Treasurer's basic financial statements as listed in the table of contents. We have also audited each fiduciary fund type of the State Treasurer as of and for the year ended June 30, 2004, as displayed in the State Treasurer's basic financial statements. We have also audited Schedules 2 through 5 and Schedules 8 through 9 and Schedule 6 – Summary of Long Term Debt Obligations as listed in the table of contents and included in the financial statements as supplementary information as of and for the year ended June 30, 2004. These financial statements are the responsibility of the State Treasurer's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the State Treasurer, are intended to present the financial position, and the changes in financial position and its budgetary comparisons of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2004 and the changes in financial position and its budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information, as well as each fiduciary fund type of the State Treasurer as of June 30, 2004, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion Schedules 2 through 5 and Schedules 8 through 9 and Schedule 6 – Summary of Long Term Debt Obligations referred to above present fairly, in all material respects, the respective financial and fiduciary funds of the Office of the State Treasurer and the long-term debt obligations of the State of New Mexico as of

June 30, 2004, and the respective changes in financial position where applicable thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19 to the financial statements, the Office of the State Treasurer and the Department of Finance and Administration evaluated financial statement reporting issues related to long-term debt obligations. In previous years, the Office of the State Treasurer reported the State of New Mexico's bond obligations as long-term debt on its government-wide statement of net assets. Since the State of New Mexico, not the Office of the State Treasurer, is obligated for the actual debt, the long-term debt obligations of the State of New Mexico have been removed from the Office of the State Treasurer's government-wide statement of net assets, and will be included in the Department of Finance and Administration's financial statements as an agency fund. A decision was made to include debt service activity in the Office of the State Treasurer's financial statements since the Office of the State Treasurer is responsible, by statute, for making debt service payments on behalf of the State of New Mexico. Accordingly, the debt service activity reported in the Statement of Activities of the Office of the State Treasurer and in the Agency Fund reported in the financial statements of the Department of Finance and Administration will be eliminated during the preparation of the State of New Mexico's Statewide Comprehensive Annual Report (CAFR) and the long-term debt obligations of the State of New Mexico will be reported as part of the Statement of Net Assets in the CAFR. As a result, the June 30, 2003 ending net assets presented in the government-wide statement of net assets of the Office of the State Treasurer have been increased \$761,104,004 to reflect the changes discussed above.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2004 on our consideration of the State of New Mexico, Office of the State Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the State Treasurer's basic financial statements. Schedules 1 and 7 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Schedules 1 and 7 as listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Treasurer's basis financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

  
Accounting & Consulting Group, LLP  
Certified Public Accountants

November 23, 2004  
Carlsbad, New Mexico

## Management's Discussion and Analysis

As management of the OFFICE OF THE STATE TREASURER, we offer readers of the OFFICE OF THE STATE TREASURER'S financial statements this narrative overview and analysis of the financial activities of the OFFICE OF THE STATE TREASURER for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the financial statements of the OFFICE OF THE STATE TREASURER and additional information provided.

### Financial Highlights

- The assets administered by the OFFICE OF THE STATE TREASURER in the Investment Trust Fund increased by \$416,888,265. The majority of this increase is due to increased average yield on the investment portfolio which has also resulted in increased deposit activity.
- As of the close of the current fiscal year, the OFFICE OF THE STATE TREASURER'S governmental funds reported combined ending fund balances of \$154,065,840, a decrease of \$17,093,210 in comparison with the prior year.
- The Office of the State Treasurer and the Department of Finance and Administration altered the policy related to the reporting of debt. Only debt issued by and for the Office of the State Treasurer should be included in the government-wide financial statements. As a result, the 2004 government-wide financial statements solely include \$83,614 in debt related to compensated absences. This policy change also resulted in a net prior period increase in net assets of \$761,104,004, a \$764,105,000 increase related to debt and a \$3,000,996 decrease related to bond issuance costs net of amortization. Although policy has been changed on the reporting of debt, it should be noted that the Office of the State Treasurer has the statutory responsibility for the overall management and investing of bond proceeds and debt service funds issued by the State Board of Finance. These proceeds require the tracking of all earnings for rebate, arbitrage and interest earnings distribution. The management of these funds begins with the issuance of bonds by the State Board of Finance. On the closing date of bond issuance, funds are delivered to the State Treasurer with identification of sources and uses of the bond proceeds. The State Treasurer then authorizes release of bond funds to the buyer and invests the proceeds in accordance with the State Treasurer's Investment Policy. The State Treasurer administers the distribution of interest earnings on 39 severance-tax bonds, 7 general obligation bonds and 1 miscellaneous bond. All transactions are tracked for the purpose of calculating rebate and arbitrage. In addition, the State Treasurer provides information to the audit firm that prepares the rebate calculations. Management of debt service funds includes monitoring available cash for payment, investing, and cost of issuance. The State Treasurer's Office coordinates with the State Board of Finance cash availability for issuance of one-day notes and determines the amount available for transfer to the state permanent fund as required by statute. Previously issued bonds by the Board of Finance may be re-financed or refunded and acting as the paying agent, the State Treasurer must coordinate payment with escrow agent and Depository Trust Company (DTC).
- A statutory function of the Office of the State Treasurer is to make debt service payments on behalf of State Agencies. As a result, the debt service assets and activity continues to be reported in the governmental funds. Information related to the debt service assets and activity is included in the supplementary information.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the OFFICE OF THE STATE TREASURER'S basic financial statements. The OFFICE OF 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 readers with a broad overview of the OFFICE 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 OFFICE OF THE STATE TREASURER'S assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the OFFICE OF THE STATE TREASURER is improving or deteriorating.

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 only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found at exhibits A-1 and A-2 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The OFFICE OF THE STATE TREASURER, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the OFFICE 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 OFFICE OF THE STATE TREASURER maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the general fund, the NM Business Development Corporation fund, the Bond Issuance fund, General Obligation Bond funds, and Severance Tax Bond funds all of which are considered to be major funds. The General Obligation and Severance Tax Bond funds combine into a single, aggregated presentation 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 OFFICE OF THE STATE TREASURER adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found at exhibits B-1 through C of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the OFFICE OF 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 OFFICE OF THE STATE TREASURER'S fiduciary funds account for cash, securities, and other investments identified and held in custody on behalf of local and state government agencies and are separately identified by the types of state and local agencies for which the funds are held. The Short-term Investment Pool accounts for the Local Government Investment Pool (LGIP), the Consolidated Investment Pool accounts for funds held in custody for both state and local government agencies, and the State Funds Investment Pool accounts for funds identified and held in custody on behalf of state agencies.

The basic fiduciary fund financial statements can be found at exhibits D-1 and D-2 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 27 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 on pages 55-79 of this report. Fiduciary schedules are located on pages 80-87.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the OFFICE OF THE STATE TREASURER, assets exceeded liabilities by \$154,124,658 at the close of the most recent fiscal year.

By far the largest portion of the OFFICE OF THE STATE TREASURER'S net assets reflect amounts expected to be provided to satisfy its general and severance tax bond obligations. It is the responsibility of the OFFICE 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 Office anticipates the future tax revenues generated will be adequate to service the debt obligations.

An additional portion of the OFFICE OF THE STATE TREASURER'S net assets \$153,988,102 represents resources that are subject to external restrictions on how they may be used.

**Governmental activities.** Governmental activities decreased the OFFICE OF THE STATE TREASURER'S net assets in the governmental financial statements by \$17,135,725. Key elements of this decrease are as follows:

**Comparison of Key Elements**

	2004	2003 As Restated
<b>Assets:</b>		
Cash, cash equivalents, and repurchase agreements	\$ 153,873,552	\$ 150,551,828
Due from other agencies	15,300,653	21,407,334
Accrued interest receivable	178,949	947,559
Investment in NM Business Development Corp.	1,363,164	1,665,175
Deferred charges, net	-	-
Capital assets, net	142,432	168,647
Total assets	\$ 170,858,750	\$ 174,740,543
<b>Liabilities and net assets:</b>		
Accounts payable and other	\$ 16,650,478	\$ 3,412,846
Compensated absences, amounts due in one year	74,000	-
Compensated absences, amounts due beyond one year	9,614	67,314
Total liabilities	16,734,092	3,480,160
<b>Net assets:</b>		
Invested in capital assets	142,432	168,647
Restricted	153,988,102	171,274,740
Unrestricted	(5,876)	(183,004)
Total liabilities and net assets	\$ 170,858,750	\$ 174,740,543
<b>Revenues</b>		
Federal funds	\$ 40,333	\$ 31,905
State appropriation	3,351,800	3,134,200
Interest income	13,682,031	17,450,646
Miscellaneous	-	291,618
Total revenues	17,074,164	20,908,369
<b>Expenses</b>		
<b>Current:</b>		
Personnel services and employee benefits	2,267,100	2,300,001
Operating costs	818,445	814,064
Contractual services	173,942	78,350
Other administrative expenditures	-	10,424
<b>Debt service:</b>		
Interest on long-term debt	264,435,893	132,255,324
Debt service activity	28,223,473	-
Other charges	2,697,020	2,182,543
Nonoperating (revenue) and expense	(264,405,984)	29,649,339
Total expenses	34,209,889	167,290,045
Change in net assets	(17,135,725)	(146,381,676)
Net assets - beginning, as restated	171,260,383	317,642,059
Net assets - ending	\$ 154,124,658	\$ 171,260,383

## **Financial Analysis of the Government's Funds**

As noted earlier, the OFFICE OF THE STATE TREASURER uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the OFFICE OF THE STATE TREASURER'S governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the OFFICE OF 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.

As of the end of the current fiscal year, the OFFICE OF THE STATE TREASURER'S governmental funds reported combined ending fund balances of \$154,065,840, a decrease of \$17,093,210 in comparison with the prior year. Approximately 99.06 percent of this total amount, \$152,624,938 is unreserved, designated for subsequent year's expenditures that is an internal designation of unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to encumbrances and the New Mexico Business Development Corporation, \$1,502,424. The remainder, less than 1%, reported as undesignated, is subject to reversion (if positive) to the State Permanent Fund.

The fund balance of the OFFICE OF THE STATE TREASURER'S general fund increased by \$193,428 during the current fiscal year.

### **General Fund Budgetary Highlights**

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

- \$253,000 in decreases for personnel services and employee benefits due to several positions remaining open.
- \$337,117 in increases for operating costs for rent, maintenance, repair and replacement of computer software and equipment.

### **Capital Asset and Debt Administration**

**Capital assets.** The OFFICE OF THE STATE TREASURER'S investment in capital assets for its governmental activities as of June 30, 2004, amounts to \$142,432 (net of accumulated depreciation). This investment in capital assets includes office and computer equipment.

Additional information on the OFFICE OF THE STATE TREASURER'S capital assets can be found in Note 4 of this report.



**Long-term debt.** At the end of the current fiscal year, the OFFICE OF THE STATE TREASURER was responsible for administering debt service payments on total bonded debt outstanding of \$735,990,000 all of which is secured by pledged tax revenues.

	Total	
	2004	2003
General obligation bonds	\$ 249,150,000	\$ 290,700,000
Severance tax bonds	486,840,000	473,405,000
	<u>\$ 735,990,000</u>	<u>\$ 764,105,000</u>

Additional information on long-term debt administered by the OFFICE OF THE STATE TREASURER can be found in Note 19 and Schedule 6 of this report.

#### **Economic Factors and Next Year's Budgets and Rates**

- Inflationary trends in the region compare favorably to national indices. Costs associated with the general fund are expected to remain stable.
- During fiscal year end June 30, 2004, several personnel positions remained open, causing the budget to be underspent. The June 30, 2005 budget anticipates filling those positions.

These factors were considered in preparing the OFFICE OF THE STATE TREASURER'S budget for the 2005 fiscal year.

#### **Request for Information**

This financial report is designed to provide a general overview of the OFFICE 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 Robert Vigil, State Treasurer, OFFICE OF THE STATE TREASURER, P. O. Box 608, Santa Fe, NM 87504-0608.

