



JAMES B. LEWIS
State Treasurer

MARILYN L. HILL
Deputy State Treasurer

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
December 15, 2014

The Honorable Susana Martinez, Governor
Members of the New Mexico State Legislature
State Board of Finance
Citizens of the State of New Mexico

Ladies and Gentlemen:

I respectfully submit the Annual Report for the Office of the State Treasurer for the fiscal year ending June 30, 2014. The report includes financial statements and other significant highlights for the State Treasurer's Office.

There is no greater honor than to serve the public as an elected official. I thank the citizens of New Mexico for allowing me the privilege and distinction of serving as New Mexico State Treasurer. Since I took the oath of office in December 15, 2006, I have worked diligently to restore honesty, ethics and integrity to the Office of the State Treasurer. All operations and transactions are open to public scrutiny with my commitment to achieve the highest standards of accountability and transparency.

As required in State Audit Rule (2.2.2 NMAC), the annual external audit was completed and submitted to the State Auditor by the December 15, 2014 deadline. The Independent Auditors' Report and the Office of the State Treasurer's Financial Statements are included in this report.

I wish to express my gratitude to the staff of the State Treasurer's Office for their commitment to proficiency, efficiency, effectiveness and productivity in carrying out the mission of the Office. My success as State Treasurer is contingent on the continued hard work and dedication of my staff.

Respectfully submitted,

THE HONORABLE JAMES B. LEWIS
New Mexico State Treasurer



COMMUNICATION, COLLABORATION and COOPERATION TO ENHANCE
PROFICIENCY, EFFICIENCY, EFFECTIVENESS and PRODUCTIVITY

TREASURER OF THE STATE OF NEW MEXICO

ANNUAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014





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The New Mexico State Treasurer's Office Annual Financial Report for the Fiscal Year ended June 30, 2014 provides a synopsis of STO's achievements.

An electronic version of this report is available at www.stonm.gov.



The Honorable James B. Lewis
New Mexico State Treasurer



James B. Lewis

New Mexico State Treasurer
2006 - Present and 1985 - 1990

James B. Lewis has held the office of State Treasurer longer than any other State Treasurer since statehood, having served a total of 13 years and one month by the end of his term. He is often quoted as saying, "There is no greater honor than to be elected by the people to serve as an elected public official." Treasurer Lewis is also the first and only African American to hold a statewide office in New Mexico, serving with great pride and dedication. The State Treasurer serves as the chief-elected financial officer and is the state's banker. He is the only state official to serve on all of the state's financial and investment boards and commissions, with a combined fiduciary responsibility of \$55 billion.

Born in Roswell and raised in Albuquerque, Treasurer Lewis moved to Gallup and graduated from Gallup High School. Treasurer Lewis has an Associate's degree, two Bachelor's degrees - one with honors - and a Master of Arts Degree in Public Administration from UNM. He holds numerous certificates in leadership, training and in the field of pensions and investments from the University of Pennsylvania, Wharton School of Business and the Northwestern University, Kellogg School of Business.

Treasurer Lewis served in the U.S. Army as a military policeman in the early 1970's. His career includes public service in federal, state, county and city governments, in both appointed and elected capacities. He was a Public Services Careers Program Coordinator with the New Mexico State Personnel Office, an Administrator/Educator with the University of Albuquerque and an Administrator/Investigator for the Bernalillo County District Attorney's Office. Treasurer Lewis was also elected twice as Bernalillo County Treasurer. He was appointed as Chief of Staff to former Governor Bruce King, Director, for the Oil, Gas and Minerals Division of the State of New Mexico Land Office and the Chief Clerk/CEO for the State of New Mexico Corporation Commission. Treasurer Lewis was appointed as the Rio Rancho City Administrator (city manager), Assistant Secretary for the U.S. Department of Energy, City of Albuquerque Chief Operating Officer and City of Albuquerque Chief Administrative Officer.

In addition, Treasurer Lewis has been a member of numerous civic and professional organizations. He has served and continues to serve on many boards and commissions of organizations, such as past treasurer for the American Society for Public Administration, board of directors for the United Way, the Los Alamos Diversity Council, and the Sickle Council of New Mexico. He is recognized by Who's Who in the West as well as Who's Who in America.

Nationally known as an influential leader, Treasurer Lewis served as the 2010 President of the National Association of State Treasurers and is the 2013 -2014 president of the National Association of State Auditors, Comptrollers and Treasurers.

A wide variety of organizations have honored Treasurer Lewis. He received the Jesse M. Unruh Award in 2011 – the highest honor awarded by National Association of State Treasurers and the Legion of Honor - 30 Years and Accorded Distinctive Recognition - from the Kiwanis Club of Albuquerque in 2013. Treasurer Lewis received the 2013 Harlan Boyles-Edward T. Alter Distinguished Service Award, which is presented to dedicated public servants whose outstanding career in government has provided a respected voice for the National Association of State Treasurers at all levels of state government. Additionally, the New Mexico Business Journal listed Treasurer Lewis as one of the 100 Influential Power Brokers in the City of Albuquerque. He has been invited to the White House and he has attended congressional and regulatory hearings to discuss matters of importance to state treasuries. His extensive public service has greatly benefited New Mexico.

Since 2006 the goal of Treasurer Lewis has been to restore honesty and integrity to the office and he continues to raise that standard. He dedicated the pursuit and election as State Treasurer to his late wife Armandie Johnson Lewis, R.N. and his four children.



STATUTORY AUTHORITY

The Office of the State Treasurer was created under Article V, Section 1 of the New Mexico Constitution. The duties and responsibilities of the State Treasurer are primarily defined by Chapters 6 and 8 of the New Mexico Statutes Annotated 1978 (NMSA 1978). These and other Chapters of New Mexico Statute require the Treasurer to act as the state’s banker to receive, keep, and account for state funds collected and disbursed, and define the State Treasurer’s banking, cash management, and investment roles. The principal statutory provisions related to the State Treasurer’s prudent management of the state’s financial resources and investment authority are listed below.

Sections 8-6-1 through 8-6-7 NMSA 1978 specify administrative and procedural requirements and define certain duties of the State Treasurer. Section 8-6-3 provides that, among other responsibilities, the State Treasurer shall “receive and keep all moneys of the state, except when otherwise specially provided” as well as “disburse the public money upon warrants drawn according to law.” This section also requires that the State Treasurer shall “keep a just, true and comprehensive account of all moneys received and disbursed.”

Section 6-1-13 NMSA 1978 provides that the State Treasurer shall authorize all deposit accounts for state agencies and prescribe conditions and reports appropriate to such accounts.

Section 6-8-6 NMSA 1978 places the state permanent fund in the custody of the State Treasurer; and provides that the state permanent fund, or any part of the fund, shall at all times be available to the State Investment Officer for investment in accordance with state law.

Section 6-8-11 NMSA 1978 places in the custody of the State Treasurer securities purchased or held by the State Investment Officer or the State Investment Council and authorizes the State Treasurer, with the approval of the secretary of the Department of Finance and Administration, to deposit the securities with a bank or trust company for safekeeping and servicing.

Section 6-10-10 NMSA 1978, in part, permits the State Treasurer to deposit funds in certain financial institutions and to invest, in certain allowable securities and contracts, money not immediately required for the operation of state government.

