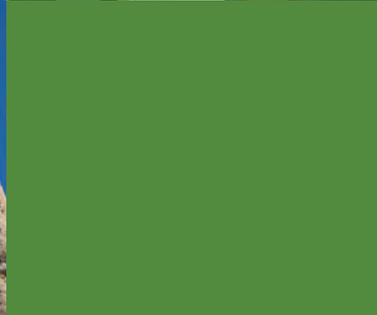
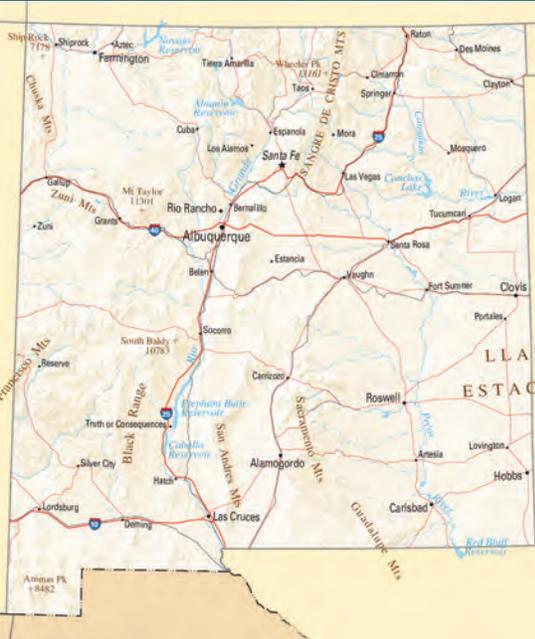


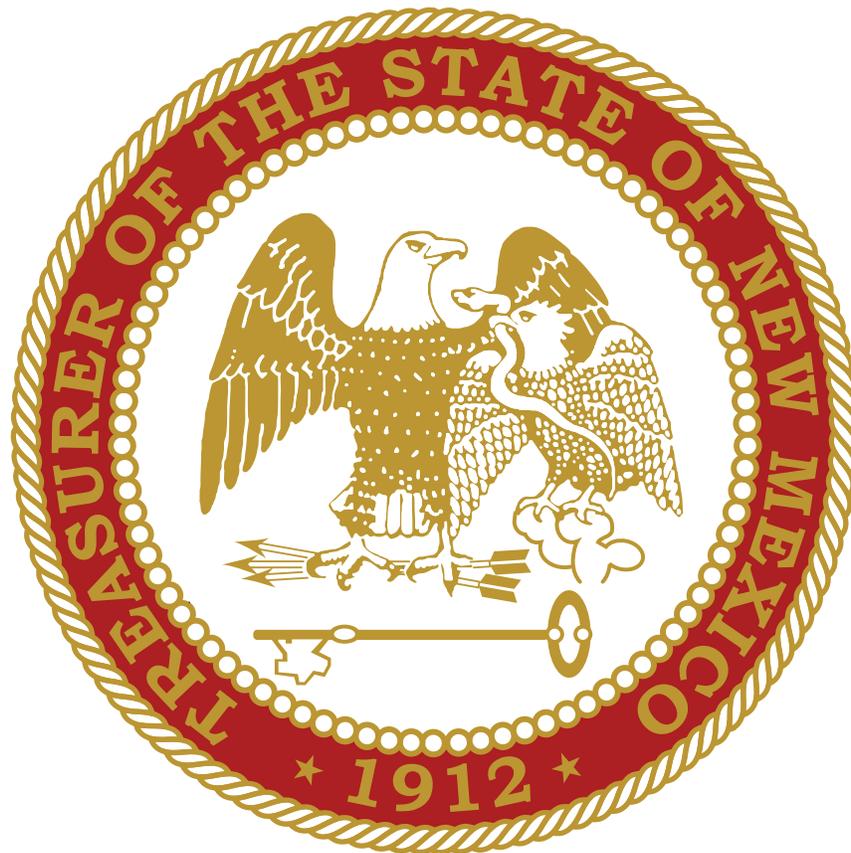


New Mexico State Treasurer's Office



**Annual Report
Fiscal Year 2018**

New Mexico State Treasurer's Office



2018 Annual Report

The Honorable Tim Eichenberg
New Mexico State Treasurer

The New Mexico State Treasurer's Office Annual Financial Report for the Fiscal Year ended June 30, 2018, provides a synopsis of STO's achievements. An electronic version of this report is available at www.nmsto.gov.

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PHOTO: Julie Filanoff



PHOTO: Julie Filanoff

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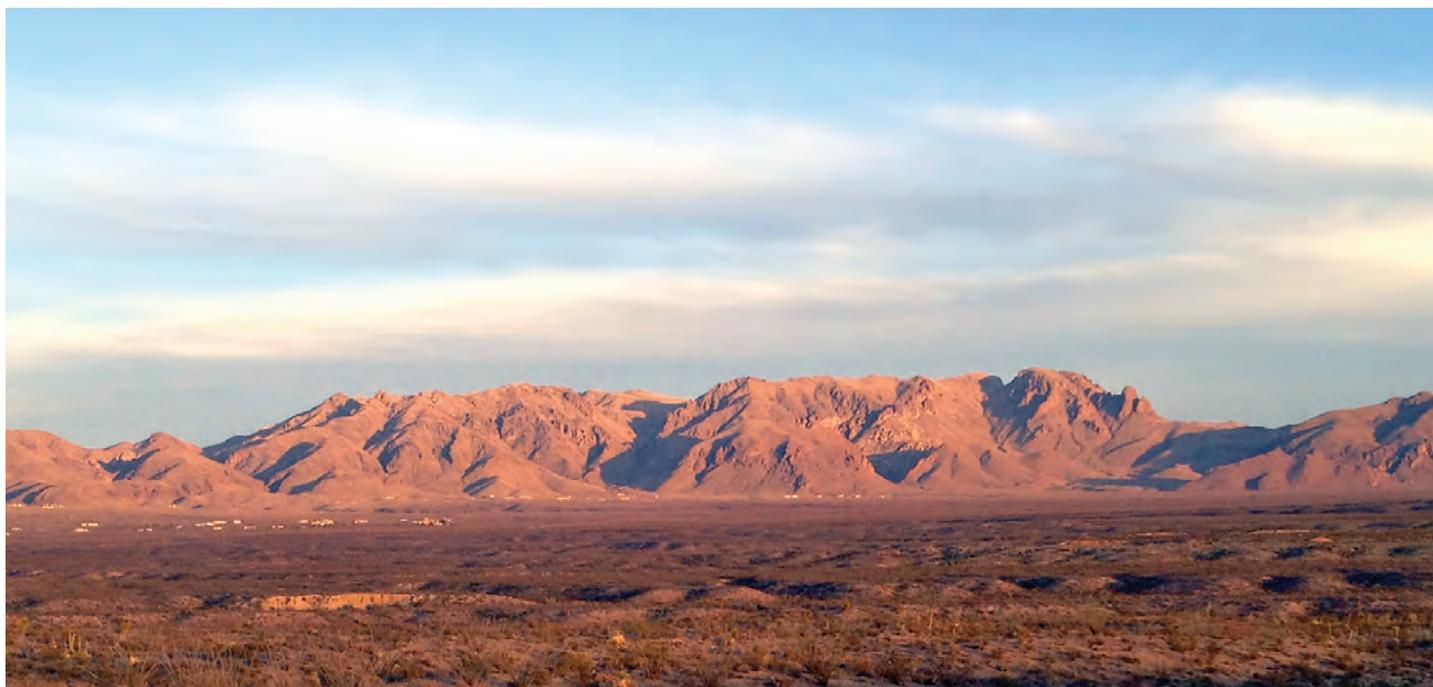


