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State Treasurer

STATE OF NEW MEXICO
OFFICE OF THE TREASURER

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Mark F. Valdes
Deputy State Treasurer

September 3, 2009

RE: GASB Statement No. 40 Disclosures

Dear *New MexiGROW* Local Government Investment Pool Participant:

The purpose of this letter is to provide you with information for a financial statement disclosure for your investment in the State Treasurer's Office *New MexiGROW* Local Government Investment Pool ("LGIP") and to provide information regarding the LGIP's investment in The Reserve Primary Fund.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, relates to how deposits and investments are reported in the annual financial statements of governmental entities. GASB Statement No. 40 disclosures inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. GASB Statement No. 40 requires governments to disclose deposit and investment risks related to credit risk (including custodial credit risk), concentration of credit risk, interest rate risk, and foreign currency risk. The State Treasurer's Office provides the following information regarding the LGIP:

1. With respect to credit risk, the LGIP, a government investment pool, is rated AAAM by Standard & Poor's. Therefore, the LGIP reports AAAM for credit risk. Public funds are not required to disclose custodial credit risk for external investment pools. Therefore, the LGIP is exempt from this requirement.
2. GASB Statement No. 40 defines concentration of credit risk as investments of more than 5% in any one issuer. External investment pools, such as the LGIP, are excluded from the requirement of disclosing concentration of credit risk. Therefore, the LGIP is exempt from this disclosure.
3. GASB Statement No. 40 defines interest rate risk as the risk that interest rate variations may adversely affect the fair value of an investment. According to GASB Statement No. 40, an acceptable method for reporting interest rate risk is weighted average maturity ("WAM"). The State Treasurer's Office uses this method for reporting purposes for the LGIP. The WAM of the LGIP is identified on the monthly LGIP

investment report found on the State Treasurer's Office website at www.stonm.org. As of June 30, 2009, the LGIP WAM is 43 days.

4. Finally, with respect to foreign currency risk, all investments in the LGIP are in U.S. dollar denominated assets. Therefore, the LGIP has no foreign currency risk.

The value of your investment in the LGIP as of June 30, 2009, was provided to you as the ending balance on your LGIP statement and your Reserve Contingency Fund statement. As we stated in a letter to you dated March 31, 2009, the LGIP's remaining position in The Reserve Primary Fund was transferred to the Reserve Contingency Fund. Therefore, the balance on your Reserve Contingency Fund statement reflects your remaining pro rata share of the LGIP's investment in The Reserve Primary Fund. The Reserve Contingency Fund, which is not rated, is a non-performing asset and, as such, a WAM cannot be calculated. A copy of the March 31, 2009, letter is available on the State Treasurer's Office website. For participants with negative balances on their LGIP and Reserve Contingency Fund statements, we provided an explanation for this in a separate letter to those participants also dated March 31, 2009. A copy of this letter is attached for your reference as "Attachment A."

Update on the LGIP Investment in the Reserve Primary Fund

The New Mexico State Treasurer's Office invested a portion of the LGIP in The Reserve Primary Fund ("the Fund"), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP's investment in the Fund was \$381.7 million. On September 16, 2008, The Reserve Primary Fund's net asset value fell below \$1.00 and holdings in the Fund were frozen. Since September 2008, The Reserve Primary Fund has returned approximately \$0.90 per share to shareholders. On February 26, 2009, The Reserve Primary Fund announced that it was withholding \$3.5 billion of the Fund's assets for anticipated and pending litigation against it, which amount could increase or decrease as the Fund evaluates information related to such litigation. As a result, the State Treasurer's Office cannot anticipate what the actual loss to the LGIP from The Reserve Primary Fund may be or when the actual loss may be realized. No actual loss has been realized to date. The total remaining Reserve Primary Fund position as of June 30, 2009, is \$39.5 million. The LGIP's remaining position in The Reserve Primary Fund is a non-performing asset.

On May 5, 2009, the U.S. Securities and Exchange Commission ("SEC") filed a civil lawsuit in federal court against the operators of The Reserve Primary Fund, alleging fraud; seeking the pro rata distribution of the remaining the Fund's assets; and seeking the release of the \$3.5 billion currently being withheld from investors pending the outcome of the lawsuits against The Reserve Primary Fund. The court is scheduled to hold a hearing on the SEC's proposed plan of distribution on September 23, 2009.

On May 20, 2009, the New Mexico Attorney General filed a civil complaint and injunction petition in state district court against The Reserve Primary Fund. The Attorney General's complaint alleges that the Fund setting aside \$3.5 billion to pay legal fees and expenses is a willful and intentional conversion of the investors' assets and a breach of contract. The complaint further alleges that the Fund's failure to honor redemption requests on September 16, 2008, is a breach of contract. Additionally, the Attorney General's injunction petition seeks the release of the investors' pro rata share of the \$3.5 billion The Reserve Primary Fund set aside for its anticipated and pending legal costs.

The New Mexico State Treasurer's Office believes that The Reserve Primary Fund will ultimately end up distributing between 98.38% and 98.77% of the balance that the LGIP had in The Reserve Primary Fund as of September 15, 2008. This means that of the remaining undistributed balance as of June 30, 2009, we expect the LGIP to recover between 83.84% and 87.78%. Uncertainty remains, however, as to the timing of these distributions. We recommend that you consult with your accountant or auditor regarding any adjustment of the value of your investment in the Reserve Contingency Fund as of June 30, 2009.

If you have any questions or need additional information, please email your questions to me at Sheila.Duffy@state.nm.us.

Sincerely,



Sheila A. Duffy
Chief Investment Officer

New MexiGROW LGIP deposits are not guaranteed or insured by any bank, the State of New Mexico, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency. *New MexiGROW* LGIP deposits involve certain investment risks. Yield and total return may fluctuate and are not guaranteed.

Attachment A



New Mexico State Treasurer's Office

March 31, 2009

Dear *New MexiGROW* LGIP Participant,

Your enclosed LGIP and RCF statements show a negative balance because you are one of a few LGIP participants whose withdrawals from the LGIP since September 15, 2008 have exceeded the amount that would otherwise have been transferred to the Reserve Contingency Fund (RCF). We are providing you with some additional information to supplement the information provided in the enclosed letter to all LGIP participants.

These negative balances do not reflect money that you "owe" to the State Treasurer's Office. Instead, these negative balances in the LGIP and the RCF are the result of the creation of the RCF on February 27, 2009. During the transition of funds from the LGIP to the RCF, your LGIP account balance was less than your pro-rata share of the LGIP's remaining position in the Reserve Primary Fund (the "LGIP Position"). As a result, both your LGIP and RCF accounts have negative balances.

As distributions are received from the Reserve Primary Fund, we will distribute your pro-rata share of those distributions to your LGIP and RCF accounts. However, because your accounts have a negative balance, future distributions will not be distributed to you but will be use to decrease the negative balances in your LGIP and RCF accounts. In addition, if you make future deposits to your LGIP account, those deposits will decrease the negative balances in your LGIP and RCF accounts.

Please contact me at (505) 955-1199 with any questions regarding your account.

Sincerely,

Scott Newman, CFA
Interim Chief Investment Officer



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