Section 6-10-10.1 NMSA 1978 creates a short-term investment fund, which serves as an optional investment opportunity for local governments and Native American tribes, nations and pueblos; and provides for the investment of the fund, either separately or consolidated with other funds, by the State Treasurer.

Sections 6-10-24.1, 6-10-25, 6-10-26, and 6-10-29 NMSA 1978 place conditions on the deposit and investment of state funds in New Mexico financial institutions; provide for reports from the State Treasurer concerning money on deposit in state depositories, including the amount required for operation of state government and the amount available for investment; and require depositories to submit an itemized monthly statement concerning the deposits to the State Treasurer.

Section 6-10-24.2 NMSA 1978 establishes the linked deposit program, which allows the State Treasurer to invest up to 14 percent of state deposits, not to exceed \$49 million, in certain financial institutions located in financially at risk rural communities; places conditions on the deposit of state funds in these financial institutions; and authorizes the State Treasurer to accept a rate of interest not more than 1 percent below the market rate.

Section 6-10-28 NMSA 1978 allows the State Treasurer, upon order of the State Board of Finance, to invest the proceeds of general obligation and state revenue bonds.

Section 6-12A-5 NMSA 1978, in part, permits the State Treasurer, upon approval by the State Board of Finance, to issue and sell one or more tax revenue anticipation notes; and permits the State Treasurer to pledge the anticipated revenue to secure the payment of the principal of and interest on the anticipation notes.

IN-HOUSE POLICIES



The State Treasurer has implemented several In-House policies to help establish direction to staff on his expectations regarding carrying out the duties and responsibilities of the office. These policies include, but are not limited to the following:

The Employee Code of Conduct provides directives to ensure that all employees maintain the highest standards of personal and professional conduct. This policy ensures compliance with the Government Conduct Act, the State Personnel Act and its rules and regulations. It also requires Financial Disclosure by its Executive team and any Campaign Contributions reporting.

The Investment Policy provides for the investment of those public funds that are not immediately needed for the day to day operations of government. This policy requires full transparency to the State Treasurer's Investment Committee once a month. This ensures that the investments are conducted in compliance with state and federal law and the State Treasurer's directives. Further, this policy requires that all Investment Officers file personal disclosure forms as required by the Government Conduct Act and the State Treasurer's Code of Conduct. There is a separate policy for the investment of the Local Government Investment Pool funds, but this policy adheres to the standards set forth in the general investment policy.





HISTORY OF THE STATE TREASURER'S OFFICE

In 1851, the Legislative Assembly of the Territory of New Mexico passed an act that created the Office of the Territorial Treasurer and defined the powers and duties of the Treasurer.

With statehood in 1912, Article V Section I of the New Mexico State Constitution created the Office of the State Treasurer and recognized the State Treasurer as one of the elected officials within the executive department of state government. While the Governor is the chief executive officer, under New Mexico's pluralistic form of executive branch of government, the other elected members of the executive branch - the Lieutenant Governor, the Secretary of State, the State Treasurer, the Attorney General, the State Auditor and the Commissioner of Public Lands - all share the responsibility for administering state government. The State Treasurer serves as the elected chief banking officer of the state and is entrusted with keeping, investing, and disbursing all state money, unless otherwise provided by law. In addition, the State Treasurer is charged with a variety of other duties directed toward ensuring prudent management of the state's financial resources as set forth in various sections of the statutes.

NEW MEXICO STATE TREASURERS

JAMES B. LEWIS

2006-PRESENT

<i>Owen N. Marron</i>	<i>1912- 1916</i>	<i>Joseph B. Grant</i>	<i>1957- 1958</i>
<i>H.L. Hall</i>	<i>1917- 1918</i>	<i>Joe Callaway</i>	<i>1959- 1960</i>
<i>Charles U. Strong</i>	<i>1919- 1920</i>	<i>Joe Callaway</i>	<i>1961- 1962</i>
<i>O.A. Matson</i>	<i>1921- 1922</i>	<i>Joseph B. Grant</i>	<i>1963- 1964</i>
<i>John W. Corbin</i>	<i>1923- 1924</i>	<i>Joseph B. Grant</i>	<i>1965- 1966</i>
<i>Warren R. Graham, Sr.</i>	<i>1925- 1926</i>	<i>H.E. Thomas, Jr.</i>	<i>1967- 1968</i>
<i>Warren R. Graham, Sr.</i>	<i>1927- 1928</i>	<i>Merrill B. Johns, Jr.</i>	<i>1968- 1969</i>
<i>Emerson Watts</i>	<i>1929- 1930</i>	<i>Jesse D. Kornegay</i>	<i>1969- 1970</i>
<i>Warren R. Graham, Sr.</i>	<i>1931- 1932</i>	<i>Jesse D. Kornegay</i>	<i>1971- 1974</i>
<i>Clinton P. Anderson</i>	<i>1933- 1934</i>	<i>Edward M. Murphy</i>	<i>1975- 1978</i>
<i>James J. Connelly</i>	<i>1935- 1936</i>	<i>Jan Alan Hartke</i>	<i>1979- 1982</i>
<i>James J. Connelly</i>	<i>1937- 1938</i>	<i>Earl E. Hartley</i>	<i>1983- 1985</i>
<i>Rex French</i>	<i>1939- 1940</i>	<i>James B. Lewis</i>	<i>1985- 1986</i>
<i>Rex French</i>	<i>1941- 1942</i>	<i>James B. Lewis</i>	<i>1987- 1990</i>
<i>Guy Shepard</i>	<i>1943- 1944</i>	<i>David W. King</i>	<i>1991- 1994</i>
<i>Guy Shepard</i>	<i>1945- 1946</i>	<i>Michael A. Montoya</i>	<i>1995- 1998</i>
<i>H.R. Rodgers</i>	<i>1947- 1948</i>	<i>Michael A. Montoya</i>	<i>1999- 2002</i>
<i>H.R. Rodgers</i>	<i>1949- 1950</i>	<i>Robert E. Vigil</i>	<i>2003- 2005</i>
<i>R.H. Grissom</i>	<i>1951- 1952</i>	<i>Douglas Minge Brown</i>	<i>2005- 2006</i>
<i>R.H. Grissom</i>	<i>1953- 1954</i>		
<i>Joseph B. Grant</i>	<i>1955- 1956</i>		



Vision Statement

As Guardian of the Treasury, we promote the highest ethical and professional standards at all times.



Mission Statement

As the State's Banker, we provide the most proficient, efficient, effective and productive banking services with full transparency to all internal and external customers.

Core Values

Trust ~ Respect ~ Efficiency of Operations
Adherence to Policies ~ Strong Internal Controls
Ethical Behavior ~ Integrity ~ Team Building
Skilled Workforce ~ Superior Performance
Consistency & Fairness
Transparency & Disclosure ~ Excellent Customer Service





SIGNIFICANT MILESTONES

Ethics Reform

When James B. Lewis was sworn in as State Treasurer December 15, 2006, his highest priority was to restore honesty and integrity to the Office of the State Treasurer. Since that date he has lived up to that commitment to make the office a model agency of cooperation, collaboration and commitment to excellent customer service. The Treasurer's Vision, Mission Statement and Core Values were established to promote the office's highest ethical and professional standards.