PHOTO: Václav Valentine



STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

THE HONORABLE TIM EICHENBERG
State Treasurer

SAMUEL K. COLLINS, JR.
Deputy State Treasurer

December 15, 2018

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

Dear Fellow New Mexicans,

The State Treasurer's Office respectfully submits the Annual Report for the fiscal year ending June 30, 2018. The report includes financial statements and other pertinent information regarding operations and accomplishments of the agency, which include generating more than \$49 million in earnings for FY2018.

As required in the State Audit Rule (2.2.2 NMAC), the annual external audit was completed and submitted to the State Auditor by the November 1, 2018, deadline. The Independent Auditor's Report and the State Treasurer's Office financial statements are included.

It has been an honor to serve as your State Treasurer and I will continue to represent the citizens of New Mexico with honesty and integrity, while safeguarding the taxpayers' money through sound management practices and a safe investment program.

Many thanks to the dedicated employees of the State Treasurer's Office for their hard work and commitment to the success of the agency.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tim Eichenberg".

Tim Eichenberg
New Mexico State Treasurer

Biography of the State Treasurer



The Honorable Tim Eichenberg

Tim Eichenberg assumed office on January 1, 2015, becoming the 29th State Treasurer of New Mexico. Raised in Albuquerque, New Mexico, he attended Albuquerque Public Schools and graduated from the University of New Mexico. He and his wife have two adult children and two grandchildren.

Eichenberg's career in public service began in 1974, when he was elected Bernalillo County Treasurer. The reforms that were implemented during his tenure saved taxpayers money and led to his re-election. After serving two terms as Bernalillo County Treasurer, he went to work in the private sector. He operated a small business in Albuquerque for over 30 years as a Property Tax Consultant, State Certified Appraiser, General Contractor (GB-98), and Real Estate Broker.

In 1994, Eichenberg was elected to the Albuquerque Metropolitan Arroyo Flood Control Authority Board, a position he still holds today. In 2004, he was appointed by Governor Richardson to the position of New Mexico State Property Tax Director.

Eichenberg was elected to the New Mexico State Senate in 2008. As a State Senator, he chaired the Restructuring Committee, which sought to streamline State government and save taxpayers money. In 2010, he carried the Governmental Conduct Act, establishing a code of ethics for all government employees. In 2012, Eichenberg served as Chair of the Revenue Stabilization and Tax Policy Committee.



PHOTO: Václav Valentin

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 a) require the Treasurer to act as the State's banker to receive, keep, and account for State funds collected and disbursed, and b) 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 monies 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 monies 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% 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% 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, and the State Personnel Act and its rules and regulations. It also requires all employees to complete a financial disclosure form and report any campaign contributions.

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 monthly. This ensures that the investments are conducted in compliance with State and Federal law and the State Treasurer's directives. There is a separate policy for the investment of the Local Government Investment Pool funds. This policy adheres to the standards set forth in the general investment policy.



PHOTO: Velver Valentine

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 an elected official 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

Owen N. Marron	1912–1916	Joseph B. Grant	1957–1958
H.L. Hall	1917–1918	Joe Callaway	1959–1960
Charles U. Strong	1919–1920	Joe Callaway	1961–1962
O.A. Matson	1921–1922	Joseph B. Grant	1963–1964
John W. Corbin	1923–1924	Joseph B. Grant	1965–1966
Warren R. Graham, Sr.	1925–1926	H.E. Thomas, Jr.	1967–1968
Warren R. Graham, Sr.	1927–1928	Merrill B. Johns, Jr.	1968–1969
Emerson Watts	1929–1930	Jesse D. Kornegay	1969–1970
Warren R. Graham, Sr.	1931–1932	Jesse D. Kornegay	1971–1974
Clinton P. Anderson	1933–1934	Edward M. Murphy	1975–1978
James J. Connelly	1935–1936	Jan Alan Hartke	1979–1982
James J. Connelly	1937–1938	Earl E. Hartley	1983–1985
Rex French	1939–1940	James B. Lewis	1985–1986
Rex French	1941–1942	James B. Lewis	1987–1990
Guy Shepard	1943–1944	David W. King	1991–1994
Guy Shepard	1945–1946	Michael A. Montoya	1995–1998
H.R. Rodgers	1947–1948	Michael A. Montoya	1999–2002
H.R. Rodgers	1949–1950	Robert E. Vigil	2003–2005
R.H. Grissom	1951–1952	Douglas Brown	2005–2006
R.H. Grissom	1953–1954	James B. Lewis	2006–2014
Joseph B. Grant	1955–1956	Tim Eichenberg	2015–Present

Significant Milestones

Accountability and Transparency

The State Treasurer operates under complete transparency and full accountability to assure that all transactions are in the best interest of the public:

- The STO website includes a wealth of useful public information such as daily investment rates, monthly investment reports, operating budget comparisons, and annual financial audit reports.
- STO responds promptly to requests through the Inspection of Public Records Act.
- STO places announcements in local media regarding special events or programs.

The State Treasurer's Office maintains a number of internal and external checks and balances, such as engaging an independent accounting firm in cooperation with the State Auditor to perform the annual financial audit. Additionally, the State Treasurer presents information to various legislative committees.

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

Treasury Management System

When the Statewide Human Resources | Accounting | Reporting system (SHARE) was implemented in 2006, the Treasury Management Module was only partially configured. The investment accounting system (QED) was not integrated or interfaced with SHARE. STO ran manual entries monthly to true-up SHARE's general ledger and maintained many other processes in spreadsheets. Since 2012, reports and memos by DFA and Deloitte have pointed to the need for an alignment of business and accounting practices and the use of an integrated book of record, so STO took on this important project.

STO completed the implementation of the Treasury Management Module in SHARE in May 2018. The Treasury Management Module integrates electronic funds transfers (e.g., wires and ACH), cash and liquidity management, cash forecasting, debt and investment management, and investment pool management.