**BASIC FINANCIAL STATEMENTS**

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
STATEMENT OF NET ASSETS  
June 30, 2004

Exhibit A-1

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 324,519
Repurchase agreements	153,549,033
Due from other agencies	15,300,192
Accrued interest receivable	178,949
Other receivables	461
Investment in New Mexico Business Development Corporation	1,363,164
Capital assets (net of accumulated depreciation):	
Equipment	142,432
Total assets	<u>\$ 170,858,750</u>
<b>LIABILITIES AND NET ASSETS</b>	
Accounts payable and other current liabilities	\$ 247,242
Due to Severance Tax Permanent Fund	16,318,268
Noncurrent liabilities:	
Due within one year	74,000
Due in more than one year	9,614
Accrued arbitrage interest payable	84,968
Total liabilities	<u>16,734,092</u>
Invested in capital assets, net of related debt	142,432
Restricted for:	
Debt service	148,568,408
Debt service-arbitrage	4,056,530
New Mexico Business Development Corporation	1,363,164
Unrestricted	<u>(5,876)</u>
Total net assets	<u>154,124,658</u>
Total liabilities and net assets	<u>\$ 170,858,750</u>

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

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2004

Exhibit A-2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenue and Changes in Net Assets</u>
		<u>Operating Grants and Contributions</u>	<u>Primary Governmental Activities</u>
<b>Primary government:</b>			
Governmental activities:			
Personnel services and employee benefits	\$ 2,267,100	\$ 40,333	\$ (2,226,767)
Operating costs	818,445	-	(818,445)
Contractual services	173,942	-	(173,942)
Other charges	2,697,020	-	(2,697,020)
Interest on long-term debt	264,435,893	-	(264,435,893)
Total governmental activities	<u>270,392,400</u>	<u>40,333</u>	<u>(270,352,067)</u>
<b>General Revenues:</b>			
State general fund appropriations			3,351,800
State property tax levy			52,192,007
Severance taxes			311,007,941
Other taxes			732,270
Capital projects - reversions in			3,512,562
Severance tax permanent fund - reversions out			(16,318,268)
Miscellaneous			(290,528)
Unrestricted investment earnings			13,682,031
Net effect of debt service transactions			(28,223,473)
Bond appropriations expense			<u>(86,430,000)</u>
Total general revenues and transfers			<u>253,216,342</u>
Change in net assets			<u>(17,135,725)</u>
Net assets - beginning, as previously stated			(589,843,621)
Increase resulting from change in reporting of debt administered by the Office of the State Treasurer			764,105,000
Decrease resulting from change in reporting of bond issuance costs related to debt administered by the Office of the State Treasurer			<u>(3,000,996)</u>
Net assets - beginning of year, as restated			<u>171,260,383</u>
Net assets - ending			<u><u>\$ 154,124,658</u></u>

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

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004

	General	NM Business Development Corp. Fund
<b>ASSETS</b>		
<i>Cash and Investments:</i>		
Cash and cash equivalents	\$ 324,519	\$ -
Repurchase agreements	-	-
Total Cash and Investments	324,519	-
<i>Restricted Assets:</i>		
Investment in New Mexico Business Development Corporation	-	1,363,164
<i>Other Assets:</i>		
Due from other agencies	-	-
Other receivables	461	-
Accrued interest receivable	-	-
Total Assets	\$ 324,980	\$ 1,363,164
<b>LIABILITIES AND FUND BALANCES</b>		
<i>Liabilities:</i>		
Accounts payable and accrued expenses	226,195	\$ -
Due to State General Fund	21,047	-
Due to Severance Tax Permanent Fund	-	-
Accrued arbitrage interest payable	-	-
Total liabilities	247,242	-
<i>Fund balances:</i>		
Reserved for:		
Encumbrances	77,738	-
New Mexico Business Development Corporation	-	1,363,164
Unreserved:		
Designated for subsequent year's expenditures reported in:		
Debt service	-	-
Arbitrage	-	-
Undesignated, reported in:		
General fund	-	-
Total fund balances	77,738	1,363,164
Total liabilities and fund balances	\$ 324,980	\$ 1,363,164

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

Bond Issuance Fund	General Obligation Bond Funds	Severance Tax Bond Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 324,519
-	47,051,228	106,497,805	153,549,033
-	47,051,228	106,497,805	153,873,552
-	-	-	1,363,164
-	12,089,849	3,210,343	15,300,192
-	-	-	461
-	172,550	6,399	178,949
\$ -	\$ 59,313,627	\$ 109,714,547	\$ 170,716,318
\$ -	\$ -	\$ -	\$ 226,195
-	-	-	21,047
-	-	16,318,268	16,318,268
-	-	84,968	84,968
-	-	16,403,236	16,650,478
-	-	-	77,738
-	-	-	1,363,164
-	58,139,613	90,428,795	148,568,408
-	1,174,014	2,882,516	4,056,530
-	-	-	-
-	59,313,627	93,311,311	154,065,840
\$ -	\$ 59,313,627	\$ 109,714,547	\$ 170,716,318

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STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
GOVERNMENTAL FUNDS

Exhibit B-1  
(Page 2 of 2)

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2004

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances - total governmental funds	\$ 154,065,840
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	142,432
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(83,614)</u>
Net assets of governmental activities	<u>\$ 154,124,658</u>

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



STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the year ended June 30, 2004

	General	NM Business Development Corp. Fund
<i>Revenues:</i>		
Federal funds	\$ 40,333	\$ -
State general fund appropriations	3,351,800	-
Interest income	-	6,784
Interest income - debt service	-	-
Interest income - arbitrage	-	-
Miscellaneous	-	-
	<u>3,392,133</u>	<u>6,784</u>
<i>Expenditures:</i>		
Current:		
Personnel services and employee benefits	2,250,800	-
Operating costs	613,849	-
Contractual services	154,168	19,774
Other administrative expenditures	-	-
Capital outlay	178,381	-
Debt service:		
Principal and interest on long-term debt	-	-
Other charges	-	-
	<u>3,197,198</u>	<u>19,774</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>194,935</u>	<u>(12,990)</u>
<i>Other financing sources (uses):</i>		
Operating transfers in (out)		
Reversions	(21,047)	-
State property tax levy	-	-
Severance taxes	-	-
Bond proceeds	-	-
Other taxes	-	-
Capital projects - reversions in	-	-
Other	19,540	(289,021)
Severance tax permanent fund - reversions out	-	-
Transfer to other state agency	-	-
	<u>(1,507)</u>	<u>(289,021)</u>
<i>Net change in fund balances</i>	<u>193,428</u>	<u>(302,011)</u>
<i>Fund balances - beginning of year</i>	<u>(115,690)</u>	<u>1,665,175</u>
<i>Fund balances - end of year</i>	<u>\$ 77,738</u>	<u>\$ 1,363,164</u>

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

Bond Issuance Fund	General Obligation Bond Funds	Severance Tax Bond Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 40,333
-	-	-	3,351,800
-	-	-	6,784
-	3,263,546	10,284,893	13,548,439
-	94,222	32,586	126,808
-	-	-	-
-	<u>3,357,768</u>	<u>10,317,479</u>	<u>17,074,164</u>
-	-	-	2,250,800
-	-	-	613,849
-	-	-	173,942
-	-	-	-
-	-	-	178,381
-	53,441,763	325,539,130	378,980,893
-	2,106,615	713,432	2,820,047
-	<u>55,548,378</u>	<u>326,252,562</u>	<u>385,017,912</u>
-	<u>(52,190,610)</u>	<u>(315,935,083)</u>	<u>(367,943,748)</u>
-	-	-	(21,047)
-	52,192,007	-	52,192,007
-	-	311,007,941	311,007,941
86,430,000	-	14,554	86,444,554
-	732,270	-	732,270
-	722,079	2,790,483	3,512,562
-	-	-	(269,481)
-	-	(16,318,268)	(16,318,268)
(86,430,000)	-	-	(86,430,000)
-	<u>53,646,356</u>	<u>297,494,710</u>	<u>350,850,538</u>
-	1,455,746	(18,440,373)	(17,093,210)
-	57,857,881	111,751,684	171,159,050
\$ -	<u>\$ 59,313,627</u>	<u>\$ 93,311,311</u>	<u>\$ 154,065,840</u>

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STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER

Exhibit B-2  
(Page 2 of 2)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the year ended June 30, 2004

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

Net change in fund balances - total governmental funds \$ (17,093,210)

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense. This is the amount by which  
capital outlays exceeded depreciation in the current period. (26,215)

Governmental funds report payments of compensated absences as expenditures.  
However, changes in the accrued balances of compensated absences are reported  
in the statement of activities. (16,300)

Change in net assets of governmental activities \$ (17,135,725)

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

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET (NON-GAAP)  
BASIS AND ACTUAL - GENERAL FUND  
Year Ended June 30, 2004

	Budgeted Amounts	
	Original	Final
<i>Revenues:</i>		
State General Fund appropriation	\$ 3,351,800	\$ 3,351,800
Other grants	35,800	35,800
Other financing sources	28,900	113,017
<i>Total revenues</i>	<u>\$ 3,416,500</u>	<u>\$ 3,500,617</u>

	Budgeted Amounts		Expenditures	Outstanding Encumbrances
	Original	Final		
<i>Expenditures:</i>				
Current:				
Personnel services and benefits	\$ 2,505,700	\$ 2,252,700	\$ 2,250,800	\$ -
Contractual services	178,300	178,300	97,581	80,719
Operating costs	648,383	985,500	759,409	215,459
<i>Total expenditures</i>	<u>3,332,383</u>	<u>3,416,500</u>	<u>3,107,790</u>	<u>296,178</u>
<i>Other financing uses</i>	<u>84,117</u>	<u>84,117</u>	<u>84,117</u>	<u>-</u>
<i>Total expenditures and other financing uses</i>	<u>\$ 3,416,500</u>	<u>\$ 3,500,617</u>	<u>\$ 3,191,907</u>	<u>\$ 296,178</u>

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

<u>Actual Amounts</u>	<u>Variance with Final Budget- Favorable (Unfavorable)</u>
\$ 3,351,800	\$ -
40,333	4,533
<u>113,017</u>	<u>-</u>
<u>\$ 3,505,150</u>	<u>\$ 4,533</u>

<u>Total Actual Amounts</u>	<u>Variance with Final Budget- Favorable (Unfavorable)</u>
\$ 2,250,800	\$ 1,900
178,300	-
<u>974,868</u>	<u>10,632</u>
<u>3,403,968</u>	<u>12,532</u>
<u>84,117</u>	<u>-</u>
<u>\$ 3,488,085</u>	<u>\$ 12,532</u>

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2004

Exhibit D-1

<b>ASSETS</b>	<u>Investment Trust Fund</u>
<i>Cash and Investments:</i>	
Cash and cash equivalents	\$ 32,365,441
Certificates of deposit	232,950,000
U.S. Government securities	858,982,978
Corporate Bonds	29,216,255
Repurchase agreements	<u>2,779,824,521</u>
<i>Total Cash and Investments</i>	3,933,339,195
 <i>Other Assets:</i>	
Accrued interest receivable	<u>5,287,526</u>
<i>Total Assets</i>	<u><u>\$ 3,938,626,721</u></u>
 <b>LIABILITIES AND FUND EQUITY</b>	
<i>Liabilities:</i>	
<i>Fund equity:</i>	
Fund balances, unreserved:	
Net assets held in trust	<u>\$ 3,938,626,721</u>
<i>Total fund equity and net assets held in trust</i>	<u>3,938,626,721</u>
<i>Total liabilities and fund equity and net assets held in trust</i>	<u><u>\$ 3,938,626,721</u></u>

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

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
For the Year Ended June 30, 2004

Exhibit D-2

	<u>Investment Trust Fund</u>
Investment Income	\$ 75,946,202
Expenses - Management Fees	<u>(396,020)</u>
Net Investment Income	75,550,182
Net proceeds of deposits (withdrawals)	362,017,161
Net Assets, held in trust for pool participants, June 30, 2003	<u>3,501,059,378</u>
Net Assets, held in trust for pool participants, June 30, 2004	<u><u>\$ 3,938,626,721</u></u>

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



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**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
Notes to Financial Statements  
June 30, 2004

**NOTE 1. Summary of Significant Accounting Policies**

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 (G), (H), and (I) NMSA 1978 (1988 Supp.) empower the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in demand deposits and not immediately needed for the operation of state government in certain specified securities or investments.
- (5) Section 12-6-4 NMSA 1978 provides that the cost of the annual audit of the State Treasurer shall be borne by special appropriations to the State Board of Finance. 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.
- (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.

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
Notes to Financial Statements  
June 30, 2004

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
Notes to Financial Statements  
June 30, 2004

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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

The Office of 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 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 and ending balances for the general obligation and severance tax bonds is included in the Supplementary Information section of this report and the statewide 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 and informative format. Bonds issued by the Board and the corresponding debt service funds are accounted for by the Office of the State Treasurer and are included in the accompanying financial statements.

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
Notes to Financial Statements  
June 30, 2004

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*Financial Reporting Entity*

The Office of 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 Treasurers 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 have decision making authority, the power to designate management, the ability to significantly influence operations and have primary financial accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board 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.