Treasurer Lewis served on the previous Governor's Task Force on Ethics Reform. He frequently conducts presentations on ethical practices and standards to include transparency in government to local, state, national and university audiences. He serves as faculty at the National Association of Treasurers new treasurer's symposium. He led the opening of National Association of State Treasurer's conference forum with a speech on Ethics and Transparency in Government. Treasurer Lewis continues to lead efforts to raise and maintain the highest ethical standards in the Office of the State Treasurer and in the operation of state government.

Accountability and Transparency

Treasurer Lewis supports full accountability and transparency to the public through a variety of sources. The State Treasurer's website provides the most current information affecting the office. It provides daily investment rates, monthly investment reports, operating budget comparisons, annual financial audit reports and a wealth of other information useful to the public. Additionally, the State Treasurer's Office provides prompt responses to requests for public information through the Inspection of Public Records Act. The Treasurer's staff is fully knowledgeable in the day to day operations of the office and strives to provide excellent customer service. The State Treasurer utilizes such publications as local newspapers and the state's Round the Roundhouse to update the public on special events or special appearances.

The State Treasurer's Office maintains a number of internal and external checks and balances with respect to its activities. The State Treasurer engages an independent accounting firm with approval from the State Auditor to perform the annual financial audit of the State Treasury. Additionally, the State Treasurer is asked to appear before various legislative committees to present selected information. The State Treasurer operates under significant scrutiny to assure all transactions are in the best interest of the public.

The State Treasurer's Investment Committee (STIC) meets monthly to review activity affecting both cash management and the investment of public funds. The STIC report can be found on the State Treasurer's Office website. The Investment Division Director also provides a monthly report to the State Board of Finance.

Efficiency of Operations

Over the past seven years the State Treasurer's Office has reduced its operating budget by \$650,000. The fiscal year 2014 cost savings yielded a \$96,116.51 reversion to the General Fund. The office continues to identify operating cost efficiencies, maintaining some authorized vacancies and reducing operating costs.

Investing for New Mexico

The State Treasurer's investment policy mandates the following principles for all investment decisions in this priority order: preservation of principal, ensuring the safety of public funds; liquidity requirements; and finally, yield. The State Treasurer's portfolios have maintained a positive return over the past six years, enduring the most challenging investment environment since the Great Depression.

The State Treasurer invests short-term funds for the state including the General Fund, state bond proceeds and debt service. Additionally, the Local Government Investment Pool is invested on behalf of numerous local government entities. All investment transactions have a substantial documentation and approval processes to assure compliance with investment policy.

The State Treasurer increased the maximum allowable deposits in state banks through certificates of deposits from \$350 to \$400 million in fiscal year 2010 and authorized the use of bond proceeds investment pools for this purpose. This initiative was implemented by Treasurer Lewis as a tool to stimulate the state's economy.



Cash Forecasting

Accurate cash flow forecasting is essential to the State Treasurer's Office for liquidity management and short-term investing. In these challenging economic times, the General Fund has not seen returns this low in 30 years. The State Treasurer's Office continues to improve the cash forecasting model, closely tracking deposits and expenditures each day to assure sufficient cash flow for the state's daily expenditures, while efficiently investing surplus funds.

A joint initiative between the State Treasurer's Office, the Department of Finance and Administration and the Legislative Finance Committee was established to work with agencies carrying large negative fund balances with the goal of reducing or eliminating those negative balances. The agencies have identified the specific reasons for these negative balances and have initiated actions to address them. The most common resolution for agencies receiving large federal fund reimbursements has been to increase the frequency of federal fund drawdowns.

Customer Service

One of Treasurer Lewis's priorities is to continuously provide excellent customer service to the taxpayers, state and local government agencies and all other constituents. He sponsors customer service training for the staff and mandates that staff provide quality customer service to all individuals. Treasurer Lewis maintains an open door policy for all internal and external individuals wishing to meet with him.

Education and Training

Treasurer Lewis believes that a strong program of staff development is important to improve the knowledge and skills of the staff and to improve agency morale. Training opportunities are provided to staff on a variety of topics such as governance, the Hatch Act, safety in the workplace and emergency evacuation procedures. Treasurer Lewis encourages attendance and participation in various professional organizations such as the National Association of State Treasurers, National Association of State Auditors, Comptrollers and Treasurers, Association of Government Accountants, Government Finance Officers Association, New Mexico Bar Association and the Economic Forum of Albuquerque. Additionally, employees are recognized for the work they perform, their landmark years of service and they are acknowledged during quarterly birthday celebrations.

Treasurer Lewis also reestablished the annual Local Government Investment Pool (LGIP) stakeholders conference to inform LGIP participants of fund performance, investment trends, economic/market conditions and other pertinent issues.

National Leadership

Treasurer Lewis is called upon at the national level to provide leadership in management, ethics reform, treasury operations, regulatory requirements, legislative proposals and professional opportunities for minorities and emerging business. He has made presentations at colleges/universities and to professional associations. He has been called upon to attend meetings at the White House, the President's Deficit Commission, Congress, U. S. Treasury, Securities and Exchange Commission, Municipal Securities Rulemaking Board and the Federal Deposit Insurance Corporation in Washington, D.C.

Treasurer Lewis served as president of the National Association of State Treasurers in 2010. He served as second vice president of the National Association of State Auditors, Comptrollers and Treasurer in fiscal year 2012. He ascended to president of the organization in the summer of 2013. He has taken an active leadership role in these national organizations over the past seven years.



SIGNIFICANT MILESTONES

Treasurer Lewis received the highest honor given by the National Association of State Treasurers in 2011, when he was given the Jesse M. Unruh award. This distinguished service award recognizes an active treasurer for outstanding service to the association, the profession and to their home state. He received the Legion of Honor - 30 Years and Accorded Distinctive Recognition - from the Kiwanis Club of Albuquerque in 2013. Treasurer Lewis also received the 2013 Harlan Boyles-Edward T. Alter Distinguished Service Award, which is presented to dedicated public servants whose outstanding career in government has provided a respected voice for the National Association of State Treasurers at all levels of state government. Additionally, the New Mexico Business Journal listed Treasurer Lewis as one of the 100 Influential Power Brokers in the City of Albuquerque. His extensive public service has greatly benefited New Mexico.

This local and national presence and leadership role has allowed Treasurer Lewis to be informed and have an impact on national issues affecting the states, including some of the following:

- Operation Rightful Owner legislation to return approximately \$13 billion to rightful owners of U.S. Savings Bonds
- 529 College Savings Plan Program
- Financial Literacy Program
- Dodd Frank Financial Regulatory Reform Legislation
- Expand Private Activity Bond Opportunities
- Rules for Municipal Bond Advisors
- Floating NAV Rate Decision
- Asset-Backed Securities Decision
- Governmental Accounting Standards Board Rules
- Federal Deposit Insurance Corporation Coverage of Public Deposits
- Tax-Exempt Status of Municipal Bonds

With his participation and leadership, Treasurer Lewis has worked at the national level to influence legislation, policy, rules and programs to benefit New Mexico. The leadership role of Treasurer Lewis in national organizations has led to hosting national meetings in New Mexico. In May 2012, the National Association of State Treasurers held their largest annual meeting/professional development gathering in Albuquerque.