The Treasury Management Module project goals and objectives were to: minimize manual processes, provide integration of and transparency into STO's investment and debt positions, leverage the State's existing investment in SHARE, and facilitate book-to-bank reconciliation for DFA and agency fund balance verification for the Office of the State Auditor (OSA).

As we move forward, there are opportunities for enhancements to the system, including: additional automated interfaces (JPMorgan, Wells Fargo, Bloomberg, and other banks), bond accounting/project fund tracking and processing, and review of business processes and organizational structure.

ABLE New Mexico

In 2014 Congress passed the Stephen Beck, Jr. Achieving a Better Life Experience (ABLE) Act, considered one of the most significant pieces of legislation for the disability community since the Americans with Disabilities Act. The New Mexico legislature authorized ABLE accounts in 2016 with overwhelming bipartisan support.

The program enables eligible individuals with disabilities to save money in a tax-exempt account that may be used for qualified expenses while keeping their eligibility for Federal public benefits. The total annual contributions allowed into an ABLE account by all contributors (including family, friends, and the beneficiaries themselves) is \$15,000 per tax year. An account may have up to \$462,000 before Federal and State benefits would be affected (\$100,000 for those receiving SSI). Eligible individuals must have significant disabilities with an onset prior to age 26.

Significant Milestones

Funds in the account can be used to cover qualified disability-related expenses that assist the individual in increasing and/or maintaining health, independence and/or quality of life.

STO launched ABLE New Mexico in January 2018. It is estimated that currently about 30,000 New Mexicans meet the threshold. More than 100 accounts were opened during the first six months of the program.

Payment Card Industry Data Security Standards

As a member of the Enterprise Payment Card Industry (PCI) Compliance Steering Committee, STO has continued to commit significant resources to the enterprise project to bring all agencies accepting payment cards into compliance with the PCI Data Security Standards. Not being fully compliant at the State level has resulted in fines of \$5,000 per month being assessed by VISA since the middle of 2016. Reaching full compliance at the State level is anticipated to occur in FY19.

Retirement Income Security

Underinvestment in retirement savings creates the potential for fiscal challenges because states must face the prospect of relying on public funds to fulfill the needs of aging populations. New Mexico has a lower percentage (34%) of private-sector workers who have a retirement plan available through their employers compared to the rest of the nation (42%). Additionally, 67% of private-sector workers in New Mexico (versus 62% nationwide) have \$0 saved for retirement. It is expected that by 2040, 469,000 New Mexicans 60+ years old will have less than \$10,000 saved for retirement.

House Memorial 12 created the Retirement Income Security Task Force, chaired by the State Treasurer. The Task Force met seven times during FY2018 to assess the retirement savings shortfall, examine relevant data, and create a report that recommended four legislative actions: focus on financial literacy, create an online marketplace, create a voluntary State IRA

(which, depending on predetermined triggers, may convert to a mandatory IRA), and request an advisory opinion from the New Mexico Attorney General.

Business Continuity and Disaster Recovery Planning

The State Treasurer's Office business continuity plan recognizes exposure to internal and external threats, identifies essential functions and key assets, and takes steps to effectively prevent and recover from both foreseeable and unforeseeable threats. The plan could be activated easily in the event of a threat or work disruption. The office would be able to continue providing vital banking and investment services to State and local governments with minimal disruption.

Investing for New Mexico

The State Treasurer's investment policy mandates the following principles for all investment decisions, in this 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 nine 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 process to assure compliance with investment policy.

Cash Forecasting

Accurate cash flow forecasting is essential to the State Treasurer's Office for liquidity management and short-term investing. 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.

State Treasurer's Office Staff

Staff as of June 30, 2018

Tim Eichenberg—State Treasurer
Samuel K. Collins, Jr.—Deputy Treasurer

Felicia Anaya—Accountant & Auditor O	Brent Johnson—IT Technology Officer
Marie Andermann—Accountant & Auditor A	Jeremy Landrum—Portfolio Manager
Heather Benavidez—Liaison Officer	Yovanne Lucero—Budget & Finance Specialist
Dominic L. Chavez—Cash Management Division Manager	Heather Lujan—LGIP Coordinator
Hannah Chavez—Investment Transaction Supervisor	Tara Luján—Human Resources Specialist
Charmaine Cook, AAP—State Cash Manager	Paul Madrid—IT Systems Administrator III
Alisha Dominick—Financial Coordinator A	David Mahooty—Chief Financial Officer
Cindy Cordova—General Counsel & Public Information Officer	Denise Payne—Overnight Repo Coordinator
Julie Filatoff—Staff Manager	Yvonne Ramirez—IT End User Support III
Arsenio Garduño—Collateral Manager	Michael Romero—Accountant & Auditor A
Vikki Hanges—Chief Investment Officer	Maria Schoeppner—Accountant & Auditor O
Victoria Hutchison—Securities Coordinator	Clarence L. Smith—Chief Operations Officer
	Velvet Valentine—Business & Operations Specialist O
	Annabel Vigil—Accountant & Auditor A

Deputy State Treasurer

Samuel K. Collins, Jr., was sworn in as Deputy State Treasurer on October 7, 2015, by District Judge Stan Whitaker.

Prior to his appointment, Mr. Collins served as Vice President—Public Funds Treasury Management with First National Bank. Previously he served as the New Mexico State Cash Manager.



Mr. Collins' background combines experience in the public sector with several years of senior-level bank management. Before beginning public service with the State Treasurer's Office, which serves as the bank for the State, he served for 15 years as President/Chief Executive Officer of Union Financial Corporation and its subsidiaries (Union Savings Bank and Union Savings Bank Mortgage Company) in Albuquerque. He also served as Vice President/Controller at Pioneer Bank in Roswell.

Mr. Collins is a native New Mexican who was born and raised in Roswell.

Budget and Finance Division

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 State Treasurer's Office.

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

Chief Financial Officer

The State Treasurer's Chief Financial Officer (CFO) serves as the Budget and Finance Division Director. The CFO is responsible for establishing strong budgetary controls and ensuring that 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 are recorded and posted in the proper category and that cash account records are reconciled in a timely manner, with monthly reports to the State Treasurer.

The CFO is responsible for ensuring that budget and accounting systems function properly and that 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 that 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



PHOTO: Velvet Valentine

are required for all budget requests. The appropriation request is submitted to the Department of Finance and Administration and the Legislative Finance Committee for consideration by the Legislature and the 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 that the office is operating within budget guidelines.

Finance Bureau

The Finance Bureau is charged with the following responsibilities:

Reconciliation & Preparation of Financial Statements & Treasury Transaction Postings to General Ledger

The Finance Bureau coordinates information required by the independent public accounting firm performing the annual external audit.

Contract Management

This ensures that 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.

Budget and Finance Division

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; upon receipt of the payment, the warrant is reviewed for accuracy prior to release to the vendor.

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 are managed by the bureau.