As discussed in Note 19 to the financial statements, the Office of the State Treasurer and the Department of Finance and Administration evaluated financial statement reporting issues related to long-term debt obligations. In previous years, the Office of the State Treasurer reported the State of New Mexico's bond obligations as long-term debt on its government-wide statement of net assets. Since the State of New Mexico, not the Office of the State Treasurer, is obligated for the actual debt, the long-term debt obligations of the State of New Mexico have been removed from the Office of the State Treasurer's government-wide statement of net assets, and will be included in the Department of Finance and Administration's financial statements as an agency fund. A decision was made to include debt service activity in the Office of the State Treasurer's financial statements since the Office of the State Treasurer is responsible, by statute, for making debt service payments on behalf of the State of New Mexico. Accordingly, the debt service activity reported in the Statement of Activities of the Office of the State Treasurer and in the Agency Fund reported in the financial statements of the Department of Finance and Administration will be eliminated during the preparation of the State of New Mexico's Statewide Comprehensive Annual Report (CAFR) and the long-term debt obligations of the State of New Mexico will be reported as part of the Statement of Net Assets in the CAFR. As a result, the June 30, 2003 ending net assets presented in the government-wide statement of net assets of the Office of the State Treasurer have been increased \$761,104,004 to reflect the changes discussed above.

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
Notes to Financial Statements  
June 30, 2004

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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

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

*Measurement focus, basis of accounting, and financial statement presentation*

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

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

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.

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
Notes to Financial Statements  
June 30, 2004

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*Measurement focus, basis of accounting, and financial statement presentation (continued)*

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.

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 the *General Obligation Bond Funds* and the *Severance Tax Bond Funds*.

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 levied 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.

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.

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
Notes to Financial Statements  
June 30, 2004

**NOTE 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.

*Assets, Liabilities and Net Assets or Equity*

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.



STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
Notes to Financial Statements  
June 30, 2004

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*Assets, Liabilities and Net Assets or Equity (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 \$1,000 (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 services. 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.

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
Notes to Financial Statements  
June 30, 2004

**NOTE 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 Office of the State Treasurer is not the issuer of the debt, nor is it ultimately responsible for the debt. As described more fully in Note 19, long-term debt is reported in the Supplementary Information section of the financial statement. 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.

As more fully described in Note 19, the Office 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 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.

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.

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**NOTE 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<sup>st</sup>, the State Treasurer prepares a budget appropriation request by category to be presented to the next legislature.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the category level of the State Treasurer as a whole and changes are approved by the DFA.
7. Formal budgetary integration is employed as a management control device during the year for the General Fund.
8. The 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.
9. The State Treasurer's budget for the fiscal year ending June 30, 2004 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.

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**NOTE 2. Stewardship, Compliance and Accountability (continued)**

*Budgets and Budgetary Accounting (continued)*

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

		General Fund
Excess (deficiency) of revenues over expenditures	\$	194,935
Adjustments:		
Accounts payable		(20,935)
2004 outstanding encumbrances		(296,178)
2003 encumbrance transactions		126,458
Reversions		(16,115)
Budgeted other financing sources and uses		28,900
Excess (deficiency) of revenues over expenditures (Budget Basis)	\$	17,065

**NOTE 3. Deposits and Investments**

Fiscal Agent Bank: The State Board of Finance and Wells Fargo Bank in Albuquerque (Bank) entered into an agreement whereby the Bank would provide banking services as Fiscal Agent for the State of New Mexico through September 30, 2005 with the option to renew for two additional years at the option of the State Board of Finance.

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 September 30, 2005 with the option to renew for two additional years at the option of the State Board of Finance.

The following funds are included in cash and investments of the Office of the State Treasurer:

Account Description	CAS Fund #	Amount
General	182	\$ <u>324,519</u>
Investment Trust Fund	N/A	\$ <u>265,315,441</u>

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**NOTE 3. Deposits and Investments (continued)**

<u>Account Description</u>	<u>CAS Fund #</u>	<u>Amount</u>
Debt Service Funds:		
General Obligation and Revenue Bonds:		
1999 General Obligation Debt Service	640	8,849,815
1999 General Obligation Debt Service – Rebate Excess Earnings	409	465,406
2000 Enhanced 911 Revenue	018	711,570
2000 Enhanced 911 Revenue – Rebate Excess Earnings	488	86,193
2001 General Obligation Debt Service	414	6,720,387
2001-A General Obligation Debt Service – Rebate Excess Earnings	415	611,539
2001-A General Obligation Debt Service – Rebate Excess Earnings	712	2,748
2001-A General Obligation Debt Service	487	7,858,000
2001-B General Obligation Debt Service -- Refunding	482	6,571,655
2003 General Obligation Debt Service	031	13,929,483
2003-B General Obligation Debt Service -- Refunding	418	1,244,432
		<u>47,051,228</u>
Severance Tax Bonds		
Severance Tax Bonding Fund	410	18,411,295
1999-A Supplemental Severance Tax Debt Service	184	1,945,820
1999-A Supplemental Severance Tax Debt Service – Rebate Excess Earnings	185	228,967
1999-B Series Debt Service	186	5,550,744
1999-B Severance Tax Debt Service – Rebate Excess Earnings	461	1,194,601
2000 Severance Tax Debt Service – Rebate Excess Earnings	391	1,249,650
2000 Severance Tax Debt Service	389	12,277,033
2000-C Series Rebate	406	294,150
2000-C Series Debt Service	405	2,044,452
2001-A Severance Tax Debt Service	408	15,559,679
2002-A Series Debt Service	699	8,386,714
2002-A Severance Tax Debt Service	095	8,439,010
2002-B Supplemental Series – Debt Service	390	5,329,291
2003-A Series – Debt Service	884	24,599,409
2003-B Series – Debt Service	484	952,101
2004-A Series – Debt Service	492	34,889
		<u>106,497,805</u>
Total Debt Service		153,549,033
Investment Trust Fund	N/A	<u>2,779,824,521</u>
Total Repurchase Agreements		<u>\$ 2,933,373,554</u>

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.

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.

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**NOTE 3. Deposits and Investments (continued)**

Investment Trust Fund (continued)

The Treasurer's Investment Trust Fund has implemented GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments". This statement requires that 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 Treasurer's Investment Trust Fund does not participate in securities lending transactions.

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 institutions operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50% of the average investment balance. At June 30, 2004 collateral pledged to public money deposits was as follows:

	Fiscal Agent Account	Certificates Of Deposit	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Cash in bank	\$ 165,416,609	\$ 232,950,000	\$ 398,366,609
Less FDIC insurance coverage	<u>(100,000)</u>	<u>(2,800,000)</u>	<u>(2,900,000)</u>
Total unsecured public funds	<u>\$ 165,316,609</u>	<u>\$ 230,150,000</u>	<u>\$ 395,466,609</u>
Collateral requirement (50% of uninsured public funds)	\$ 82,658,304	\$ 115,075,000	\$ 197,733,304
Collateral pledged: US Government securities	<u>(97,544,235)</u>	<u>(144,084,955)</u>	<u>(241,629,190)</u>
(Over) Under Collateralized	<u>\$ (14,885,931)</u>	<u>\$ (29,009,955)</u>	<u>\$ (43,895,886)</u>

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**NOTE 3. Deposits and Investments (continued)**

The statutes of the State of New Mexico place certain restrictions on the investments of public money by the State Treasurer in order to minimize risk. Permissible investments include U.S. Treasury securities and certificates of deposit at financial institutions insured by an agency of the federal government and corporate bonds that meet the investment policy criteria. In order to meet short-term investment objectives, state laws permit investment in repurchase agreements. These contracts must be fully secured by obligations of the United States or other securities backed by the United States, having a market value of at least 102% of the amount of the contract.

In accordance with GASB Statement No. 3, investments must be categorized to give an indication of the level of risk assumed by the State at year-end. **Category 1** includes investments that are insured or registered or for which the securities are held by the State Treasurer or agent in the Office's name. **Category 2** includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Office's name. **Category 3** includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Office's name. All of the investments at June 30, 2004 are Category 2 investments.

At June 30, 2004, investments in repurchase agreements were \$2,933,373,554. Collateral required by State statute at June 30, 2004 was \$2,992,041,025. The investments in repurchase agreements were collateralized by U.S. Treasury notes and bills valued at \$3,019,363,254 held at Northern Trust Company in California, in the Office's name. Fair value for the securities below was obtained from Northern Trust Company in California and reflects quoted market prices as of June 30, 2004.

Investments administered by the State Treasurer at June 30, 2004 include the following:

Description	Amortized Cost	Carrying Amount Fair Value
US Government securities	\$ 866,077,525	\$ 858,982,978
Corporate bonds	29,488,974	29,216,255
Repurchase agreements	<u>2,933,373,554</u>	<u>2,933,373,554</u>
	<u>\$ 3,828,940,053</u>	<u>\$ 3,821,572,787</u>

Funds whose investments are debt related record no investment earnings. These earnings are recorded in the appropriate debt service funds.

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**NOTE 3. Deposits and Investments (continued)**

The State Treasurer also administers an investment of \$1,363,164 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 (See Note 11). This investment is reflected in the New Mexico Business Development Corporation Special Revenue Fund.

The book value and other gratuitous information related to the custodial investments are not included in the financial statements of the Office of the State Treasurer.

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, 2004 the carrying cost and the fair value were the same in the Local Government Investment Pool.

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

The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested.

Participation in the local government investment pool is voluntary.



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**NOTE 4. Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, being depreciated				
Equipment	\$ 291,364	\$ 36,284	(3,000)	\$ 324,648
Total capital assets being depreciated	<u>291,364</u>	<u>36,284</u>	<u>(3,000)</u>	<u>324,648</u>
Less accumulated depreciation for:				
Equipment	(122,717)	(60,049)	550	(182,216)
Total accumulated depreciation	<u>(122,717)</u>	<u>(60,049)</u>	<u>550</u>	<u>(182,216)</u>
Total capital assets being depreciated, net	<u>\$ 168,647</u>	<u>\$ (23,765)</u>	<u>\$ (2,450)</u>	<u>\$ 142,432</u>

Depreciation expense was charged to functions/programs of the Office as follows:

Governmental activities:		
General government		\$ 60,049
Total depreciation expense – governmental activities		<u>\$ 60,049</u>

**NOTE 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, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 67,314	\$ 90,572	\$ 74,272	\$ 83,614	\$ 74,000

Additional Information Related to Long-Term Debt Obligations of the State of New Mexico

As discussed in Note 19 to the financial statements, the long-term debt obligations of the State of New Mexico have been removed from the Statement of Net Assets of the Office of the State Treasurer. However, information regarding the long-term debt obligations of the State of New Mexico and the related debt service requirements has been incorporated into this report as Schedule 6 – Summary of Long-Term Debt Obligations to assist the State of New Mexico in preparing the Statewide Comprehensive Annual Report.

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**NOTE 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, 2004, are as follows:

State Treasurer's Investment Trust Fund  
Balance Sheet  
June 30, 2004

**Assets**

Cash and Cash Equivalents	\$	32,365,441
Investments		3,900,973,754
Interest Receivable		<u>5,287,526</u>
Total Assets	\$	<u>3,938,626,721</u>

**Liabilities and Net Assets:**

External Participant account balances	\$	1,261,644,750
Other Internal Participant account balances		
Primary Government		2,684,349,236
Undistributed Reserves and Unrealized Gains (Losses)		<u>(7,367,265)</u>
Total Net Assets	\$	<u>3,938,626,721</u>

**Investment Income** – At June 30, 2004 the Office's investment income earnings were as follows:

Local Government Investment Pool	\$	22,630,062
Consolidated Investment Pool		16,907,847
Short-term Investment Pool		43,775,558
Unrealized Loss		<u>(7,367,265)</u>
	\$	<u>75,946,202</u>

**NOTE 7. Appropriations and Other Revenue**

The Office received the following appropriations and other revenue for the year ended June 30, 2004:

General Fund		
General appropriation, (General Appropriation Act)	\$	3,183,500
Special appropriation		<u>168,300</u>
Total state general fund appropriations	\$	<u>3,351,800</u>

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**NOTE 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.

**NOTE 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 \$16,318,268 remains in the Severance Tax Bonding Fund payable to the Severance Tax Permanent Fund that was transferred in July 2004.

**NOTE 10. Arbitrage on Tax Exempt Bonds**

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

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

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, both, 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 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.