The NAST Treasury Management Training Symposium was held at the Albuquerque Hyatt Regency in 2012. State treasurers, treasury staff, college savings plan managers, unclaimed property administrators and debt management staff from across the country, Canada and Mexico, totaling almost 350, attended the conference. The group had a successful conference, enjoying after hours social events held at the Indian Pueblo Cultural Center and riding the Sandia Peak Tramway to the top of the mountain where dinner was served at the High Finance restaurant. The NAST group has really enjoyed attending meetings hosted in New Mexico.

As president of the National Association of State Auditors, Comptrollers and Treasurers, Treasurer Lewis will host the annual conference of this organization in Santa Fe, New Mexico in the summer of 2014. Again, membership from across the United States and several other countries will attend that conference, which will be headquartered at the Eldorado Hotel.

Hosting meetings for these national organizations brings very positive exposure to the state, while contributing to economic development. Conference participants often stay extra days or return to vacation in New Mexico. The people, history, culture and natural beauty of our state are showcased for conference attendees to appreciate.



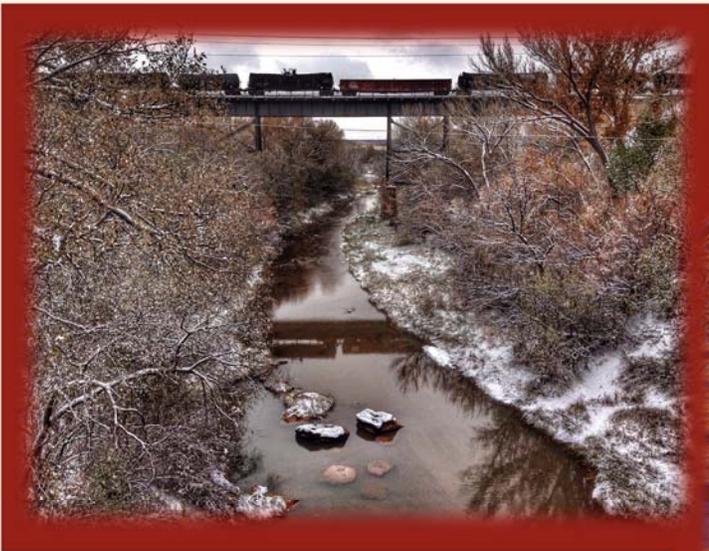
Business Continuity and Disaster Recovery Planning

The State Treasurer's Office has initiated its first true disaster recovery plan allowing the office to continue to operate even when faced with a critical threat. Business continuity planning involves recognizing an organization's exposure to internal and external threats, identifying the organization's essential functions and key assets, and taking steps to effectively prevent and recover from both foreseeable and unforeseeable threats. The goal is to continue providing essential services with minimal disruption.

Examples of common threats include pandemic diseases, sabotage, earthquakes, fire, utility outage, floods, terrorism and cyber-attacks. The threats in the examples above share a common theme - the potential to damage organizational infrastructure and cripple a very vital operation of the state.

The State Treasurer places the highest priority on the security and safety of state data and is committed to maintaining an accurate and viable of a disaster recovery plan. Critical functions handled by the State Treasurer's Office include time sensitive services such as investments, cash reconciliation, and cash positioning (to ensure the availability of cash to pay state obligations). The nature of these responsibilities makes it critical for STO to respond within time-sensitive parameters and continue critical business agency operations.

The State Treasurer's Office business continuity plan can be easily activated in the event of a threat or work disruption. The office would be able to continue providing critical banking and investment services to state and local governments with minimal disruption.





STATE TREASURER'S OFFICE STAFF

Staff as of June 30, 2014



Executive Staff:

Linda Roseborough, Clarence Smith, Marilyn L. Hill, Sam Collins, Cindy Cordova, Ron Crespin

Administration

Marilyn Hill
Deputy Treasurer

Cindy Cordova
General Council

Cassandra Nicasio

Cash Management Division

Sam Collins
State Cash Manager

Victor Vigil
Dominic L. Chavez
Antoinette Griego Romero
Yolanda Chavira
Annabel Vigil
Florence Velarde
Michael Romero

Investment Division

Linda Roseborough
Chief Investment Officer

Kirene Bargas
Steve Vigil
Spencer Wright
Vikki Hanges
Arsenio Garduño
Denise Payne
Hannah Chavez
Marie Andermann
Amy Aguilar
Victoria Hutchison

Operations Division

Clarence L. Smith
Chief Operations Officer

Bernard Raymond
Brent Johnson
Yvonne Ramirez
Bill Lewis
Paul Madrid

Budget and Finance Division

Ronald Crespin
Chief Financial Officer

Patricia Ortiz
Christina Baca
Alisha Dominick



The Budget and Finance Division manages the annual budget, accounts payable, procurement, professional contracts, fixed asset inventory, and all financial accounting and reporting activities for the Office of the State Treasurer.

The division's responsibility is to reconcile and post operating, investment, and long-term debt fund activity in the State Treasurer's general ledger (financial statements). The Budget and Finance Division coordinates the State Treasurer's annual financial audit. The division must comply with state laws and various regulations and accounting standards that govern its activities.

Chief Financial Officer

The State Treasurer's Chief Financial Officer (CFO) serves as Budget and Finance Division Director. The CFO is responsible for establishing strong budgetary controls and ensuring financial transactions and reporting activities are in compliance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) rules. This function requires that transactions be recorded and posted in the proper category and that cash account records are reconciled in a timely manner with reports to the State Treasurer on a monthly basis.

The CFO is responsible for ensuring budget and accounting systems function properly and appropriation requests, operating budget, and quarterly performance reporting documents are submitted on time. In addition, the CFO coordinates annual external audit work between the State Treasurer's Office and the independent public accounting firm, and is responsible for having the audit reports completed by the deadline. This position oversees procurement of goods and services and assures payments to vendors are completed in compliance with the state procurement law.

Budget Bureau

The Budget Bureau compiles and evaluates annual budget needs for each division within the State Treasurer's Office. Proper justification and documentation are required for all budget requests. Once division budget requests are approved by the State Treasurer, the appropriation request is submitted to the Department of Finance and Administration and the Legislative Finance Committee for consideration by the Legislature and Governor. When the appropriations act is passed by the Legislature and signed by the Governor, the Budget Bureau prepares the operating budget for the upcoming fiscal year. Throughout the fiscal year, the Budget Bureau submits monthly status reports to the State Treasurer to ensure the office is operating within budget guidelines.

Finance Bureau

The Finance Bureau is charged with the following responsibilities:

- Reconciliation and preparation of financial statements and treasury transaction postings to the general ledger—the Finance Bureau coordinates information required by the independent public accounting firm performing the annual external audit.
- Procurement of supplies, furniture, equipment and services for the Treasurer's Office—this requires that the procurement officer comply with the state's procurement laws and ensures that contracts are complete and accurate. This unit is responsible for identifying fixed assets for the agency and maintaining the fixed asset inventory. This unit also is responsible for the distribution and control of supplies and equipment for the office.
- Contract management ensures requests for proposals (RFPs) and service contracts are prepared in compliance with statutes, rules and policies, and that vendor payments for completed services are timely. This unit also enters contract transactions into the general ledger and subsequently closes them out in accordance with the agreement and all applicable regulations.
- Accounts payable to receive and process invoices for goods and services rendered—this includes the pre-audit of costs in accordance with the contract or purchasing agreement prior to payment. Accounts payable submits payment requests to the Department of Finance and Administration (DFA); upon receipt of the payment, warrant is reviewed for accuracy prior to release to the vendor.