Significant Milestones & Accomplishments for FY2018

- The FY18 audit yielded an Unmodified opinion with one finding. The number of findings has reduced from four in FY2014 to one in FY2017 and FY2018. Improved internal controls led to the latest satisfactory audit.
- Implemented the SHARE Deal Management module in May 2018 to increase accounting automation, accuracy, and transparency.
- Acquired additional experience and governmental accounting skill sets to complement the Budget and Finance Division.

Initiatives for FY2019

- Reduce the number of audit exceptions to zero.
- Continue to convert physical warrant payments to paperless, all-electronic disbursements.
- Continue updates of the financial matrix developed by STO and DFA, and continue working with the agency's other divisions to overcome the obstacles of SHARE.
- Continue improving procurement procedures for purchases of goods and services to ensure adherence to the State Purchasing Act.
- Continue communication and improvement on internal and external customer service.
- Develop written procedures for preparing the various internal reports generated by Budget and Finance, including:
 - Preparation of the Budget Status Report
 - Deal Management Reconciliation and Reporting
 - Biweekly Payroll Reconciliation
 - Internal Purchasing and Payment Procedures



PHOTO: Velvet Valentine

The Cash Management Division provides treasury banking services to the State through the fiscal agent contract and relationship. These services include cash forecasting and liquidity management to ensure that payments issued by DFA and other agencies are funded on a timely basis. Cash Management also oversees depository activity by all agencies, and ensures that public funds held by financial institutions are collateralized appropriately.

The position of State Cash Manager was established in 1993 under 8-6-3.1 NMSA 1978 and its duties are defined to include: issue 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 investment; determine and update warrant clearance patterns; and prepare a monthly written report to the State Treasurer's Investment Committee and the State Board of Finance of the State fund balances in financial institutions.

Cash Management Functional Areas

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 300 bank accounts, with 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 transactions posting to the accounts. 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, and for releasing vendor payments processed through SHARE as ACH transactions.



PHOTO: Velvet Valentine

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 bureau also reviews the monthly fiscal agent account analysis for compliance with the agreement and to identify and prevent unauthorized use.

Audit and Compliance Bureau

The Audit and Compliance Bureau is responsible for projection of the State's short-term and long-term cash balance needs, utilizing a model that was devel-

Cash Management Division

oped 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 Treasurer’s Office. The cash-flow model is updated as needed and a written report is issued monthly to the State Treasurer’s Investment Committee and the State Board of Finance.

The bureau also performs daily cash positioning to determine the State’s cash needs on an intra-day basis to meet its obligations. Cash positioning is a very critical function because errors can result in overdrafts or returned items at the fiscal agent bank.

The Audit and Compliance Bureau is also responsible for compliance with the Cash Management Improvement Act of 1990 (CMIA). Congress established the CMIA to ensure efficiency, effectiveness, and equity in the transfer of funds between State and Federal governments. The 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



PHOTO: Julie Filiaoff

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 Audit and Compliance Bureau performs annual compliance audits of New Mexico 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 used for covered programs. Audits begin at the end of the fiscal year and must be completed by November 1. 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.

Collateral Management/ Investment Compliance

The Collateral Manager ensures that adequate protection of State monies is 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



PHOTO: Julie Filiaoff

Cash Management Division

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 and plays a key role in the Division's cash-forecasting activities. The Collateral Manager also reviews trade documentation for adherence to the State Treasurer's Investment Policies and Investment Division procedures.

Significant Milestones & Accomplishments for FY2018

- Provided subject-matter expertise for the SHARE 9.2 Upgrade projects for Financial Reporting.
- Began utilizing new cash management and investment functionality through the SHARE Treasury Module implementation. Continued processing in parallel on the legacy QED platform to ensure successful conversion of historic data and accuracy of transaction settlement and tracking.
- Supported increased call volumes in Cash Management, assisted agencies in adapting to processing changes introduced in SHARE 9.2, and worked with DoIT and DFA to resolve SHARE 9.2 incident reports.
- Participated with the Board of Finance in revising NMAC 2.60.8—Acceptance of Payment Cards and Use of Electronic Funds to include specific PCI vendor management requirements.
- Actively participated in the statewide project to bring all agencies accepting payment cards into compliance with the payment card industry data security requirements. Significant progress



PHOTO: Veva Valentine

toward achieving full compliance was made with the statewide percentage of compliance increasing to 85% versus 30% at the end of FY2017.

- Continued to actively network within the banking industry and related professional organizations to support and promote leading treasury management practices and risk avoidance related to fraud and identify theft.
- Supported preparations and presentation of the 10th Annual Local Government Investment Pool Stakeholder Meeting in fall 2018.
- Reduced risk by developing backup resources for critical functions performed by the Collateral and Compliance team.
- Developed and implemented strategy change that made the application and selection process for the Broker-Dealer List a biennial event, thus freeing up resources for other work within the Division.

Initiatives for FY2019

- Fully utilize the Deal Management Module within SHARE and work toward automated processes for trade activities, settlement, tracking, reporting, and investment compliance.

Cash Management Division



PHOTO: Valvet Valentine

- Fully assess and develop roadmap for alternative solutions for processing bank deposits in remote communities in New Mexico impacted by banks closing branches.
- Continue to work with DoIT and DFA on the PCI DSS (bankcard data security) compliance project to reach compliance at the State level, thereby eliminating the \$5,000 per month fine imposed by VISA in 2016 for the State’s status of “not fully compliant.”
- Work with DoIT, DFA, and the Board of Finance to develop an infrastructure for the monitoring of PCI compliance for agencies accepting payment cards, and a program to educate and assist agencies wanting to add card payments or modify existing merchant services.
- Review functional roles across Cash Management and Investments Divisions to develop organizational alignments that support and maximize the efficiencies provided by the new SHARE Treasury and Deal Management environments.

- Work with external consulting resources to resolve monthly average balance calculation errors in PeopleSoft 9.2 delivered functionality for Investment Pools, and to refine accounting processes in the Treasury Module of SHARE.
- Assess options and develop plans for:
 - obtaining market pricing for investment and collateral positions held in SHARE Deal Management as an alternative to QED, the legacy investment accounting system
 - providing automated access to LGIP participants for contributions, withdrawals, reporting, and statements
- Pursue automated interfaces with JPMorgan and Bloomberg for Deal Management activities.
- Help manage financial risk by implementing policies and procedures for proactively auditing access to the fiscal agent bank’s online portal to ensure that access to sensitive services is limited appropriately and to disable/delete User IDs that are invalid as a result of employee resignations, terminations, or transfers.



PHOTO: Julie Filanoff

The Investment Division is responsible for investing money, transacting funds, and 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 team discuss, agree upon, and recommend the security types and terms prior to purchase; secure post-trade review signatures; and report the executed portfolio activity monthly to the State Treasurer's Investment Committee and the State Board of Finance. 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 (STIC) is an advisory committee that meets monthly to review the investment portfolios for statutory compliance, quality, diversification, maturity, and performance. The STIC also reviews portfolio controls and collateral adequacy, and recommends investment procedural changes. Periodically, the committee recommends changes to the State Treasurer's Investment Policy.