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**NOTE 10. Arbitrage on Tax Exempt Bonds (continued)**

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:

	Bond Year End of First Rebate Computation	First Arbitrage Rebate Due Date	First Computation of Arbitrage Completed
General Obligation Capital Projects Bonds Series 1993	September 1998	November 1998	X
General Obligation Capital Projects Bonds Series 1993B	September 1998	November 1998	X
General Obligation Capital Projects Improvement Bonds Series 1995	September 2000	November 2000	X
General Obligation Capital Projects Improvement Bonds Series 1997	September 2002	November 2002	X
General Obligation Capital Projects Bonds Series 1999	July 2004	August 2004	X
General Obligation Bonds Series 2001	July 2005	August 2005	
General Obligation Bonds Refunding Series 2001A	July 2005	August 2005	
General Obligation Bonds Refunding Series 2001B			
General Obligation Bonds Series 2003			
General Obligation Bonds Refunding Series 2003B			
Severance Tax Bonds Series 1993B	July 1998	August 1998	X
Severance Tax Bonds Series 1994B	July 1999	August 1999	X
Severance Tax Bonds Series 1995A	July 2000	August 2000	X
Severance Tax Bonds Series 1995B	July 2000	August 2000	X
Severance Tax Bonds Series 1996A	July 2001	August 2001	X
Severance Tax Refunding Bonds Series 1997A	July 2002	August 2002	X
Severance Tax Refunding Bonds Series 1998A	July 2003	August 2003	X
Severance Tax Bonds Series 1998B	July 2003	August 2003	X
Severance Tax Bonds Series 1999B	July 2004	August 2004	X
Severance Tax Bonds Series 1999A Supplemental	July 2004	August 2004	
Severance Tax Bonds Series 2000	July 2005	August 2005	
Severance Tax Bonds 2000C Supplemental	July 2006	August 2006	
Severance Tax Bonds Refunding Series 2001A			
Severance Tax Bonds Series 2002A			
Severance Tax Bonds Series 2002A Supplemental			
Severance Tax Bonds Series 2002B Supplemental			
Severance Tax Bonds Series 2003A			
Enhanced 911 Revenue Bonds Series 2000	July 2005	August 2005	

Interest earnings on invested bond proceeds through June 30, 2004 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.

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**NOTE 11. New Mexico Business Development Corporation (BDC)**

In 1991, the State Treasurer called in the original investment of \$2,528,332 in bonds, issued by the BDC to protect the state's share of BDC's assets. This action forced a liquidation of BDC and the remaining assets of BDC were turned over to a trustee, Wells Fargo Bank (formerly Norwest Bank), on behalf of the State Treasurer on October 1, 1991, pursuant to the terms of the "Realization of Assets Agreement." 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, 2004 is the fair market value at that date.

**NOTE 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, 2004 financial statements:

	CFRAS Number	Amount
Severance Tax Bonds – Series 2003 B Supplemental	484	\$ 10,000,000
Severance Tax Bonds – Series 2004 A	492	<u>76,430,000</u>
Total		<u>\$ 86,430,000</u>

Interfund Transfers:

	Fund	Transfer From	Transfer To
Debt Service:			
Severance Tax Bonding Fund	410	\$ 82,666,522	\$ -
Severance Tax Bond – 1998A Debt Service	425	13,281	-
Severance Tax Bond – 1998B Debt Service	411	149,942	-
Severance Tax Bond – 1998A Rebate	486	25,974	-
Severance Tax Bond – 1998B Rebate	426	794,281	-
Severance Tax Bond – 1999A Debt Service	184	-	2,000,000
Severance Tax Bond – 1999B Debt Service	186	-	5,500,000
Severance Tax Bond – 2000 Debt Service	389	-	11,500,000
Severance Tax Bond – 2000C Debt Service	405	-	2,000,000
Severance Tax Bond – 2001A Debt Service	408	-	15,500,000
Severance Tax Bond – 2002A Debt Service	699	-	7,500,000
Severance Tax Bond – 2002A Debt Service	095	-	8,500,000
Severance Tax Bond – 2002B Supplemental Debt Service	390	-	5,200,000
Severance Tax Bond – 2003A Debt Service	884	-	25,100,000
Severance Tax Bond – 2003B Debt Service	484	-	<u>850,000</u>
Total		<u>\$ 83,650,000</u>	<u>\$ 83,650,000</u>

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**NOTE 13. Employee Retirement Plan – State of New Mexico**

Plan Description

Substantially all of the Office'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 Office 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, 2004, 2003, and 2002, were \$374,200, \$386,643, and \$390,715, respectively, equal to the amount of the required contributions for each year.

**NOTE 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 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. (2) Retirees defined by the Act who retired prior to July 1, 1990 and former legislators who served at least two years.

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**NOTE 14. Post Employment Benefits – Retiree Health Care Act Contributions (continued)**

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 Retiree Health Care Authority, 810 West San Mateo, Suite D, Santa Fe, New Mexico 87505.

For the fiscal year ended June 30, 2004, the Office remitted \$19,770 in employer contributions and \$9,885 in employee contributions to the Retiree Health Care Authority.

**NOTE 15. Outstanding Encumbrances**

The following is a reconciliation of outstanding encumbrances per the Department of Finance and Administration (DFA) Report to the reserve for encumbrances and accounts payable as shown in the financial statements at June 30, 2004:

DFA Report	General Fund
Unadjusted Encumbrances Balance as follows:	
Contractual services	\$ 80,719
Operating costs	149,585
Capital outlay	<u>57,355</u>
	287,659
Adjustments for amounts included in accounts payable	<u>(148,399)</u>
Encumbrances, June 30, 2004	<u>\$ 139,260</u>
Reconciliation of fund balance reserved for encumbrances to June 30, 2004 encumbrances:	
June 30, 2004 encumbrances	\$ 139,260
Adjustment for deficit unrestricted fund balance due to accrued expenses recorded using the modified accrual basis of accounting	<u>(61,522)</u>
Fund balance reserved for encumbrances June 30, 2004	<u>\$ 77,738</u>

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June 30, 2004

**NOTE 16. Risk Management**

The Department is exposed to various risks of loss for which the Department 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, 2003 to June 30, 2004. The limit of coverage is \$5,000,000 with \$1,000 deductible per occurrence. All Office employees are covered by this bond.

**NOTE 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.

Amounts expected to revert to the state general fund as of June 30, 2004 are \$21,047, all of which relate to the fiscal year ended June 30, 2004.

Amounts reverted to the State General Fund during 2004 were as follows:

	<u>Appropriation</u>	<u>Reversion</u>
Reversion to State General Fund FY 02	\$ 3,134,200	\$ 6,754
Reversion to State General Fund FY 03	3,183,500	<u>21,047</u>
		<u>\$ 27,801</u>

**NOTE 18. Deficit Fund Balances and Excess of Expenditures Over Appropriations**

Generally accepted accounting principles require disclosures as part of the Combined Statements of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds. No funds experienced deficit fund balances for the year ended June 30, 2004.
- B. Excess of expenditures over appropriations. No funds over expended the appropriations for the year ended June 30, 2004.

**NOTE 19. Prior Period Restatement**

As discussed in Note 19 to the financial statements, the Office of the State Treasurer and the Department of Finance and Administration evaluated financial statement reporting issues related to long-term debt obligations. In previous years, the Office of the State Treasurer reported the State of New Mexico's bond obligations as long-term debt on its government-wide statement of net assets. Since the State of New Mexico, not the Office of the State Treasurer, is obligated for the actual debt, the long-term debt obligations of the State of New Mexico have been removed from the Office of the State Treasurer's government-wide statement of net assets, and will be included in the Department of Finance and



**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
Notes to Financial Statements  
June 30, 2004

**NOTE 19. Prior Period Restatement (continued)**

Administration's financial statements as an agency fund. A decision was made to include debt service activity in the Office of the State Treasurer's financial statements since the Office of the State Treasurer's financial statements since the Office of the State Treasurer is responsible, by statute, for making debt service payments on behalf of the State of New Mexico. Accordingly, the debt service activity reported in the Statement of Activities of the Office of the State Treasurer and in the Agency Fund reported in the financial statements of the Department of Finance and Administration will be eliminated during the preparation of the State of New Mexico's Statewide Comprehensive Annual Report (CAFR) and the long-term debt obligations of the State of New Mexico will be reported as part of the Statement of Net Assets in the CAFR. As a result, the June 30, 2003 ending net assets presented in the government-wide statement of net assets of the Office of the State Treasurer have been increased \$761,104,004 to reflect the changes discussed above.

**NOTE 20. Subsequent Events**

Subsequent to June 30, 2004, the State Board of Finance issued the following debt :

Supplemental Severance Tax Bonds, Series 2004B. On November 17, 2004, the State Board of Finance issued \$10,000,000 in bonds to finance public education facilities projects authorized by the State Legislature.

By Statute, the Office of the State Treasurer will be responsible for the debt service activity for these bonds and will record the activity in the Severance Tax Bond Funds of its governmental fund financial statements beginning with the fiscal year ending June 30, 2005. The debt obligation and related activity will be reported by the Department of Finance and Administration in an agency fund beginning June 30, 2005, and the State of New Mexico will report the long-term debt obligation on the statement of net assets of the Statewide Comprehensive Annual Report beginning June 30, 2005.

**NOTE 21. Subsequent Accounting Standard Pronouncements**

In March 2003, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*, which is effective for financial statements for periods beginning after June 15, 2004, with earlier application encouraged. The Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of the interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement should also be disclosed. The Office of the State Treasurer is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
Notes to Financial Statements  
June 30, 2004

**NOTE 21. Subsequent Accounting Standard Pronouncements (continued)**

In November 2003, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for financial statements for periods beginning after December 15, 2004. This statement requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. The Statement also requires all governments to account for insurance recoveries in the same manner. The Office of the State Treasurer is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

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**SUPPLEMENTARY INFORMATION**

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**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY ASSET CLASS AND SOURCE**  
 Year Ended June 30, 2004

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>
<i>Governmental funds capital assets:</i>				
Equipment, furniture & fixtures	\$ 291,364	\$ 36,284	\$ 3,000	\$ 324,648
<i>Total governmental funds capital assets</i>	<u>\$ 291,364</u>	<u>\$ 36,284</u>	<u>\$ 3,000</u>	<u>\$ 324,648</u>
 <i>Investments in governmental funds capital assets by source:</i>				
General Fund revenues	\$ 291,364	\$ 36,284	\$ 3,000	\$ 324,648
<i>Total governmental funds capital assets</i>	<u>\$ 291,364</u>	<u>\$ 36,284</u>	<u>\$ 3,000</u>	<u>\$ 324,648</u>

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

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
COMBINING BALANCE SHEET-GENERAL OBLIGATION AND REVENUE BONDS  
GENERAL OBLIGATION BOND DEBT SERVICE FUNDS  
June 30, 2004

	CAS Fund #	Assets			Total Assets
		Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	
1995 Series-Debt Service	960	\$ -	\$ -	\$ 482	\$ 482
1997 Series-Debt Service	183	-	-	-	-
1999 Series-Debt Service	640	8,849,815	284,654	365	9,134,834
2001 Series-Debt Service	414	6,720,387	3,231,289	89,075	10,040,751
2001-A Series-Refunding	487	7,858,000	-	306	7,858,306
2001-B Series-Refunding	482	6,571,655	847,930	256	7,419,841
2003 Series-Debt Service	031	13,929,483	6,554,765	73,862	20,558,110
2003B Series - Refunding	418	1,244,432	1,171,211	48	2,415,691
2000 Series-Enhanced 911 Revenue	018	711,570	-	28	711,598
<i>Total - Debt Service</i>		<u>45,885,342</u>	<u>12,089,849</u>	<u>164,422</u>	<u>58,139,613</u>
1997 Series-Rebate	959	-	-	-	-
1999 Series-Rebate	409	465,406	-	19	465,425
2001 Series-Rebate	415	611,539	-	8,106	619,645
2001-A Series-Rebate	712	2,748	-	-	2,748
2000 Series-Enhanced 911-Rebate	488	86,193	-	3	86,196
<i>Total - Rebate Accounts</i>		<u>1,165,886</u>	<u>-</u>	<u>8,128</u>	<u>1,174,014</u>
2003 Series-Cost of Issuance	416	-	-	-	-
2003-B Ref.-Cost of Issuance	032	-	-	-	-
<i>Total - Cost of Issuance</i>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Combined Total</i>		<u><u>\$47,051,228</u></u>	<u><u>\$12,089,849</u></u>	<u><u>\$ 172,550</u></u>	<u><u>\$59,313,627</u></u>