BUDGET AND FINANCE DIVISION

- Records management for internal and external storage of required documents in accordance with the New Mexico Public Records Act—when records are received for storage the contents are verified and labels prepared by the division and either stored at the State Treasurer’s Office or transferred to the State Records Center and Archives for retention and disposal as mandated by the State Treasurer’s records retention schedule.

Significant Milestones and Accomplishments FY 2014:

Financial Procedures

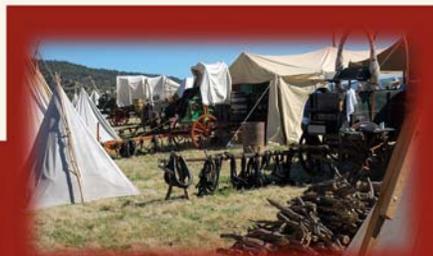
The Budget and Finance Division has completed the documentation of all financial procedures and continues to update them as changes occur at the Department of Finance & Administration.

Training

All staff is now fully trained in all division financial transactions and new internal procedures were implemented to monitor all encumbrances and payments. These changes ensured the timely closing of the year in June.

Initiatives FY 2015:

- The Budget & Finance Division implemented a continuing “Cross Training Plan” for all division staff so there will be at least two staff members trained in all financial procedures.
- Training will continue for generating various reports in SHARE and using those reports to project expenditures.
- The preparation duties for the “Budget Status Report” and the OPBUD 2 which are due in May of 2015 will be transferred to several staff by January 1, 2015.





Cash Management can be defined as a systematic gathering of information about the state's receipts, disbursements, and balances, and the use of that information to effectively manage the funds available to the state. The position of State Cash Manager was established in 1993 under 8-6-3.1 NMSA 1978 and its duties are defined to include: issuance of regulations to enforce the Cash Management Improvement Act, monitor state agencies' cash activity and the balances on hand in financial institutions; monitor deposits and cash balances on hand to enable projection of short-term and long-term cash available for short and long-term investment; determine and update warrant clearance patterns; and, preparation of monthly written report to the State Treasurer's Investment Committee and State Board of Finance of state fund balances in financial institutions.

Banking Resources Bureau

The Banking Resources Bureau monitors all balances and activity related to state funds in financial institutions. Specific activities of this bureau include: development of regulations related to approximately 500 bank accounts; approval, analysis and authorization of these state agency bank accounts.

The bureau validates deposits and withdrawals into and out of the state's fiscal agent accounts, including all adjustments to the accounts such as returned checks, stop payments, and other miscellaneous bank account transactions. The bureau compares fiscal agent bank accounts' activity to transactions in the state's enterprise accounting system (SHARE) daily. The Bureau is also responsible for all Banking and Treasury Module configuration in the SHARE system

Monthly reports are obtained from state agencies detailing funds from any source in the agency's custody. The bureau authorizes state agency requests for depository bank accounts outside the fiscal agent bank; reports account balances in each financial institution to the State Board of Finance; verifies compliance with established bank account guidelines and reports any deviations to the agency and the State Board of Finance; and, enforces laws and regulations that apply to financial institutions receiving state funds. This division also reviews the monthly fiscal agent account analysis for compliance with the agreement and to identify and control unauthorized use.

The bureau will continue to research and work with the state's fiscal agent, other banking institutions and other professional organizations in implementing modern cash management products to implement best practices and accelerate receipts for more effective cash management and thereby maximize funds available for investment.

Audit and Compliance Bureau

The Audit and Compliance Bureau is responsible for projection of the State's short-term and long-term cash balances needs utilizing a model that was developed internally. Historical trends together with information related to significant receipts and disbursements are used as the primary indices to the model. The bureau coordinates with state agencies that have the largest inflows and outflows of funds to identify anomalies that could impact the daily cash position of the State Treasury. The Cash Flow model is updated monthly or more frequently if necessary and a written report is issued to the State Treasurer's Investment Committee and State Board of Finance.

The bureau also performs daily cash positioning to determine the State's cash needs on an intra-day basis in order to meet its obligations. Funds that are not needed to meet the State's immediate cash needs are invested by the investment division to provide additional earnings. Cash positioning is a very critical function as errors can result in overdrafts or returned items at the fiscal agent bank.

The bureau will continue to research and work with the state's fiscal agent, other banking institutions and other professional organizations in implementing modern cash management products to implement best practices and accelerate receipts for more effective cash management and thereby maximize funds available for investment.



CASH MANAGEMENT DIVISION

The Audit and Compliance Bureau is also responsible for compliance with the Cash Management Improvement Act of 1990 (CMIA). Congress established CMIA to ensure efficiency, effectiveness, and equity in the transfer of funds between state and federal governments. CMIA addresses key Federal funding issues such as funds drawn in advance of need, or late grant of award from the federal government. Major CMIA provisions require that federal agencies make timely fund disbursements and grant awards to states; state and federal agencies must minimize the time between the transfer of federal funds to states and the presentment of states' checks, warrants, or settlement of electronic fund transfer payments for program purposes; and, with minor exceptions, that states earn interest from the federal government for the time the state advances its own funds for program purposes prior to federal reimbursement.

The bureau performs annual compliance audits of state agencies that receive federal funds exceeding an established threshold and for compliance with the CMIA and regulations outlined in the U.S. Treasury/State Agreement (TSA). This agreement, negotiated between New Mexico and the Federal Government, identifies the funding techniques utilized for covered programs. Audits begin at the end of the fiscal year and must be completed by mid- December. An annual report is submitted to the U.S. Treasury detailing state and/or federal government interest liability and any costs associated with the monitoring and reporting of CMIA compliance.

Significant Milestones and Accomplishments FY 2014:

Electronic Depositing of Checks

Advances in technology make electronic depositing of checks more efficient and cost-effective than paper depositing. Wells Fargo's Desktop Deposit product allows Agency staff to deposit checks without physically going to the bank or utilizing costly couriers. Not only does use of Desktop Deposit provide users with extended deposit times (as late as 8:00 pm daily) but electronic deposits are less costly. The State has saved a significant amount of expense since implementation of this product began. When checks are deposited using Desktop Deposit, the bank maintains a check image archive, relieving the State of this responsibility and Agency staff of the tedious task of photocopying checks to be deposited.

During FY 2014, the new fiscal agent agreement provided 100 free scanners the majority of which have been deployed.

Transition of Deposit Entry to Court Staff

For a number of years, the State Treasurer's Office has recorded deposit entries into the State's general ledger system on behalf of the each District Court. A manual process of court staff entering deposit entries into the court's subsidiary system and then printing out and shipping sending supporting documentation to State Treasurer's Office staff for entry into SHARE had been in place for many years. During FY 2014, court staff was trained on how to enter deposit entries into the SHARE system and transition to court staff of several of the largest districts was successfully completed. A full transition is anticipated to be completed by the end of FY 2015.

Participation in Fiscal Agent Bank Selection Process

The State Board of Finance owns and executes the State's fiscal agent bank contract for the majority of banking services for the State. The Cash Management Division of State Treasurer's Office provided technical assistance in preparation of the request for proposal ("RFP"). The State Treasurer's Office is the banker for the State and has primary responsibility for administration of banking services for state agencies. This responsibility makes the Treasurer's Office's input critical in helping define what qualifications and products are needed to select the best possible fiscal agent bank. Once responses to the RFP were obtained, Cash Management staff participated in evaluation of the responses and preparation of a recommendation to the Treasurer and State Board of Finance.