Investment Strategy

During FY2018, the division earned approximately \$49.7 million. At the end of FY2018, the five portfolios totaled approximately \$4.7 billion. All funds are invested in a manner that conforms to Federal, State, and other legal requirements. The division is charged with observing the following priorities in making investment decisions, in the order described:

1. **Safety**—The first priority must be accorded to the preservation and protection of the principal of the funds to be invested.
2. **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, to satisfy the reasonably anticipated, continuing operational requirements of the specific fund invested.
3. **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.

Investment Division Organization

Investment Transactions Bureau

The bureau performs movement of funds and recording of investment activity into the Treasurer's sub-ledger accounting system and the custody system. The bureau verifies all trade activity from trade documentation, enters the data into the sub-ledger accounting and custody systems, 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 the staff corresponds with participants daily. The bureau also coordinates the Treasurer's annual LGIP Stakeholder Meeting.

Several reconciliation processes take place regularly, including a weekly reconciliation submission to the Standard & Poor's rating agency for the LGIP.



PHOTO: Julie Filiaoff

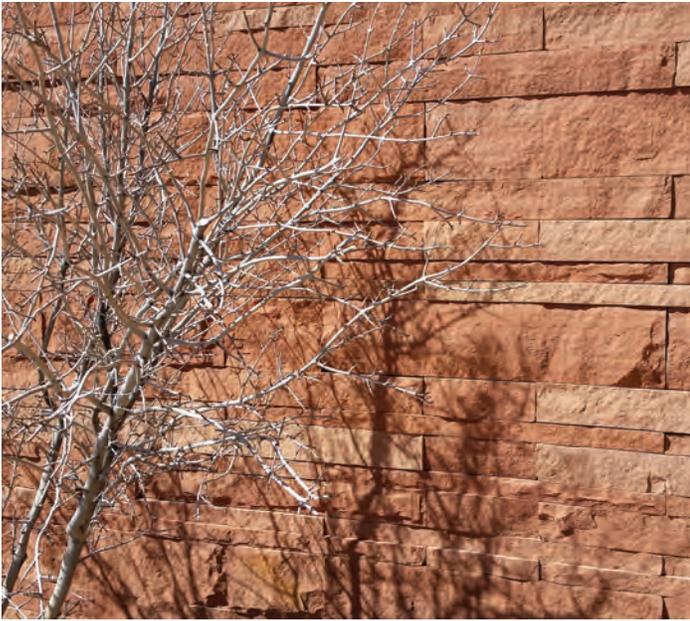


PHOTO: Julie Filiaffo

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 STIC 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.

Investment Funds Managed by the State Treasurer’s Office

The General Fund Investment Pool

The General Fund Investment Pool consists of three main components:

- **General Fund Liquidity Portfolio**—Immediate cash needs of the State are 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.

- **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.
- **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. There were no TRAN notes issued in FY2018.

The State Treasurer’s Office makes a portion of the General Fund money available for investment in certificates of deposit (CDs) 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 FY2018 the General Fund reported \$26.2 million in earnings. At fiscal year end, the General Fund Investment Pool had an unrealized loss of \$13 million based on mark-to-market. By holding through maturity, no loss is anticipated.



PHOTO: Velvet Valentine

The Bond Proceeds Investment Pools

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 all New Mexicans.

Bond proceed monies are managed according to whether the issued bonds were tax-exempt or taxable.

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

During FY2018 the bond proceeds pools reported \$11 million in earnings. At fiscal year end, the bond proceeds pools had \$4.1 million in unrealized losses, based on mark-to-market. By holding through maturity, no loss is anticipated.

The 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.



PHOTO: Julie Filiaoff



PHOTO: Julie Filiaoff

Local Government Investment Pool (LGIP)

The LGIP is a fund created pursuant to NMSA 1978 6-10-10.1 to allow municipal, city, county, tribal, 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 FY2018 the Local Government Investment Pool reported \$9.7 million in earnings.

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. During FY2018 the Severance Tax Bonding Fund reported \$2.7 million in earnings.

Overnight Repurchase Pool

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

Significant Milestones and Accomplishments for FY2018

- Implemented the update and revision of the State Treasurer's Investment Policies by obtaining the required approval processes that culminated with the advice and consent of the New Mexico State Board of Finance.
- Continued to research and develop additional liquidity investment options for portfolio diversification purposes, including the incorporation of a government money market fund portal.
- Emphasized cash flow management to efficiently increase investment returns during a period of rising interest rates and increased liquidity balances.
- Maintained shorter portfolio durations versus benchmarks to preserve principal while taking advantage of reinvestment at higher interest rates.
- Continued to increase investment in the corporate credit sector of the fixed-income market.
- Facilitated the 10th Annual Local Government Investment Pool Stakeholder Meeting in fall 2018.
- Continued outreach programs to support growth and investment within the State of New Mexico.
- Supported professional development for staff.

Initiatives for FY2019

- Implement effective portfolio duration and sector strategies to successfully navigate expectations for a higher-interest-rate environment.
- Explore the potential for investing in additional fixed-income sectors.
- Continue researching the viability of LGIP variations including credit and longer-duration investment options.
- Construct a plan for LGIP front-end automation for participants' contributions, withdrawals, and reporting.
- Create a monthly informational newsletter for LGIP participants and prospects.
- Facilitate the 2019 Local Government Investment Pool Stakeholder Conference.
- Continue outreach (LGIP, banks, CD program, counties, and municipalities).

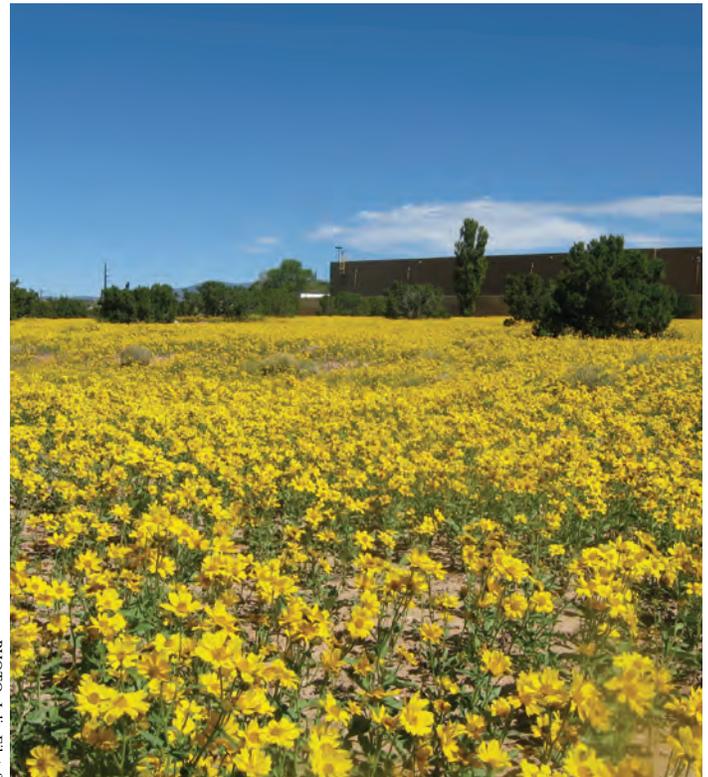


PHOTO: Julie Filanoff

The Operations Division is responsible for facilities management and security, agency vehicle maintenance, mail processing, and inter-agency deliveries. It also provides information technology and daily office operations support to the State Treasurer's Office. The division responds to internal employee needs and works with external agencies and stakeholders.