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

Liabilities		Fund Equity			Total Liabilities and Fund Equity
Accrued Arbitrage Interest Payable	Unreserved- Designated for Debt Service	Unreserved- Designated for Arbitrage	Total Fund Equity		
\$ -	\$ 482	\$ -	\$ 482	\$ -	\$ 482
-	-	-	-	-	-
-	9,134,834	-	9,134,834	-	9,134,834
-	10,040,751	-	10,040,751	-	10,040,751
-	7,858,306	-	7,858,306	-	7,858,306
-	7,419,841	-	7,419,841	-	7,419,841
-	20,558,110	-	20,558,110	-	20,558,110
-	2,415,691	-	2,415,691	-	2,415,691
-	711,598	-	711,598	-	711,598
-	58,139,613	-	58,139,613	-	58,139,613
-	-	-	-	-	-
-	-	465,425	465,425	-	465,425
-	-	619,645	619,645	-	619,645
-	-	2,748	2,748	-	2,748
-	-	86,196	86,196	-	86,196
-	-	1,174,014	1,174,014	-	1,174,014
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ -	\$58,139,613	\$ 1,174,014	\$59,313,627	\$ -	\$59,313,627



STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GENERAL OBLIGATION BOND DEBT SERVICE FUNDS  
June 30, 2004

	CAS Fund #	Revenues		Expenditures	
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures
1995 Series-Debt Service	960	\$ -	\$ -	\$ -	\$ -
1997 Series-Debt Service	183	4,336	-	-	-
1999 Series-Debt Service	640	95,312	9,168,725	5,750	9,174,475
2001 Series-Debt Service	414	1,082,412	7,722,438	-	7,722,438
2001-A Series-Refunding	487	63,717	9,280,625	-	9,280,625
2001-B Series-Refunding	482	43,786	1,191,500	-	1,191,500
2003 Series-Debt Service	031	1,901,524	15,947,400	-	15,947,400
2003B Series - Refunding	418	26,994	9,372,688	-	9,372,688
2000 Series-Enhanced 911 Revenue	018	45,465	758,387	-	758,387
<i>Total - Debt Service</i>		<u>3,263,546</u>	<u>53,441,763</u>	<u>5,750</u>	<u>53,447,513</u>
1997 Series-Rebate	959	-	-	-	-
1999 Series-Rebate	409	23,707	-	2,097,865	2,097,865
2001 Series-Rebate	415	69,580	-	-	-
2001-A Series-Rebate	712	29	-	-	-
2000 Series-Enhanced 911-Rebate	488	906	-	-	-
<i>Total - Rebate Accounts</i>		<u>94,222</u>	<u>-</u>	<u>2,097,865</u>	<u>2,097,865</u>
2003 Series-Cost of Issuance	416	-	-	3,000	3,000
2003-B Ref.-Cost of Issuance	032	-	-	-	-
<i>Total - Cost of Issuance</i>		<u>-</u>	<u>-</u>	<u>3,000</u>	<u>3,000</u>
<i>Combined Total</i>		<u>\$ 3,357,768</u>	<u>\$ 53,441,763</u>	<u>\$ 2,106,615</u>	<u>\$ 55,548,378</u>

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

Other Financing  
Sources (Uses)

Excess (Deficiency) of Revenues over Expenditures	State Property Tax Levy	Capital Projects Reversions	Interfund Transfers	Other Taxes
\$ -	\$ -	\$ -	\$ -	\$ -
4,336	-	-	(6,016,478)	-
(9,079,163)	7,902,330	-	(2,250,000)	-
(6,640,026)	9,036,954	-	(12,750,000)	-
(9,216,908)	6,883,979	722,079	-	-
(1,147,714)	7,182,329	-	(1,500,000)	-
(14,045,876)	18,683,313	-	14,560,369	-
(9,345,694)	2,503,102	-	8,030,378	-
(712,922)	-	-	-	732,270
<u>(50,183,967)</u>	<u>52,192,007</u>	<u>722,079</u>	<u>74,269</u>	<u>732,270</u>
-	-	-	(4,034)	-
(2,074,158)	-	-	-	-
69,580	-	-	-	-
29	-	-	-	-
906	-	-	-	-
<u>(2,003,643)</u>	<u>-</u>	<u>-</u>	<u>(4,034)</u>	<u>-</u>
(3,000)	-	-	(60,369)	-
-	-	-	(9,866)	-
<u>(3,000)</u>	<u>-</u>	<u>-</u>	<u>(70,235)</u>	<u>-</u>
<u>\$ (52,190,610)</u>	<u>\$ 52,192,007</u>	<u>\$ 722,079</u>	<u>\$ -</u>	<u>\$ 732,270</u>

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STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AN CHANGES IN FUND BALANCES  
GENERAL OBLIGATION BOND DEBT SERVICE FUNDS  
June 30, 2004

Schedule 3  
(Page 2 of 2)

	CAS Fund #	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	Fund Balances June 30, 2003	Fund Balances June 30, 2004
1995 Series-Debt Service	960	\$ -	\$ 482	\$ 482
1997 Series-Debt Service	183	(6,012,142)	6,012,142	-
1999 Series-Debt Service	640	(3,426,833)	12,561,667	9,134,834
2001 Series-Debt Service	414	(10,353,072)	20,393,823	10,040,751
2001-A Series-Refunding	487	(1,610,850)	9,469,156	7,858,306
2001-B Series-Refunding	482	4,534,615	2,885,226	7,419,841
2003 Series-Debt Service	031	19,197,806	1,360,304	20,558,110
2003B Series - Refunding	418	1,187,786	1,227,905	2,415,691
2000 Series-Enhanced 911 Revenue	018	19,348	692,250	711,598
<i>Total - Debt Service</i>		<u>3,536,658</u>	<u>54,602,955</u>	<u>58,139,613</u>
1997 Series-Rebate	959	(4,034)	4,034	-
1999 Series-Rebate	409	(2,074,158)	2,539,583	465,425
2001 Series-Rebate	415	69,580	550,065	619,645
2001-A Series-Rebate	712	29	2,719	2,748
2000 Series-Enhanced 911-Rebate	488	906	85,290	86,196
<i>Total - Rebate Accounts</i>		<u>(2,007,677)</u>	<u>3,181,691</u>	<u>1,174,014</u>
2003 Series-Cost of Issuance	416	(63,369)	63,369	-
2003-B Ref.-Cost of Issuance	032	(9,866)	9,866	-
		<u>(73,235)</u>	<u>73,235</u>	<u>-</u>
<i>Combined Total</i>		<u>\$ 1,455,746</u>	<u>\$ 57,857,881</u>	<u>\$ 59,313,627</u>

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

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
COMBINING BALANCE SHEET-SEVERANCE TAX BONDS  
SEVERANCE TAX BOND DEBT SERVICE FUNDS  
June 30, 2004

	Assets				Total Assets
	CAS Fund #	Repurchase Agreements	Due From Other Agencies	Accrued Interest Receivable	
Severance Tax Bonding	410	\$ 18,411,295	\$ 26,518,632	\$ -	\$ 44,929,927
1994B Series-Debt Service	418	-	-	-	-
1996A Series-Debt Service	392	-	-	-	-
1997A Series-Debt Service	031	-	-	-	-
1998-A Series-Debt Service	425	-	-	-	-
1998-B Series-Debt Service	411	-	-	-	-
1999-A Series-Debt Service	184	1,945,820	-	76	1,945,896
1999-B Series-Debt Service	186	5,550,744	-	223	5,550,967
2000 Series-Debt Service	389	12,277,033	-	481	12,277,514
2000-C Series-Debt Service	405	2,044,452	-	80	2,044,532
2001-A Series-Refunding	408	15,559,679	-	606	15,560,285
2002-A Series-Debt Service	699	8,386,714	-	336	8,387,050
2002-A Supp. Series - DS	095	8,439,010	-	360	8,439,370
2002-B Supp. Series - DS	390	5,329,291	-	208	5,329,499
2003-A Series-Debt Service	884	24,599,409	(23,308,289)	975	1,292,095
2003B Series-Debt Service	484	952,101	-	37	952,138
2004A Series-Debt Service	492	34,889	-	2,901	37,790
<i>Total - Debt Service</i>		<u>103,530,437</u>	<u>3,210,343</u>	<u>6,283</u>	<u>106,747,063</u>
1998-A Series-Rebate	486	-	-	-	-
1998-B Series-Rebate	426	-	-	-	-
1999-A Series-Rebate	185	228,967	-	9	228,976
1999-B Series-Rebate	461	1,194,601	-	47	1,194,648
2000 Series Rebate	391	1,249,650	-	49	1,249,699
2000-C Series Rebate	406	294,150	-	11	294,161
<i>Total - Rebate Accounts</i>		<u>2,967,368</u>	<u>-</u>	<u>116</u>	<u>2,967,484</u>
<i>Combined Total</i>		<u>\$106,497,805</u>	<u>\$ 3,210,343</u>	<u>\$ 6,399</u>	<u>\$ 109,714,547</u>

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

Liabilities			Fund Equity	
Due To Severance Tax Permanent Fund	Accrued Arbitrage Interest Payable	Total Liabilities	Unreserved- Designated for Debt Service	Unreserved- Designated for Arbitrage
\$ 16,318,268	\$ -	\$ 16,318,268	\$ 28,611,659	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	1,945,896	-
-	-	-	5,550,967	-
-	-	-	12,277,514	-
-	-	-	2,044,532	-
-	-	-	15,560,285	-
-	-	-	8,387,050	-
-	-	-	8,439,370	-
-	-	-	5,329,499	-
-	-	-	1,292,095	-
-	-	-	952,138	-
-	-	-	37,790	-
<u>16,318,268</u>	<u>-</u>	<u>16,318,268</u>	<u>90,428,795</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	228,976
-	84,968	84,968	-	1,109,680
-	-	-	-	1,249,699
-	-	-	-	294,161
<u>-</u>	<u>84,968</u>	<u>84,968</u>	<u>-</u>	<u>2,882,516</u>
<u>\$ 16,318,268</u>	<u>\$ 84,968</u>	<u>\$ 16,403,236</u>	<u>\$ 90,428,795</u>	<u>\$ 2,882,516</u>

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STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
COMBINING BALANCE SHEET-SEVERANCE TAX BONDS  
SEVERANCE TAX BOND DEBT SERVICE FUNDS  
June 30, 2004

Schedule 4  
(Page 2 of 2)

	CAS	Total	Total Liabilities
	Fund #	Fund Equity	and Fund Equity
Severance Tax Bonding	410	\$ 28,611,659	\$ 44,929,927
1994B Series-Debt Service	418	-	-
1996A Series-Debt Service	392	-	-
1997A Series-Debt Service	031	-	-
1998-A Series-Debt Service	425	-	-
1998-B Series-Debt Service	411	-	-
1999-A Series-Debt Service	184	1,945,896	1,945,896
1999-B Series-Debt Service	186	5,550,967	5,550,967
2000 Series-Debt Service	389	12,277,514	12,277,514
2000-C Series-Debt Service	405	2,044,532	2,044,532
2001-A Series-Refunding	408	15,560,285	15,560,285
2002-A Series-Debt Service	699	8,387,050	8,387,050
2002-A Supp. Series - DS	095	8,439,370	8,439,370
2002-B Supp. Series - DS	390	5,329,499	5,329,499
2003-A Series-Debt Service	884	1,292,095	1,292,095
2003B Series-Debt Service	484	952,138	952,138
2004A Series-Debt Service	492	37,790	37,790
<i>Total - Debt Service</i>		90,428,795	106,747,063
1998-A Series-Rebate	486	-	-
1998-B Series-Rebate	426	-	-
1999-A Series-Rebate	185	228,976	228,976
1999-B Series-Rebate	461	1,109,680	1,194,648
2000 Series Rebate	391	1,249,699	1,249,699
2000-C Series Rebate	406	294,161	294,161
<i>Total - Rebate Accounts</i>		2,882,516	2,967,484
<i>Combined Total</i>		\$ 93,311,311	\$ 109,714,547

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



STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
SEVERANCE TAX BOND DEBT SERVICE FUNDS  
June 30, 2004