Office Staff teaches Treasury Classes

On January 21, 2014, State Treasurer's Office (STO) staff members volunteered to teach Treasury classes as part of New Mexico State University's NM Edge program. NM EDGE, a service of New Mexico State University's Cooperative Extension Service, is a program designed to provide a comprehensive course of study to administrators, managers, elected officials, and staff in local, state, tribal, and national government, through which participants can acquire and apply the best practices and theory to their management behaviors and strategies using the highest professional standards. The specific program that was taught by STO staff was the New Mexico Certified Public Manager Program – Treasurer Track. These training sessions were related to banking/cash management and investments.

State Cash Manager Sam Collins, Bureau Chief Victor Vigil, Chief Investment Officer Linda Roseborough and Portfolio Manager Vikki Hanges presented an overview of the banking fundamentals and cash flow methodology that provided participants with the tools that are necessary to manage their organizations' cash management functions. The instructors provided hands-on instruction that provides less academic and more real world instruction. Instruction focused on responsibilities, priorities, risk management, the U. S. banking system, bank products, fraud, internal controls, collateral and cash flow. The classes were very spirited with positive feedback from the participants.



Initiatives for FY 2015:

- Work with DoIT and DFA on PCI DSS (bankcard data security) compliance
- Work with DoIT and DFA on Cash Remediation Project Part II
- Work with DoIT and DFA on implementation or upgrade of PeopleSoft Treasury Management System in SHARE
- Convert checks for deposit to ACH transactions to minimize bank fees
- Have agencies utilize post-verification deposit option at the bank to minimize bank fees
- Encourage agencies to minimize issuance of paper warrants and increase use of ACH payments
- Continue roll out of Desktop Deposit scanners
- Evaluate use of automated cash deposit products to minimize use of expensive couriers
- Perform succession planning for key long-term employees that are eligible for retirement



INVESTMENT DIVISION

The Investment Division is responsible for investing money, transacting funds, ensuring sufficient collateral, accounting for and reconciling funds held in the custody of the State Treasurer that are not immediately needed for government operations or to fund capital projects. The managed funds are temporary in nature, originating from three major sources: revenue collected by the state awaiting disbursement, legislative appropriations and proceeds from bond issues invested short-term until disbursed for legislatively-authorized capital projects.

Investments are restricted to the highest quality securities according to ratings by the major rating agencies and to a term of not more than five years. The State Treasurer's Chief Investment Officer and internal investment advisory team discusses, agrees upon, and recommends the security types and terms prior to purchase, secures post-trade review signatures, and reports the executed portfolio activity to the State Treasurer's Investment Committee and to the State's Board of Finance monthly. The State Treasurer's Office contracts with an independent investment advisor who provides advisory services to the State Treasurer and staff.

The State Treasurer's Investment Committee

The State Treasurer's Investment Committee, which is an advisory committee, meets monthly to review the investment portfolios for statutory compliance, quality, diversification, maturity, and performance; and also reviews portfolio controls, collateral adequacy, and recommends investment procedural changes. Periodically, the committee recommends changes to the State Treasurer's Investment Policy.

Investment Strategy

During FY 2014, the division earned approximately \$18.7 MM. At the end of FY 2014, the five portfolios total approximately \$4.2 billion.

All funds are invested in a manner that is in conformance with federal, state and other legal requirements. The division is charged with observing the following priorities in making investment decisions, in the order described:

- Safety – the first priority must be accorded to the preservation and protection of the principal of the funds to be invested;
- Maintenance of Liquidity Needs – the second level of priority must be accorded to maintaining sufficient availability of cash, or the capacity to obtain it without sacrificing principal loss, in order to satisfy the reasonably anticipated, continuing operational requirements of the specific fund invested; and
- Maximum Return on Investments – the third priority must be accorded to maximizing investment return, consistent with the higher priorities accorded to the safety and liquidity of principal.

Fiscal Agent Bank Balances are monies held at the fiscal agent bank and are managed to a target balance after payment of checks, warrants, ACHs and wire transfers processed by the State. All securities are held in custody and cash from these investment transactions moves to and from the fiscal agent bank and the custodial bank.

Collateral Management

The Collateral Manager ensures that adequate protection of state monies be maintained in all state agency deposit accounts at all times. This is accomplished by requiring all qualified financial institutions to pledge collateral to secure public deposits. Risk assessment reports are analyzed to determine data accuracy, the institution's financial condition, and the percentage of collateral required. The pledged collateral is constantly monitored and must comply with all state requirements and custodial agreements. Both proposed and current pledged collateral are continuously evaluated for compliance with all applicable statutes, policies, and depository and custodial agreements. Pledged securities are monitored to assure that acceptable, valid, and marketable instruments secure public funds at all times. Custodial banks are monitored to evaluate their strength and stability. The Collateral Manager provides monthly reports to the State



Treasurer's Investment Committee regarding compliance by all financial institutions.

The Collateral Manager is also a member of the cash forecasting team.

Investment Transactions Bureau

The movement of funds and recording of investment activity into the Treasurer's sub-ledger accounting system and the custody system is performed in the bureau. The bureau verifies all trade activity from trade documentation enters the data into the sub-ledger accounting and custody systems and then performs trade compliance. The bureau also manages the overnight repurchase process. The bureau provides administrative management of the Local Government Investment Pool (LGIP), whereby they correspond with participants on a daily basis. The bureau also coordinates the annual Treasurer's LGIP Stakeholder Conference.

Investment Accounting Bureau

The bureau makes all scheduled debt service payments to the designated paying agents on general obligation bonds, severance tax bonds, and supplemental severance tax bonds. The bureau tracks investment income to ensure compliance with arbitrage restrictions and rebate requirements in accordance with the Federal Tax Reform Act of 1986. The bureau reconciles all investment activity. All certificates of deposits (CDs) and New Mexico gaming revenue is managed by the bureau. A weekly reconciliation submission to the Standard & Poor's rating agency for the LGIP is one of several reconciliation processes that take place on a regular basis.

Investment Portfolio Management

The State Treasurer's Office makes statutorily defined investments that may be subject to further limitations or restrictions by the State Treasurer's Investment Policy, which provides guiding principles for all investment decisions. All portfolios are invested by qualified and experienced in-house portfolio managers. The internal investment advisory team discusses, agrees upon, and recommends the security types and terms prior to purchase and reports the executed portfolio activity to the State Treasurer's Investment Committee monthly. The division, with the assistance of the investment advisor, develops benchmarks against which the portfolios' performance can be measured. The portfolio managers invest the available cash based upon the intended uses into one of the pools described below.