Information Technology Bureau

The IT Bureau operates, 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 agency servers, computers, local area network, investment systems, accounting system, and telecommunications for the office. The bureau also maintains the disaster recovery network and manages the security systems and information systems (software and hardware). The bureau is responsible for cybersecurity and the maintenance of the State Treasurer's Office Disaster Recovery and Business Continuity Plan. The State Treasurer's Office maintains a disaster recovery site (hot site) at an off-site location in New Mexico. The bureau continuously reviews and evaluates the hardware and software to determine future technology needs to ensure that the State Treasurer's Office can continue operations with minimal downtime and maximum efficiency.

Loss Prevention and Control Program

The Loss Prevention and Control Program complies with the State Loss Prevention and Control Program rule (1.6.4 NMAC) to assure that loss prevention and control is: an integral part of the job (and the required training of each agency worker); a line-management responsibility of high priority (evaluated on the execution of this responsibility); an agency commitment (demonstrated by the appointment of knowledgeable and experienced loss-control personnel); and a priority (compliance with workplace safety and employment-related civil rights rules and regulations). All divisions within the State Treasurer's Office are covered by this program.



PHOTO: Velvet Valentine

Significant Milestones and Accomplishments for FY2018

Information Technology

- Completed an annual cybersecurity audit.
- Completed the Treasury Management Module.
- Continued to use IT to reduce business costs.

Loss Prevention and Control Program

- Continued to stay in compliance with the requirement NMAC 1.6.4.
- Maintained facility security.

Initiatives for FY2019

Information Technology

- Complete an annual cybersecurity audit.
- Continue to use IT to support reduced business costs throughout the agency.

Loss Prevention and Control Program

- Continue to stay in compliance with the requirement NMAC 1.6.4.
- Assure STO's commitment to make loss prevention and control an integral part of the job and the required training of every agency worker, with workplace safety and employment-related civil rights a priority.
- Maintain facility security.

The Special Programs and Legislative Affairs Division includes the Achieving a Better Life Experience (ABLE), Forfeiture, Retirement Income Security Task Force, and Financial Empowerment for Women programs. Legislative Affairs works closely with the Legislative Council Service to ensure that issues important to STO are addressed in committees and during the legislative session.

Forfeiture Program

The Forfeiture Act is a law that was passed during the 2015 Legislative session and amends portions of NMSA 1978 § 31-27-1 to 31-27-11 (2015) et.seq., known as the New Mexico Forfeiture Act. The purposes outlined in the Forfeiture Act are to make uniform standards and procedures for the process; protect people's constitutional rights; deter criminal activity by reducing its economic incentives; increase pecuniary loss from criminal activity; protect against wrongful forfeiture; and ensure that only criminal forfeiture is allowed. The Forfeiture Act further indicates in § 31-27-7:

B. Unless possession of the property is illegal or a different disposition is specifically provided for by law and except as provided in this section, forfeited property that is not currency shall be delivered along with any abandoned property to the State Treasurer for disposition at a public auction. Forfeited currency and all sale proceeds of the sale of forfeited or abandoned property shall be deposited in the general fund.

While the program remains an unfunded mandate, the State Treasurer's Office continues to work with law enforcement across the State to implement a program and achieve compliance.

ABLE Program

The Federal "Achieving a Better Life Experience" (ABLE) Act was adopted in 2014 and was enacted in the 2016 New Mexico Legislative session as the "Accounts for Persons with Disabilities Act." The

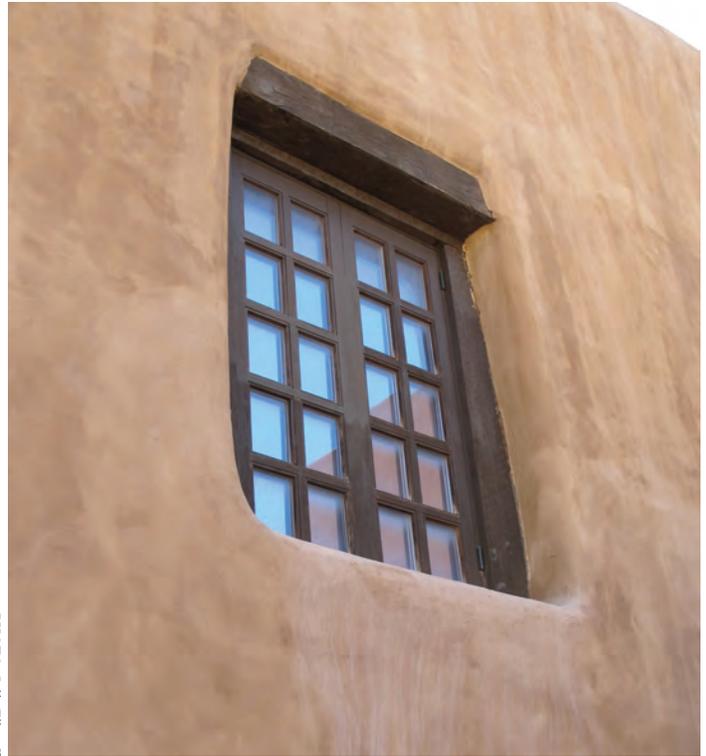


PHOTO: Julie Flahoff

ABLE Act allows qualifying people with physical and intellectual disabilities to establish tax-free savings accounts to put aside money to cover expenses related to their disability—including assistive technology, personal assistance services, housing, and healthcare—without losing their eligibility for public assistance. Individuals with disabilities with an onset before age 26 are eligible for the accounts and can contribute as much as \$15,000 per year with a lifetime limit of \$462,000, \$100,000 for those receiving SSI.

The ABLE accounts are administered as a 529A account, similar to the 529 College Savings Program, and beneficiaries may choose from a variety of investment options, similar to 529 college savings accounts or Roth IRAs. Participants can withdraw and spend money as needed for qualified expenses.

ABLE New Mexico became fully operational in January 2018. It is administered (at no cost to New Mexico) through the STABLE consortium and seamlessly "branded" as a New Mexico program. At the end of FY2018, ABLE New Mexico included 106 accounts.