	CAS Fund #	Revenues		Expenditures	
		Interest Income	Principal and Interest on Long-Term Debt	Other Charges	Total Expenditures
Severance Tax Bonding	410	\$ 6,129,155	\$ 215,516,159	\$ 617,849	\$ 216,134,008
1994B Series-Debt Service	418	-	-	3,615	3,615
1996A Series-Debt Service	392	-	-	5,949	5,949
1997A Series-Debt Service	031	-	-	1,051	1,051
1998-A Series-Debt Service	425	9	10,891,488	-	10,891,488
1998-B Series-Debt Service	411	8,082	13,789,825	-	13,789,825
1999-A Series-Debt Service	184	15,306	2,029,656	-	2,029,656
1999-B Series-Debt Service	186	166,145	5,133,000	-	5,133,000
2000 Series-Debt Service	389	898,736	12,792,675	-	12,792,675
2000-C Series-Debt Service	405	156,707	2,028,244	-	2,028,244
2001-A Series-Refunding	408	124,320	15,861,000	-	15,861,000
2002-A Series-Debt Service	699	964,971	8,399,125	-	8,399,125
2002-A Supp. Series - DS	095	482,074	8,549,075	-	8,549,075
2002-B Supp. Series - DS	390	331,154	5,622,933	-	5,622,933
2003-A Series-Debt Service	884	882,860	24,925,950	-	24,925,950
2003B Series-Debt Service	484	87,584	-	-	-
2004A Series-Debt Service	492	37,790	-	-	-
<i>Total - Debt Service</i>		<u>10,284,893</u>	<u>325,539,130</u>	<u>628,464</u>	<u>326,167,594</u>
1998-A Series-Rebate	486	26	-	-	-
1998-B Series-Rebate	426	1,469	-	-	-
1999-A Series-Rebate	185	2,408	-	-	-
1999-B Series-Rebate	461	12,490	-	84,968	84,968
2000 Series Rebate	391	13,144	-	-	-
2000-C Series Rebate	406	3,049	-	-	-
<i>Total - Rebate Accounts</i>		<u>32,586</u>	<u>-</u>	<u>84,968</u>	<u>84,968</u>
<i>Combined Total</i>		<u><u>10,317,479</u></u>	<u><u>325,539,130</u></u>	<u><u>713,432</u></u>	<u><u>326,252,562</u></u>

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

Excess (Deficiency) of Revenues over Expenditures	Other Financing Sources (Uses)			
	Severance Taxes	Bond Proceeds	Capital Projects Reversions	Interfund Transfers
\$ (210,004,853)	\$ 311,007,941		\$ 2,790,483	\$ (82,666,522)
(3,615)	-	-	-	-
(5,949)	-	-	-	-
(1,051)	-	-	-	-
(10,891,479)	-	-	-	(13,281)
(13,781,743)	-	-	-	(149,942)
(2,014,350)	-	-	-	2,000,000
(4,966,855)	-	-	-	5,500,000
(11,893,939)	-	-	-	11,500,000
(1,871,537)	-	-	-	2,000,000
(15,736,680)	-	-	-	15,500,000
(7,434,154)	-	-	-	7,500,000
(8,067,001)	-	-	-	8,500,000
(5,291,779)	-	-	-	5,200,000
(24,043,090)	-	-	-	25,100,000
87,584	-	14,554	-	850,000
37,790	-	-	-	-
<u>(315,882,701)</u>	<u>311,007,941</u>	<u>14,554</u>	<u>2,790,483</u>	<u>820,255</u>
26	-	-	-	(25,974)
1,469	-	-	-	(794,281)
2,408	-	-	-	-
(72,478)	-	-	-	-
13,144	-	-	-	-
3,049	-	-	-	-
<u>(52,382)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(820,255)</u>
<u><u>(315,935,083)</u></u>	<u><u>311,007,941</u></u>	<u><u>14,554</u></u>	<u><u>2,790,483</u></u>	<u><u>-</u></u>

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STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER

Schedule 5  
(Page 2 of 2)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
SEVERANCE TAX BOND DEBT SERVICE FUNDS  
June 30, 2004

	CAS	Other Financing Sources (Uses)	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	Fund Balances June 30, 2003	Fund Balances June 30, 2004
	Fund #	Permanent Fund Reversions	and Other Financing Uses		
Severance Tax Bonding	410	\$(16,318,268)	\$ 4,808,781	\$ 23,802,878	\$28,611,659
1994B Series-Debt Service	418	-	(3,615)	3,615	-
1996A Series-Debt Service	392	-	(5,949)	5,949	-
1997A Series-Debt Service	031	-	(1,051)	1,051	-
1998-A Series-Debt Service	425	-	(10,904,760)	10,904,760	-
1998-B Series-Debt Service	411	-	(13,931,685)	13,931,685	-
1999-A Series-Debt Service	184	-	(14,350)	1,960,246	1,945,896
1999-B Series-Debt Service	186	-	533,145	5,017,822	5,550,967
2000 Series-Debt Service	389	-	(393,939)	12,671,453	12,277,514
2000-C Series-Debt Service	405	-	128,463	1,916,069	2,044,532
2001-A Series-Refunding	408	-	(236,680)	15,796,965	15,560,285
2002-A Series-Debt Service	699	-	65,846	8,321,204	8,387,050
2002-A Supp. Series - DS	095	-	432,999	8,006,371	8,439,370
2002-B Supp. Series - DS	390	-	(91,779)	5,421,278	5,329,499
2003-A Series-Debt Service	884	-	1,056,910	235,185	1,292,095
2003B Series-Debt Service	484	-	952,138	-	952,138
2004A Series-Debt Service	492	-	37,790	-	37,790
<i>Total - Debt Service</i>		<u>(16,318,268)</u>	<u>(17,567,736)</u>	<u>107,996,531</u>	<u>90,428,795</u>
1998-A Series-Rebate	486	-	(25,948)	25,948	-
1998-B Series-Rebate	426	-	(792,812)	792,812	-
1999-A Series-Rebate	185	-	2,408	226,568	228,976
1999-B Series-Rebate	461	-	(72,478)	1,182,158	1,109,680
2000 Series Rebate	391	-	13,144	1,236,555	1,249,699
2000-C Series Rebate	406	-	3,049	291,112	294,161
<i>Total - Rebate Accounts</i>		<u>-</u>	<u>(872,637)</u>	<u>3,755,153</u>	<u>2,882,516</u>
<i>Combined Total</i>		<u>\$(16,318,268)</u>	<u>\$(18,440,373)</u>	<u>\$111,751,684</u>	<u>\$93,311,311</u>

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

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
SUMMARY OF LONG-TERM DEBT OBLIGATIONS  
LONG-TERM DEBT ROLLFORWARD  
June 30, 2004

Issue	Date	Amount	Interest Rate	Unpaid Balance 06/30/03
<i>General Obligation and Revenue Bonds</i>				
Capital Projects-Series 1999	03/01/99	\$ 80,895,000	4.00-5.00%	\$ 17,485,000
Capital Projects-Series 2001	03/01/01	62,550,000	4.00-5.00%	52,520,000
Refunding Series 2001-A	09/01/01	33,615,000	5.00%	17,620,000
Enhanced 911 Revenue Bonds-Series 2000	08/01/00	4,545,000	4.35-5.90%	3,390,000
2001-B Refunding	11/01/01	23,830,000	1.80-3.04%	23,830,000
Capital Projects-Series 2003	03/01/03	130,900,000	2.00-5.00%	130,900,000
Refunding Series 2003-B	04/01/03	44,955,000	3.00-5.00%	44,955,000
<i>Total General Obligation Bonds</i>		381,290,000		290,700,000
<i>Severance Tax Bonds</i>				
Series 1998-A Refunding	03/01/98	22,730,000	4.25-5.00%	10,585,000
Series 1998-B	05/01/98	136,100,000	4.50-4.75%	13,150,000
Series 1999-A Supplemental	10/01/99	12,000,000	4.25-5.50%	7,365,000
Series 1999-B	06/15/99	50,668,000	5.00%	15,105,000
Series 2000	06/01/00	59,650,000	5.00%	42,875,000
Series 2000-C Supplemental	07/01/00	12,000,000	4.50-5.00%	9,120,000
Series 2001-A Refunding	11/01/01	115,380,000	1.85-3.60%	114,005,000
Series 2002-A	05/01/02	67,000,000	4.00-5.00%	67,000,000
Series 2002-A Supplemental	12/01/01	65,000,000	4.00-5.00%	59,540,000
Series 2002-B Supplemental	11/01/02	45,000,000	2.00-5.00%	45,000,000
Series 2003-A	06/01/03	89,660,000	2.50-5.00%	89,660,000
Series 2003-B Supplemental	11/01/03	10,000,000	2.00-3.70%	-
Series 2004-A	06/15/04	76,430,000	5.00%	-
<i>Total Severance Tax Bonds</i>		761,618,000		473,405,000
<i>Total General Long-Term Debt</i>		\$ 1,142,908,000		\$ 764,105,000

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

New Bonds	Refunded Debt	Principal Payments	Total Reductions	Unpaid Balance 06/30/04
\$ -	\$ -	\$ 8,540,000	\$ 8,540,000	\$ 8,945,000
-	-	5,520,000	5,520,000	47,000,000
-	-	8,615,000	8,615,000	9,005,000
-	-	615,000	615,000	2,775,000
-	-	-	-	23,830,000
-	-	10,580,000	10,580,000	120,320,000
-	-	7,680,000	7,680,000	37,275,000
-	-	41,550,000	41,550,000	249,150,000
-	-	10,585,000	10,585,000	-
-	-	13,150,000	13,150,000	-
-	-	1,710,000	1,710,000	5,655,000
-	5,430,000	4,490,000	9,920,000	5,185,000
-	-	10,840,000	10,840,000	32,035,000
-	-	1,640,000	1,640,000	7,480,000
-	-	10,475,000	10,475,000	103,530,000
-	-	5,325,000	5,325,000	61,675,000
-	-	5,775,000	5,775,000	53,765,000
-	-	3,575,000	3,575,000	41,425,000
-	-	-	-	89,660,000
10,000,000	-	-	-	10,000,000
76,430,000	-	-	-	76,430,000
86,430,000	5,430,000	67,565,000	72,995,000	486,840,000
\$ 86,430,000	\$ 5,430,000	\$ 109,115,000	\$ 114,545,000	\$ 735,990,000

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Issue	Interest to Maturity	Debt Service Requirements
<i>General Obligation and Revenue Bonds</i>		
Capital Projects-Series 1999	\$ 743,725	\$ 9,688,725
Capital Projects-Series 2001	8,168,154	55,168,154
Refunding Series 2001-A	225,125	9,230,125
Enhanced 911 Revenue Bonds-Series 2000	256,967	3,031,967
2001-B Refunding	1,833,750	25,663,750
Capital Projects-Series 2003	26,108,700	146,428,700
Refunding Series 2003-B	5,569,625	42,844,625
<i>Total General Obligation Bonds</i>	<u>42,906,046</u>	<u>292,056,046</u>
<i>Severance Tax Bonds</i>		
Series 1998-A Refunding	-	-
Series 1998-B	-	-
Series 1999-A Supplemental	447,379	6,102,379
Series 1999-B	401,125	5,586,125
Series 2000	2,570,538	34,605,538
Series 2000-C Supplemental	739,234	8,219,234
Series 2001-A Refunding	15,050,750	118,580,750
Series 2002-A	14,728,065	76,403,065
Series 2002-A Supplemental	11,254,538	65,019,538
Series 2002-B Supplemental	8,230,050	49,655,050
Series 2003-A	13,758,934	103,418,934
Series 2003-B Supplemental	1,800,331	11,800,331
Series 2004-A	21,005,844	97,435,844
<i>Total Severance Tax Bonds</i>	<u>89,986,788</u>	<u>576,826,788</u>
<i>Total General Long-Term Debt</i>	<u>\$ 132,892,834</u>	<u>\$ 868,882,834</u>



STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
SUMMARY OF LONG-TERM DEBT OBLIGATIONS  
SCHEDULE OF DEBT SERVICE MATURITIES  
June 30, 2004

Issue	Year Ending June 30,		
	2005	2006	2007
<i>General Obligation Bonds</i>			
Capital Projects-Series 1999	\$ 9,688,725	\$ -	\$ -
Capital Projects-Series 2001	7,716,438	7,769,838	7,821,838
Refunding Series 2001-A	9,230,125	-	-
Enhanced 911 Revenue Bonds-Series 2000	755,040	755,663	759,501
2001 B Refunding	8,489,375	8,549,000	8,625,375
Capital Projects-Series 2003	16,125,000	16,197,000	16,157,500
Refunding Series 2003-B	1,776,750	10,302,750	10,262,250
<i>Total General Obligation Bonds</i>	<u>53,781,453</u>	<u>43,574,251</u>	<u>43,626,464</u>
<i>Severance Tax Bonds</i>			
Series 1999-A Supplemental	2,034,672	2,038,394	2,029,313
Series 1999-B	5,586,125	-	-
Series 2000	11,929,038	10,896,625	9,729,875
Series 2000-C Supplemental	2,042,419	2,051,406	2,060,034
Series 2001-A Refunding	15,891,750	25,618,750	23,562,375
Series 2002-A Supplemental	8,460,038	8,353,625	8,247,750
Series 2002-A	8,450,726	8,481,751	8,505,963
Series 2002-B Supplemental	5,407,900	5,457,600	5,470,200
Series 2003-A	24,402,363	8,512,676	8,501,551
Series 2003-B Supplemental	1,062,296	1,113,032	1,129,682
Series 2004-A	2,080,594	15,151,000	9,397,625
<i>Total Severance Tax Bonds</i>	<u>87,347,921</u>	<u>87,674,859</u>	<u>78,634,368</u>
<i>Total Debt Service Requirements</i>	<u>\$ 141,129,374</u>	<u>\$ 131,249,110</u>	<u>\$ 122,260,832</u>