The General Fund Investment Pool

The General Fund Investment Pool consists of three main components:

1. General Fund Liquidity Portfolio – Immediate cash needs of the State are to be met with the General Fund Liquidity Portfolio. The Liquidity Portfolio is expected to have minimal liquidity risk and all investments in this portfolio are constrained to less than a year;
2. General Fund Core Portfolio – The Core portfolio is comprised of balances that are not necessary to meet the short-term cash flow needs of the State. Accordingly, it may be invested over a longer term than the Liquidity Portfolio; and
3. General Fund Tax and Revenue Anticipation Notes (TRAN) Portfolio – The TRAN portfolio may temporarily hold proceeds of short-term Tax and Revenue Anticipation Notes which are periodically issued and sold by the State Treasurer pursuant to NMSA 1978, Section 6-12A-5

The State Treasurer's Office makes a portion of the General Fund money available for investment in certificates of deposit (CD) with New Mexico banks and credit unions to foster the economy of their communities. The passage of House Bill 471, the 'Linked Deposit Program,' during the 2007 legislative session expanded the CD program to allow the Treasurer to place time deposits with qualifying financial institutions (those serving economically disadvantaged rural communities) at favorable rates.

During FY 2014 the General Fund reported \$12.3 million in earnings. At fiscal year end, the General Fund Investment Pool had more than \$ 5.2MM in unrealized gains.



INVESTMENT DIVISION

The Bond Proceeds Investment Pool

The State Treasurer is responsible for investing bond proceeds from the issuance of state bonds sold by the State Board of Finance for capital projects, which include general obligation bonds, severance tax bonds, and supplemental severance tax bonds, these bonds are long-term obligations issued by the state of New Mexico to fund various infrastructure projects on behalf of the state of New Mexico.

The Bond Proceeds Investment Pool consists of two main components:

1. Tax-Exempt Bond Proceeds Investment Pool – The Tax-Exempt BPIP holds proceeds from tax-exempt general obligation and severance tax bonds issued by the Board until they are expended on capital projects.
2. Taxable Bond Proceeds Investment Pool – The Taxable BPIP hold proceeds from taxable severance tax bonds issued by the Board until expended on capital projects.

During FY 2014 the bond proceeds pools reported more than \$5.4 million in earnings. At fiscal year end, the bond proceeds pools had more than \$ 1.8MM in unrealized gains.

As the state’s paying agent, the Treasurer is responsible for making scheduled debt service payments on the bonds. The Bond Proceeds Investment Pools (BPIPs) facilitate the tracking of investment earnings and project draws to assure compliance with arbitrage restrictions and rebate requirements in accordance with the Federal Tax Reform Act of 1986.

The Local Government Investment Pool (LGIP) – The LGIP is a fund created pursuant to NMSA 1978 6-10-10.1 to allow municipal, city, county, tribe and quasi-governmental bodies to voluntarily remit money to the state treasurer to receive professional money management on a pooled basis. The LGIP is rated ‘AAAm’ by Standard & Poor’s, the highest principal stability credit rating awarded by Standard & Poor’s and has been reaffirmed annually since August 2007.

The State Treasurer has expanded a statewide outreach program to inform eligible entities about the benefits of investing in the LGIP in concert with the New Mexico Municipal League and the New Mexico Association of Counties. Annual stakeholder meetings have been successful, informing LGIP participants of fund performance, investment strategies and economic conditions.

During FY 2014 the local government investment pool reported more than \$930 thousand in earnings for its participants.

The Severance Tax Bonding Fund Pool– the Severance Tax Bonding Fund holds severance tax receipts pledged for debt service on severance tax bonds before being spent on permitted uses or transferred to the Severance Tax Permanent Fund held by the State Investment Council.

The Repurchase Pool which acts as a repository for cash balances from the portfolios managed by the State Treasurer from the Educational Retirement Association, the State Investment Council, the Public Employees Retirement Association and other entities within the state.

Allowable Investments

The types of investments that the State Treasurer may make are statutorily defined and subject to further limitations or restrictions by the State Treasurer’s Investment Policy. Examples of allowable investments are:

- | | |
|---|---------------------------------------|
| U.S. Government and U.S. Agency obligations | Commercial paper |
| Corporate bonds | Government money market mutual funds |
| Certificates of deposit | New Mexico municipal obligations |
| Repurchase agreements | Asset-backed obligations ‘AAA’ rated. |



Accomplishments FY 2014:

- 2013-2014 SB24 legislation
- Completed & adopted Investment Policy re-write
- Portfolio outperformance
- The Standard & Poor's AAAM rating for LGIP was reaffirmed
- Eliminated audit findings; implemented repairs
- Completed QED Platform as a Service (PaaS) System Platform upgrade
- Completed internal accounting reconciliation infrastructure with financial statement schedules
- Recommended DFA set up of SHARE accounts to record STO investment activity monthly
- Implemented Investment Division internal controls/signing authorities
- Investment Division Disaster Recovery Plan implemented and tested
- Completed annual broker dealer process
- Hosted 6th Annual Local Government Investment Pool (LGIP) Stakeholder Conference
- Completed state custody bank request for proposal
- Completed investment advisor request for proposal
- Continue staff development and cross training
- Developed, updated, and implemented procedures
- Continued Outreach (LGIP, Banks, CD program, Counties and Municipalities)
- Created a separate Severance Tax Bond Fund account with the custody bank to increase transparency and reconciliation
- Continued to refine cash projections to minimize liquidity balances



Initiatives FY 2015:

- Implement additional repurchase agreement (REPO) counterparties (currently in process)
- Facilitate 2015 Local Government Investment Pool (LGIP) Stakeholder Conference
- Evaluate longer duration LGIP
- Evaluate security lending programs to add incremental revenue
- Evaluate the addition of credit to State Treasurer's Office portfolios; build internal infrastructure
- Continue outreach (LGIP, banks, CD program, counties and municipalities)
- Evaluate the creation of a state mandated collateral pool
- Explore professional development for staff
- Continue in-house staff development



OPERATIONS DIVISION



The Operations Division provides human resources, information technology and daily office operations support to the State Treasurer's Office. The division is responsible for facilities management and security, agency vehicle maintenance, mail processing and inter-agency deliveries. The Operations Division led the charge to revamp the Emergency Evacuation Plan and conducted evacuation drills to ensure staff was aware of the required procedures. The division responds to internal customer needs and works with external agencies and stakeholders.

Human Resources Bureau

The Human Resources Bureau coordinates all human resource operations for all divisions of the agency to include all matters pertaining to compensation, classification analysis, hiring, promotions, terminations, separations, transfers, retirements, payroll, workers compensation, internal staff development, employee relations, labor relations, policies and procedures, and new employee orientation. The bureau also provides services related to performance appraisals, training, benefits administration, drug and alcohol prevention programs and human resource records management. All services are provided in accordance with the applicable state and federal labor laws, rules and regulations of the State Personnel Board and agency policies and procedures.

The Human Resources Bureau prepares and processes documentation for personnel actions, monitors performance evaluations, trains staff and processes bi-weekly payroll. The goal of the Human Resources Bureau is to provide professional, courteous, timely, and sound human resource services and information to the employees and external agencies while maintaining strict confidentiality.

Information Technology Bureau

The IT Bureau maintains and monitors the State Treasurer's Office IT systems. The bureau evaluates business processes and plans for automating functions where possible. The bureau maintains the local area network, investment systems, accounting system, and telecommunications for the office. The bureau also maintains the disaster recovery network and the disaster recovery investment system. The bureau manages the security systems and information systems (software and hardware). The bureau is responsible for cyber security and the maintenance of the State Treasurer's information technology business continuity plan and the disaster recovery plans. Currently, the State Treasurer's Office maintains a Disaster Recovery Site (Hot Site) at the Attorney General's Office in Albuquerque, NM. The IT Bureau continuously reviews and evaluates the hardware and software to determine future technology needs to ensure the State Treasurer's Office can continue operations with minimal down time, should a disaster occur.