Financial Literacy Program

The Financial Literacy program was initiated during Treasurer Eichenberg's first year in office. As the only non-statutory program within the State Treasurer's Office, it was necessary to put Financial Literacy on hold due to budget cuts. STO intends to bring back the program as soon as possible. The Treasurer believes it is important to bring financial literacy to high school students because these money-management skills prepare them for real-life experiences.

Alternative Dispute Resolution Program

This program promotes early dispute resolution and positive collaboration among employees by providing mediation services to resolve workplace conflict.

Significant Milestones and Accomplishments for FY2018

Forfeiture Act

- Continued communication, collaboration, and cooperation with law enforcement.



PHOTO: Julie Filardi

- Continued the development of a Memorandum of Understanding between STO and New Mexico's municipalities to outline distribution of properties and instrumentalities subject or pursuant to the Forfeiture Act.

ABLE Program

- Implemented the ABLE New Mexico Account Program startup (1st quarter of 2018) with citizen awareness through community outreach.
- Monitored the creation of ABLE New Mexico Accounts (number of participants, savings amounts, returns on investments).

Legislative Affairs Program

- Monitored legislation that may impact STO.
- Ensured adequate representation on legislative initiatives important to STO.

Retirement Income Security Task Force

- Convened the Task Force seven times with key stakeholders to help formulate the report, which identified options and processes available to implement a retirement savings vehicle for employees of small businesses.
- Treasurer Eichenberg delivered the Task Force's report in early FY2019.

Initiatives for FY2019

Forfeiture Act

- Develop a plan of action for distribution of properties and instrumentalities subject or pursuant to the Forfeiture Act, including a centrally located facility to house properties and staff to conduct day-to-day operations.
- Create tracking system for items auctioned and proceeds received from law enforcement.

ABLE Program

- Continue to collaborate with partner agencies and community service providers to inform consumers.
- Continue to monitor accounts and offer support and guidance to account owners.

Special Programs & Legislative Affairs Division



PHOTO: Vivier Valentine

- Track and report number of participants, average account balances, and returns on investments.

Loss Prevention and Control Program

- Continue to stay in compliance with the requirement NMAC 1.6.4
- Collaborate with Operations Division to assure STO's commitment to make loss prevention and control an integral part of the job and the required training of every worker, with workplace safety and employment-related civil rights a priority.

Alternative Dispute Resolution Program

- Continue to work with the Risk Management Division Alternative Dispute Resolution Bureau to continue providing employees with conflict-resolution options.
- Track all events related to ADR, including trainings, seminars, and referrals to mediation, then report these to GSD's Risk Management Division quarterly.

Legislative Affairs Program

- Continuously monitor legislation that may have an impact on STO.
- Work with the legislature to ensure that STO is adequately represented on important initiatives.

Retirement Income Security Task Force

- Assist as needed with draft legislation or testify before the State Legislature.

Financial Empowerment for Women

- Develop informational publications to introduce options and ideas that promote financial independence. Distribute to women's organizations.
- Hold workshops to educate women on how to increase earnings, create and maintain a budget, invest responsibly, and manage resources overall.
- Maintain online resources, including updating information regarding financial planning for costs of living, taxes, retirement, and widowhood.
- Continue to address disparity by championing equal pay for men and women who perform the same job duties.



PHOTO: Julie Filanoff

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

Honorable Susana Martinez, Governor, and President,
State Board of Finance
Honorable Tim Eichenberg, State Treasurer, New Mexico
Office of the State Treasurer
Honorable Wayne Johnson, State Auditor, New Mexico
Office of the State Auditor
New Mexico State Legislature
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, 2018, and the related notes to the financial statements, which collectively comprise the Office'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 Office'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 Office'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, each fiduciary fund, and the aggregate remaining fund information of the Office as of June 30, 2018, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Reporting Entity

As discussed in Note B, the financial statements of the State of New Mexico Office of the State Treasurer are intended to present the financial position, the changes in financial position, of only that portion of the governmental activities, and each major fund of the Office that is attributable to the transactions of the Office. They do not purport to, and do not present fairly the financial position of State of New Mexico as of June 30, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Pension Accounting and Reporting

As discussed in Note P, the State of New Mexico, as a single employer, has implemented Governmental Accounting Standards Board (GASB) Standards No. 68 Accounting and Financial Reporting for Pensions, as of June 30, 2018, in the Comprehensive Annual Financial Reports (CAFR). Accordingly, there is no allocation of the proportional share of the net pension liability to individual agencies or to the Office's financial statements. All other required footnotes and other disclosures required by the Governmental Accounting Standards Board are included in the State of New Mexico CAFR for June 30, 2018. Our opinion is not modified with respect to this matter.

Postemployment Benefits Other Than Pensions Accounting and Reporting

As discussed in Note Q, the State of New Mexico, as a single employer, has implemented GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, as of June 30, 2018, in the CAFR. Accordingly, there is no allocation of the proportional share of the net OPEB liability to individual agencies or to the Office's financial statements. All other required footnotes and other disclosures required by the Governmental Accounting Standards Board are included in the State of New Mexico CAFR for June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 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 lim-

ited 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 – 12 in the Supplementary Information section within the Table of Contents are required by 2.2.2 NMAC, and are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1 – 12 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. Except for Schedules 12 and 13, 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 – 10 in the Supplementary Information section required by 2.2.2 NMAC 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 November 1, 2018, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Office's internal control over financial reporting and compliance.



Atkinson & Co., Ltd. | Albuquerque, New Mexico | November 1, 2018

Financial Statements

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
ASSETS	
Investment in State General Fund Investment Pool	\$ 334,076
Repurchase agreements (Held in State General Fund Investment Pool)	269,996,906
Due from other agencies	116,696,925
Other receivables	17,799,312
Other assets	3,450
Capital assets, net of accumulated depreciation	<u>1,887,609</u>
 Total assets	 <u>\$ 406,718,278</u>
LIABILITIES	
Accounts payable	\$ 229,999
Accrued payroll	85,383
Accrued payroll taxes	20,540
Due to State General Fund	17,798,106
Other accrued liabilities	1,699
Unearned revenue	2,326
Compensated absences	<u>129,996</u>
 Total liabilities	 18,268,049
NET POSITION	
Investment in capital assets	1,887,609
Restricted for:	
Debt service	386,692,616
Unrestricted	<u>(129,996)</u>
 Total net position	 <u>388,450,229</u>
 Total liabilities and net position	 <u>\$ 406,718,278</u>