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

2008	2009	2010-2014	Total
\$ -	\$ -	\$ -	\$ 9,688,725
7,882,038	7,939,638	16,038,364	55,168,154
-	-	-	9,230,125
761,763	-	-	3,031,967
-	-	-	25,663,750
16,111,000	16,193,400	65,644,800	146,428,700
10,252,875	10,250,000	-	42,844,625
<u>35,007,676</u>	<u>34,383,038</u>	<u>81,683,164</u>	<u>292,056,046</u>
-	-	-	6,102,379
-	-	-	5,586,125
2,050,000	-	-	34,605,538
2,065,375	-	-	8,219,234
23,540,375	23,525,375	6,442,125	118,580,750
8,151,125	8,062,750	23,744,250	65,019,538
8,515,375	8,508,500	33,940,750	76,403,065
5,467,950	5,482,900	22,368,500	49,655,050
8,494,676	8,557,576	44,950,092	103,418,934
1,154,376	1,175,633	6,165,312	11,800,331
9,208,625	9,047,250	52,550,750	97,435,844
<u>68,647,877</u>	<u>64,359,984</u>	<u>190,161,779</u>	<u>576,826,788</u>
<u>\$ 103,655,553</u>	<u>\$ 98,743,022</u>	<u>\$ 271,844,943</u>	<u>\$ 868,882,834</u>

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
SUMMARY OF LONG-TERM DEBT OBLIGATIONS  
AMORTIZATION OF BOND ISSUANCE COSTS  
June 30, 2004

Schedule 6  
(Page 4 of 7)

Issue	Date	Original Cost	Amortization		Accumulated Amortization June 30, 2004	Net Book Value June 30, 2004
			Accumulated Amortization June 30, 2003	Current Amortization Expense		
<b>Costs related to general obligation bonds:</b>						
Capital Projects-Series 1993	03/01/93	\$ 183,658	\$ 183,658	\$ -	\$ 183,658	\$ -
Capital Projects-Series 1997	03/01/97	147,896	133,811	14,085	147,896	-
Capital Projects-Series 1999	03/01/99	184,559	79,976	18,456	98,432	86,127
Capital Projects-Series 2001	03/01/01	142,706	33,299	14,271	47,570	95,136
Refunding Series 2001-A	09/01/01	76,692	11,717	6,391	18,108	58,584
Enhanced 911 Revenue Bonds-Series 2000	08/01/00	10,369	3,780	1,296	5,076	5,293
2001-B Refunding	11/01/01	156,167	43,380	26,028	69,408	86,759
Capital Projects-Series 2003	03/01/03	898,030	27,213	81,639	108,852	789,178
2003-B Refunding	04/01/03	187,165	9,358	37,433	46,791	140,374
<b>Costs related to severance tax bonds:</b>						
Series 1993-B	09/01/93	171,163	168,310	2,853	171,163	-
Series 1995-A	04/01/95	18,393	18,393	-	18,393	-
Series 1995-B	11/01/95	133,101	127,556	5,545	133,101	-
Series 1998-A Refunding	03/01/98	51,858	39,510	7,408	46,918	4,940
Series 1998-B	05/01/98	310,508	229,184	44,358	273,542	36,966
Series 1999-A Supplemental	10/01/99	27,378	12,833	3,422	16,255	11,123
Series 1999-B	06/15/99	115,597	67,432	16,514	83,946	31,651
Series 2000	06/01/00	136,090	52,451	17,011	69,462	66,628
Series 2000-C Supplemental	07/01/00	27,378	10,266	3,422	13,688	13,690
Series 2001-A Refunding	11/01/01	491,432	91,006	54,604	145,610	345,822
Series 2002-A	05/01/02	201,625	21,385	18,330	39,715	161,910
Series 2002-A Supplemental	12/01/01	323,200	51,173	32,320	83,493	239,707
Series 2003-A Refunding	06/01/03	229,530	1,739	20,866	22,605	206,925
Series 2002-B Supplemental	11/01/02	206,444	12,512	18,768	31,280	175,164
Series 2003-B Supplemental	11/01/03	33,445	-	2,230	2,230	31,215
Series 2004-A	06/15/04	158,974	-	1,325	1,325	157,649
		4,623,358	1,429,942	448,574	1,878,516	2,744,842
<b>Less amounts for refunded severance tax bond:</b>						
Series 1999-B	03/01/98	115,597	-	-	83,946	31,651
<b>Balances, June 30, 2004</b>		<b>\$4,507,761</b>	<b>\$1,429,942</b>	<b>\$ 448,574</b>	<b>\$1,794,570</b>	<b>\$2,713,191</b>

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

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
**SUMMARY OF LONG-TERM DEBT OBLIGATIONS**  
**ADDITIONAL INFORMATION**  
 June 30, 2004

**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, 2004.

The annual requirements to amortize the combined General Obligation Bond issues outstanding as of June 30, 2004, including interest payments are as follows (See details on Schedule 6, page 3):

Fiscal Year Ending June 30,	Total
2005	\$ 53,781,453
2006	43,574,251
2007	43,626,464
2008	35,007,676
2009	34,383,038
2010-2014	81,683,164
Total	\$ 292,056,046

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, 2004:

Severance Tax Bonds Supplemental Series 2003B

On November 22, 2003 the State Board of Finance issued bonds with a principal amount of \$10,000,000 to finance public capital projects. Interest rates range from 2.00% to 3.70% with principal payments due through 2013.

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
SUMMARY OF LONG-TERM DEBT OBLIGATIONS  
ADDITIONAL INFORMATION  
June 30, 2004

**Additional Information Related to Long-Term Debt Obligations (continued)**

Severance Tax Bonds Series 2004A Refunding

On June 15, 2004 the State Board of Finance issued bonds with a principal amount of \$76,430,000 to finance public capital projects authorized by the State Legislature, as well as to provide for the refunding of Severance Tax Bonds, Series 1999B. The interest rate is 5.00% with principal payments through 2014.

The annual requirements to amortize the combined Severance Tax Bond issues outstanding as of June 30, 2004, including interest payments are as follows (See details on Schedule 6 page 3):

Fiscal Year Ending June 30,	Total
2005	\$ 87,347,921
2006	87,674,859
2007	78,634,368
2008	68,647,877
2009	64,359,984
2010-2014	190,161,779
Total	\$ 576,826,788

Advance and current refundings:

The State of 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.

The following current refundings occurred during the year ended June 30, 2004:

On June 15, 2004 the State Board of Finance issued Severance Tax Bonds Series 2004A with a principal amount of \$76,430,000 to finance public capital projects by the State Legislature, as well as to provide for the refunding of Severance Tax Bonds Series 1999B. The difference in cash flows required between the prior debt service requirements and new funding debt service requirements resulted in cash flow savings of \$157,838. The economic gain or present value savings was \$162,180.

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
SUMMARY OF LONG-TERM DEBT OBLIGATIONS  
ADDITIONAL INFORMATION  
June 30, 2004

**Additional Information Related to Long-Term Debt Obligations (continued)**

As of June 30, 2004, the amount of defeased debt still outstanding, but removed from the government-wide statement of net assets was:

<b>Severance Tax Bonds, Refunding Series 2001A:</b>		
Severance Tax Bond Series 1998B	\$ 62,215,000	
Severance Tax Bond Series 1999B	\$ 23,445,000	
<b>General Obligation Bonds, Refunding Series 2001B:</b>		
General Obligation Bond Series 1997	\$ 25,025,000	
<b>General Obligation Bonds, Refunding Series 2003B:</b>		
General Obligation Bond Series 1999	\$ 39,775,000	
General Obligation Bond Series 1997	\$ 7,525,000	
<b>Severance Tax Bonds, Refunding Series 2003A:</b>		
Severance Tax Bond Series 1998A	\$ 13,790,000	
Severance Tax Bond Series 1998B	\$ 1,970,000	
<b>Severance Tax Bonds, Refunding Series 2004A:</b>		
Severance Tax Bond Series 1999B	\$ 5,430,000	

Changes in long-term debt obligations:

Long-term debt activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable					
General obligation bonds	\$ 290,700,000		- \$ 41,550,000	\$ 249,150,000	\$ 53,781,453
Severance tax bonds	<u>473,405,000</u>	<u>86,430,000</u>	<u>72,995,000</u>	<u>486,840,000</u>	<u>87,347,921</u>
Total bonds payable	<u>\$ 764,105,000</u>	<u>\$ 86,430,000</u>	<u>\$ 114,545,000</u>	<u>\$ 735,990,000</u>	141,129,374
			Less amounts representing interest		30,264,374
			Principal due within one year		<u>\$ 110,865,000</u>

Deferred Charges:

Costs relating to obtaining General Obligation and Severance Tax bonds are capitalized and amortized over the term of the related debt using the straight-line method. Accumulated amortization at June 30, 2004 \$1,878,516. Amortization of deferred financing costs charged to operations was \$448,574 for 2004. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations.

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS  
June 30, 2004

Security Description	Interest Rate	Purchase Date	Maturity Date	Amortized Cost
Repurchase Agreements	Various	Various	Various	\$ 2,779,824,521
<u>Fixed Income Governmental Obligations</u>				
Federal Home Loan Banks	3.500%		11/26/04	40,000,000
FNMA Discount Note	2.021%		05/05/05	24,503,203
Federal Home Loan Banks	2.120%		06/14/05	25,000,000
Federal Home Loan Banks	1.625%		06/15/05	24,987,500
Federal Home Loan Mtg Corp	2.080%		06/24/05	25,000,000
Freddie Mac MTN	2.060%		06/24/05	25,000,000
Federal National Mortgage Assn Medtrm NT	1.550%		07/29/05	4,997,500
Federal National Mortgage Assn Medtrm NT	1.550%		07/29/05	4,996,250
Federal Home Loan Banks	1.700%		08/05/05	10,000,000
Federal Home Loan Mtg Corp	1.910%		08/11/05	15,000,000
Federal Home Loan Banks	2.000%		02/13/06	19,990,000
Federal Home Loan Mtg Corp BDS	2.000%		02/17/06	25,000,000
Federal Farm CR BKS	1.875%		03/22/06	5,997,000
Federal Home Loan Banks	1.790%		03/29/06	25,000,000
Federal National Mortgage Assn Medtrm NT	5.500%		05/02/06	10,629,764
Federal National Mortgage Assn Medtrm NT	2.210%		05/05/06	19,987,120
Federal Home Loan Banks	2.240%		05/12/06	5,000,000
Federal Home Loan Banks	2.260%		05/19/06	20,000,000
Federal Home Loan Banks	1.875%		06/15/06	9,915,400
Federal Home Loan Banks	1.875%		06/15/06	19,920,068
Federal National Mortgage Assn Medtrm NT	2.210%		06/16/06	20,000,000
Federal National Mortgage Assn Medtrm NT	2.200%		06/16/06	24,993,750
Federal Home Loan Banks	2.020%		07/07/06	40,000,000
Federal Home Loan Mtg Corp	2.690%		08/07/06	20,000,000
Federal Home Loan Banks	3.150%		01/30/07	15,046,970
Federal Home Loan Banks	2.800%		02/05/07	30,000,000
Federal Home Loan Banks	3.250%		02/06/07	25,177,500
Federal National Mortgage Assn Medtrm NT	2.980%		02/20/07	25,000,000
Federal Home Loan Banks	3.625%		02/23/07	30,235,500
Federal National Mortgage Assn Medtrm NT	2.920%		03/02/07	30,000,000
Federal Home Loan Banks	1.460%		03/08/07	25,000,000
Federal Home Loan Banks	2.645%		03/15/07	25,000,000
Federal Home Loan Banks	2.700%		04/27/07	25,000,000
Federal Home Loan Banks	3.000%		04/30/07	5,000,000
Federal Home Loan Banks	2.990%		04/30/07	25,000,000
Federal Home Loan Banks	3.125%		05/07/07	25,000,000