Accomplishments FY 2014:

- Overall Cyber Security at the State Treasurers office was improved to a high degree. Firewall security was tightened, a third party security review was completed, and identified flaws in security were mitigated.
- All desktop computers in the agency had hard drive encryption implemented.
- The State Treasurer's Office has moved the on-site and off-site investment system to the web; which is maintained and managed by QED Financial Systems.
- The Disaster recovery system for the Investment System will be stored in a bunker located in New Jersey, which will be maintained and managed by QED Financial Systems, giving the State Treasurer's office 24 x 7 access. These changes mark an increase in security for the Treasurer's office and a long term cost savings.
- Funds totaling \$1.9 million were appropriated by the legislature during the 2013 legislative session for the implementation and configuration of the PeopleSoft 'Treasury Management System'. The project is currently on hold pending the upgrade of SHARE PeopleSoft software to a more current version capable of running the Treasury Management Module.
- Emergency Evacuation Procedures and the Disaster Recovery Plan were finalized and implemented
- Training for staff conducted or provided including the code of conduct, office policy reviews, the Hatch Act, Active Shooter Response, college savings plan, PERA legislative update and a discussion on governance
- The State Treasurer's Office participated in the United Blood Services drive and the American Cancer Society Making Strides walk
- Assessed the office equipment to determine ergonomic quality; made adjustments accordingly
- Present service awards and acknowledge birthdays





Independent Auditors' Report and State Treasurer's Financial Statements

The 2014 audit of the State Treasurer's financial statements has been performed this year by the independent accounting firm of CliftonLarsonAllen, LLP with approval by the New Mexico State Auditor's Office.

Included in this section of the State Treasurer's 2014 Annual Report for the fiscal year ended June 30, 2014, are the Independent Auditors' Report and State Treasurer's Financial Statements.

The Management's Discussion and Analysis, Notes to Financial Statements, Schedules and Supplementary Information are included in the *State of New Mexico, Office of the State Treasurer, Financial Statements for the Year Ended June 30, 2014, and Independent Auditors' Report*, and are available for review on the State Treasurer's Web site at www.nmsto.gov.



Independent Auditors' Report

Honorable Susana Martinez, Governor
State Board of Finance
Honorable James B. Lewis, State Treasurer
Honorable Hector H. Balderas, State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparison for the general fund, and each fiduciary fund, of the State of New Mexico Office of the State Treasurer (the Office) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, each fiduciary fund, and the aggregate remaining fund information of the Office as of June 30, 2014, and the respective changes in financial position and, respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



FINANCIAL STATEMENTS

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. Schedules 1 – 11 in the Supplementary Information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014, or our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 16, 2014

FINANCIAL STATEMENTS



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

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



FINANCIAL STATEMENTS

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

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

FINANCIAL STATEMENTS



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

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



FINANCIAL STATEMENTS

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2014

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

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

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

Capital assets total acquisition value 263,731
Total accumulated depreciation (231,189)

Total capital assets, net 32,542

Some liabilities (compensated absences) are not due and payable
in the current period and are not included in the fund financial
statement, but are included in the governmental activities
of the Statement of Net Position. (121,634)

Net position of governmental activities (Statement of Net Position) \$ 220,946,800

FINANCIAL STATEMENTS



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

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



FINANCIAL STATEMENTS

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

Net Change in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and
Changes in Fund Balances) \$(81,982,223)

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

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

This is the amount by which depreciation expense of \$21,248
exceeded capital outlay expense of \$9,952 in the current period: (11,296)

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

Increase in compensated absences (11,286)

Change in net position of governmental activities \$(82,004,805)

FINANCIAL STATEMENTS



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

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



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

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



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

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



BOARDS AND COMMISSIONS

The State Treasurer serves on the following boards and commissions and is the only elected state official to serve as a member of all state financial and investment boards and commissions, which have a total fiduciary responsibility of more than \$40 billion.

State Board of Finance (BOF) has general supervision of the fiscal affairs of the state. It is charged with the safekeeping of all money and securities belonging to or in the custody of the state, and has authority to issue general obligation bonds and severance tax revenue bonds.

State Investment Council (SIC) administers and manages New Mexico's three permanent trust funds: the Land Grant Permanent Fund, the Severance Tax Permanent Fund, and the Tobacco Settlement Permanent Fund. Additionally, the State Investment Council manages long-term investment funds for multiple state and local government entities.

Public Employees Retirement Association (PERA) oversees the principal retirement and disability benefits programs of state, county, and municipal employees, including municipal police and firefighters. The Board serves as trustee for the association. Its mission is to preserve, protect, and administer the trust to meet its current and future obligations and provide quality services to association members.

Educational Retirement Board (ERB) provides retirement benefits for teachers and other school employees from public school districts, institutions of higher education, and educational agencies. The Board is the trustee of the Educational Retirement Fund.

Retiree Health Care Authority (RHCA) was created in 1990 to provide comprehensive and affordable group health insurance to eligible retirees of certain public service employers in New Mexico, to their spouses and dependents, and to surviving spouses and dependents.

Mortgage Finance Authority (MFA) is a quasi-public entity, financing housing and related services for low-to moderate-income and underserved families. The Mortgage Finance Authority provides affordable housing finance programs, including assistance for the homeless, apartment development, and home ownership.

Educational Assistance Foundation (EAF) is a non-profit corporation, created pursuant to the State Educational Assistance Act, which provides financial assistance to qualified post-secondary students. The purpose of the Foundation is to improve the educational opportunities of residents of New Mexico through educational assistance programs.

Small Business Investment Corporation (SBIC) is charged with creating new job opportunities and supporting new or expanding businesses in the state. The SBIC makes more capital available to small businesses through investing in alter-native and micro lenders as well as venture capital funds.

Martin Luther King, Jr. Commission (MLK) promotes cultural awareness and human rights to all people of New Mexico through Dr. King's life philosophy and six principles of nonviolent social action.

Capitol Buildings Planning Commission (CBPC) is responsible for long-range planning and review of state properties and the development of an overall master plan.

Renewable Energy Transmission and Authority (RETA) has the authority to issue and sell revenue bonds and use the proceeds to finance eligible energy transmission and storage facilities and to acquire and operate facilities through leases.



Congratulations
State
Treasurer
James B. Lewis



ACKNOWLEDGEMENTS

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Office of the State Treasurer. A special thanks to the many staff members who provided information, suggestions, and support for this publication.

Special appreciation is given to the New Mexico State Auditor's Office and the New Mexico Department of Finance and Administration, for their dedicated efforts in assisting us in the preparation of the State Treasurer's 2014 Annual Financial Report and the 2014 Independent Auditor's Report. Special thanks to Dominic Chavez and Hannah Chavez for their creativity and hard work designing the annual report. In addition, gratitude is extended to State Treasurer's Office Staff, the New Mexico Department of Tourism and dcustomdesign.com for the use of photographs presented in this report.

State Treasurer James B. Lewis would like to thank the citizens of New Mexico for their support and trust in electing him to serve as their state treasurer. When Treasurer Lewis took the oath of office, he pledged to do what is legal, ethical and what is good for the state. During his tenure he was most proud of serving the people of this state and for restoring their faith and trust in the State Treasurer's Office.