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

Market Value	Unrealized Gain (Loss)
\$ 2,779,824,521	\$ -
41,112,400	1,112,400
24,525,000	21,797
24,804,750	(195,250)
24,867,250	(120,250)
24,963,500	(36,500)
24,958,500	(41,500)
4,959,400	(38,100)
4,959,400	(36,850)
9,931,300	(68,700)
14,927,400	(72,600)
19,762,600	(227,400)
24,703,500	(296,500)
5,904,360	(92,640)
24,554,750	(445,250)
10,440,600	(189,164)
19,750,000	(237,120)
4,937,500	(62,500)
19,750,000	(250,000)
9,796,900	(118,500)
19,593,800	(326,268)
19,700,000	(300,000)
25,047,000	53,250
39,637,600	(362,400)
19,844,200	(155,800)
14,934,450	(112,520)
29,596,800	(403,200)
24,953,250	(224,250)
24,757,750	(242,250)
30,084,300	(151,200)
29,025,000	(975,000)
24,648,500	(351,500)
24,531,250	(468,750)
24,500,000	(500,000)
4,939,050	(60,950)
24,687,500	(312,500)
24,781,250	(218,750)



STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS  
June 30, 2004

Security Description	Interest Rate	Purchase Date	Maturity Date	Amortized Cost
<u>Fixed Income Governmental Obligations (continued)</u>				
Federal National Mortgage Assn Medtrm NT	3.680%		05/25/07	30,000,000
Federal Home Loan Banks	1.345%		03/15/05	14,700,000
Federal Home Loan Banks	1.300%		04/22/05	25,000,000
Federal Home Loan Banks	1.410%		05/09/05	20,000,000
Federal Home Loan Banks	2.080%		06/20/05	25,000,000
Total Other Federal Agency				<u>866,077,525</u>
<u>Corporate Obligations - Non Oil Industries</u>				
Citi Group Holding Inc	6.625%		06/15/05	4,192,877
Daimler Chrysler North America	7.750%		06/15/05	4,758,677
Nabisco Inc	6.850%		06/15/05	1,209,788
Mellon FDG Corp	7.500%		06/15/05	3,525,366
Hewlett-Packard Co	7.150%		06/15/05	5,279,353
Hewlett-Packard Co	7.150%		06/15/05	5,279,328
General Motors Accept Corp	6.125%		09/15/06	5,243,584
Total Non-Oil Industries				<u>29,488,974</u>
Total-All Securities				<u>\$ 3,675,391,020</u>

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

Market Value	Unrealized Gain (Loss)
29,850,000	(150,000)
14,640,318	(59,682)
24,851,500	(148,500)
19,887,600	(112,400)
24,882,750	(117,250)
<u>858,982,978</u>	<u>(7,094,547)</u>
4,149,120	(43,757)
4,708,710	(49,967)
1,188,985	(20,803)
3,468,840	(56,526)
5,246,900	(32,453)
5,246,900	(32,428)
5,206,800	(36,784)
<u>29,216,255</u>	<u>(272,718)</u>
<u>\$ 3,668,023,754</u>	<u>\$ (7,367,265)</u>

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
June 30, 2004

<b>ASSETS</b>	Investment Trust Fund		
	Short-Term Investment Pool	Consolidated Investment Pool	State Funds Investment Pool
<i>Cash and Investments:</i>			
Cash and cash equivalents	\$ -	\$ -	\$ 32,365,441
Certificates of deposit	52,000,000	-	180,950,000
U.S. Government securities	84,262,168	-	774,720,810
Corporate Bonds	-	-	29,216,255
Repurchase agreements	1,125,382,582	842,813,513	811,628,426
<i>Total Cash and Investments</i>	1,261,644,750	842,813,513	1,828,880,932
<i>Other Assets:</i>			
Accrued interest receivable	2,934	2,924	5,281,668
<i>Total Assets</i>	<u>\$ 1,261,647,684</u>	<u>\$ 842,816,437</u>	<u>\$ 1,834,162,600</u>
 <b>LIABILITIES AND FUND EQUITY</b>			
<i>Fund equity:</i>			
Fund balances, unreserved:			
Net assets held in trust	\$ 1,261,647,684	\$ 842,816,437	\$ 1,834,162,600
<i>Total fund equity and net assets held in trust</i>	<u>1,261,647,684</u>	<u>842,816,437</u>	<u>1,834,162,600</u>
<i>Total liabilities and fund equity and net assets held in trust</i>	<u>\$ 1,261,647,684</u>	<u>\$ 842,816,437</u>	<u>\$ 1,834,162,600</u>

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

Total

\$ 32,365,441  
232,950,000  
858,982,978  
29,216,255  
2,779,824,521

3,933,339,195

5,287,526

\$ 3,938,626,721

\$ 3,938,626,721

3,938,626,721

\$ 3,938,626,721

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
June 30, 2004

	Investment Trust Fund		
	Short-Term Investment Pool	Consolidated Investment Pool	State Funds Investment Pool
Investment Income	\$ 22,192,229	\$ 16,907,847	\$ 36,846,126
Expenses - Management Fees	<u>(53,243)</u>	<u>(342,777)</u>	<u>-</u>
Net Investment Income	22,138,986	16,565,070	36,846,126
Net proceeds of deposits (withdrawals)	62,042,744	22,410,372	277,564,045
Net Assets, held in trust for pool participants, June 30, 2003	<u>1,177,465,954</u>	<u>803,840,995</u>	<u>1,519,752,429</u>
Net Assets, held in trust for pool participants, June 30, 2004	<u><u>\$ 1,261,647,684</u></u>	<u><u>\$ 842,816,437</u></u>	<u><u>\$ 1,834,162,600</u></u>

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

<u>Total</u>	
\$	75,946,202
	<u>(396,020)</u>
	75,550,182
	362,017,161
	<u>3,501,059,378</u>
	<u><u>\$ 3,938,626,721</u></u>

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**COMPLIANCE SECTION**



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Bill Richardson, Governor  
State Board of Finance  
Honorable Robert Vigil, CPA, State Treasurer  
Honorable Domingo P. Martinez, CGFM, State Auditor  
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of State of New Mexico, Office of the State Treasurer, as of and for the year ended June 30, 2004, which collectively comprise the Office of the State Treasurer's basic financial statements and have issued our report thereon dated November 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of New Mexico, Office of the State Treasurer's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of New Mexico, Office of the State Treasurer's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 2004-1. We also noted another matter involving the internal control over financial reporting that is required to be reported per section 12-6-5 NMSA 1978 which is included in the accompanying Schedule of Findings and Recommendations as item 2004-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial

Internal Control Over Financial Reporting (continued)

reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions, we consider item 2004-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of New Mexico, Office of the State Treasurer's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance, or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the State of New Mexico, Office of the State Treasurer, State of New Mexico, the Office of the State Auditor and other applicable state entities and is not intended to be and should not be used by anyone other than these specified parties.

*Accounting & Consulting  
Group, LLP*  
Accounting & Consulting Group, LLP  
Certified Public Accountants

November 23, 2004  
Carlsbad, New Mexico

STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2004

**A. FINDINGS – FINANCIAL STATEMENT AUDIT**

2004-1: Investment Trust Fund

**Condition:**

The State Treasurer's Office (STO) is expected to maintain accurate and timely agency account cash balances. The current system, which includes other entities, the DFA, individual agencies and the banking system, is not designed correctly to allow the STO to fulfill their expectations. The current process does not allow the STO to allocate unrealized gains and losses in accordance with GASB #31 and the ability to have accurate and timely agency balances.

**Criteria:**

Any government activity is required to be accounted for in an appropriate fund, which reflects all activity and presents the information in a trial balance format. Individual state agency balances on the TRACS system should equal total cash and investments in the State Treasurer investment pool. As prescribed by the Model Accounting Practices Volume 1, Chapter 8, Section 3.2, any difference should be identified in a timely manner.

**Cause:**

There are numerous factors that complicate this matter. The main factors include 1) outdated computer program (TRACS), 2) involvement of a variety of agencies and the related difficulties when dealing with a large group of people, 3) the lack of funding to address the project correctly and 4) the timeliness of correction made by individual agencies and the STO.

**Effect:**

Transactions affecting this fund may not be identified or may be improperly recorded. The untimely preparations of the TRACS report diminishes its effectiveness.

**Recommendation:**

We recommend that the Office of the State Treasurer determine its informational needs for financial and control purposes, assess the cost of obtaining this information, and also address their computer concerns involving the TRACS system. In addition, the STO needs to resolve the old reconciling items.

**Client Response:**

The Treasury Reconciliation, Accounting, and Cashiering System otherwise known as TRACS, is utilized as a means of supplemental accounting for state government monetary transactions beyond the scope of the State Treasurer's statute regarding fund balances. The database is written in a legacy language namely COBOL, and is housed and supported at GSD/ISD's data center. TRACS has been inaccurately associated with agency dilemmas with fund accounting. Many agencies assume that TRACS is the underlying reason for accounting discrepancies such as the inability to provide real-time transaction activity for agency funds. The true nature of the dilemmas, however, is due to the methodology of the current reverse positive pay practice. This reverse positive pay practice is a legacy government practice.

There is a misconception that the TRACS system can provide absolute cash balances by agency and fund. This is a misconception and is unattainable because the State Treasurer does not conduct the banking transactions. There are possible ways that cash balances could be made available by the State Treasurer's office, regardless of the business practices. The only way the State Treasurer would have real-time on line cash balances would be if the banking transactions would simultaneously be recorded in a system that would be monitored by the State Treasurer.

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
Year Ended June 30, 2004

**A. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)**

2004-1: Investment Trust Fund (continued)

The Office of the State Treasurer is currently developing a positive pay implementation plan and will utilize current banking technology to match warrants issued and warrants presented for payment. Warrant information will be made available to the banking institutions in real-time and transaction will be monitored by each warrant issuing state agency.

The TRACS system will be phased out and the State's fiscal and custody banks will interface with an Enterprise Resource Planning (ERP) solution. The ERP initiative is based upon the idea of a streamlined solution for state government information consolidation. People Soft, a web based system integrating accounting, payroll, and human resources has been selected as the ERP solution for the State of New Mexico. The implementation of the ERP solution is scheduled to be fully functional within the next 18 to 24 months.

As such, it is the opinion of the State Treasurer that TRACS remain unchanged until the ERP solution is fully implemented. Resources and effort by Treasury staff will be more prudently spent on migrating current business practices into improved business practices i.e. converting reverse positive pay practices into positive pay practices. This change in business practice may occur during the ERP implementation as efficiency and optimal business practices are major focal points of the initiative.

**B. OTHER RECOMMENDATIONS**

2004-2: Investment in New Mexico Business Development Corporation

Condition:

During our audit of the Financial Statements of the Office of the State Treasurer, we noted that the Office is continuing to report an investment in the New Mexico Business Development Corporation Bank (BDC). The original investment was called by the Office in 1991 and the remaining assets of the BDC were turned over to a trustee in 1991. The investment in the BDC has remained on the books of the Office under the same terms since 1991.

Criteria:

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

Cause:

In 1991 circumstances dictated that the investment in the BDC be called by the Office resulting in the liquidation of the BDC and the subsequent transfer of the remaining assets to a trustee.

Effect:

The Office continues to report the asset without the benefit of its usual process of evaluating the effectiveness of the investment.

**STATE OF NEW MEXICO**  
**OFFICE OF THE STATE TREASURER**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
Year Ended June 30, 2004

**B. OTHER RECOMMENDATIONS (continued)**

2004-2: Investment in New Mexico Business Development Corporation (continued)

Recommendation:

We recommend the Office initiate the process to close the investment in the BDC and return the asset to the State's General Fund.

Client Response:

The Office of the State Treasurer is in agreement with this recommendation and will begin the process to close the investment in the BDC.

**C. PRIOR YEAR AUDIT FINDINGS**

2003-1: Investment Trust Fund

Unresolved and repeated as Finding 2004-1

2003-2: Collateralization of Repurchase Agreements

Resolved and not repeated in the current year

**STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER  
OTHER INFORMATION  
Year Ended June 30, 2004**

**AUDITOR PREPARED FINANCIAL STATEMENTS**

The State of New Mexico, Office of the State Treasurer (Office) prepared portions of the financial statements and Supplementary Information as of and for the year ended June 30, 2004. However, it would be preferred and desirable for the Office to prepare its own GAAP-basis financial statements. The Office's personnel have neither the time nor the expertise to prepare them. Therefore, the outside auditor also prepared portions of the GAAP-basis financial statements and footnotes for inclusion in the annual report.

**EXIT CONFERENCE**

The contents of this report were discussed on December 13, 2004. The following individuals were in attendance:

Office of the State Treasurer

Robert E. Vigil	Ann Marie Gallegos
Elaine Olah	Tomasita Gallegos
Victor Vigil	Steve Gonzales
Robert Tedrow	George Everage
Mark Canavan	Peter Hulsley
Barbara Abeyta	Arsenio Garduno
Les Urioste	Gillis Lang
Michael Vigil	Sarah Roybal

Accounting & Consulting Group, LLP

Ray Roberts, CPA  
Simon Benson, CPA