Financial Statements

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

	Expenses	Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position Primary Government
PRIMARY GOVERNMENT			
Governmental activities			
General government	\$ 4,645,166	\$ -	\$ (4,645,166)
Total governmental activities	\$ 4,645,166	\$ -	(4,645,166)
GENERAL REVENUES			
State property tax levy			81,318,307
Severance taxes			511,115,191
TRANSFER FROM (TO) STATE AGENCIES			
State General Fund appropriations			3,428,600
Special appropriations			911,350
Reversions to State General Fund FY18			(63,688)
Other state agencies			(519,430,703)
Interest revenue			13,627,623
Other state funds			122,300
Federal funds			1,776
Total general revenues and transfers			91,030,756
Change in net position			86,385,590
Net position, beginning			302,064,639
Net position, ending			\$ 388,450,229

Financial Statements

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER BALANCE SHEET—GOVERNMENTAL FUNDS JUNE 30, 2018

	Major Funds				Total Governmental Funds
	General Fund	General Obligation Bond Fund	Severance Tax Bond Fund	Gaming Suspense Fund	
ASSETS					
Investment in State General Fund					
Investment Pool	\$ 334,076	\$ -	\$ -	\$ -	\$ 334,076
Repurchase agreements (Held in					
State General Fund Investment Pool)	-	51,402,236	218,594,670	-	269,996,906
Due from other agencies	-	2,028,687	114,668,238	-	116,696,925
Other receivables	-	-	-	17,799,312	17,799,312
Other assets	3,450	-	-	-	3,450
	<u>3,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,450</u>
Total assets	<u>\$ 337,526</u>	<u>\$ 53,430,923</u>	<u>\$ 333,262,908</u>	<u>\$ 17,799,312</u>	<u>\$ 404,830,669</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 230,483	\$ -	\$ 1,215	\$ -	\$ 231,698
Accrued payroll	85,383	-	-	-	85,383
Accrued payroll taxes	20,540	-	-	-	20,540
Due to State General Fund	(1,206)	-	-	17,799,312	17,798,106
Unearned revenue	2,326	-	-	-	2,326
	<u>2,326</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,326</u>
Total liabilities	337,526	-	1,215	17,799,312	18,138,053
FUND BALANCES					
Restricted for:					
Debt service	-	53,430,923	333,261,693	-	386,692,616
Unassigned	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>53,430,923</u>	<u>333,261,693</u>	<u>-</u>	<u>386,692,616</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 337,526</u>	<u>\$ 53,430,923</u>	<u>\$ 333,262,908</u>	<u>\$ 17,799,312</u>	<u>\$ 404,830,669</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, 2018

Total Fund Balance - Governmental Funds (Balance Sheet - Governmental Funds)	\$ 386,692,616
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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	2,106,981
Total accumulated depreciation	<u>(219,372)</u>
Total capital assets, net	1,887,609

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

Net Position of Governmental Activities (Statement of Net Position)	<u>\$ 388,450,229</u>
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Financial Statements

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES—GOVERNEMENTAL FUNDS YEAR ENDED JUNE 30, 2018

	Major Funds				Total Governmental Funds
	General Fund	General Obligation Bond Fund	Severance Tax Bond Fund	Gaming Suspense Fund	
REVENUES					
Severance taxes	\$ -	\$ -	\$ 511,115,191	\$ -	\$ 511,115,191
State property tax levy	-	81,318,307	-	-	81,318,307
Interest income - debt service	-	2,838,802	10,788,821	-	13,627,623
Federal funds	1,776	-	-	-	1,776
Total revenues	1,776	84,157,109	521,904,012	-	606,062,897
EXPENDITURES					
Current:					
Personnel services and employee benefits	2,658,911	-	-	-	2,658,911
Operating costs:					
Contractual services	377,665	-	-	-	377,665
Other administrative expenditures	421,397	-	2,435	-	423,832
Other charges	-	466,573	577,523	-	1,044,096
Capital outlay	1,442,163	-	-	-	1,442,163
Total expenditures	4,900,136	466,573	579,958	-	5,946,667
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,898,360)	83,690,536	521,324,054	-	600,116,230
OTHER FINANCING SOURCES (USES)					
State General Fund appropriations	3,428,600	-	-	-	3,428,600
Special appropriation	911,350	-	-	-	911,350
Miscellaneous other sources	122,300	-	-	-	122,300
Reversions to State General Fund FY18	(63,688)	-	-	-	(63,688)
Transfer (to) from other state agencies	-	(77,576,776)	(441,853,927)	-	(519,430,703)
Total other financing sources (uses)	4,398,562	(77,576,776)	(441,853,927)	-	(515,032,141)
NET CHANGE IN FUND BALANCES	(499,798)	6,113,760	79,470,127	-	85,084,089
Fund balances, beginning of year	499,798	47,317,163	253,791,566	-	301,608,527
Fund balances, end of year	<u>\$ -</u>	<u>\$ 53,430,923</u>	<u>\$ 333,261,693</u>	<u>\$ -</u>	<u>\$ 386,692,616</u>

Financial Statements

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES—GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ 85,084,089
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlay	1,442,163
Depreciation expense	<u>(112,786)</u>

Excess of capital outlay over depreciation expense	1,329,377
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Some expenses reported in the statement of activities do not require the use of current financial resources, and these are not reported as expenditures in governmental funds:

Increase in compensated absences	<u>(27,876)</u>
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Change in Net Position of Governmental Activities	<u>\$ 86,385,590</u>
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Financial Statements

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER STATEMENT OF REVENUES AND EXPENDITURES—GENERAL FUND— BUDGET AND ACTUAL (BUDGETARY BASIS) YEAR ENDED JUNE 30, 2018

	General Fund			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State General Fund appropriation	\$ 3,428,600	\$ 3,428,600	\$ 3,428,600	\$ -
Special appropriation	911,350	911,350	911,350	-
Federal grants	4,000	4,000	1,776	(2,224)
Other	122,300	122,300	122,300	-
Total Revenues	4,466,250	4,466,250	4,464,026	(2,224)
EXPENDITURES				
Personnel services and benefits	2,794,500	2,684,500	2,658,911	25,589
Contractual services	1,317,350	1,317,350	1,785,122	(467,772) *
Other operating costs	354,400	464,400	456,103	8,297
Total Expenditures	4,466,250	4,466,250	4,900,136	(433,886)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	(436,110)	<u>\$ (436,110)</u>
Reconciliation to Statement of Revenues, Expenditures and Changes in Fund Balance Unbudgeted reversions to state general fund			<u>(63,688)</u>	
Net change in fund balances (GAAP basis)			<u>\$ (499,798)</u>	

*The contractual services is not over budget because of a restricted beginning net position of \$499,798.

Financial Statements

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2018

	<u>Investment Trust Fund</u>
ASSETS	
Cash and Investments:	
Fiscal agent bank account	\$ 91,750,447
Cash in banks	152,920,302
Miscellaneous cash	214,495,037
Certificates of Deposit	26,700,000
Government bonds	2,106,307,802
Treasury bills	59,852,400
Commercial paper	124,620,661
Municipal bonds	7,811,523
Repurchase agreements	1,598,000,000
Corporate bonds	107,527,022
Discounted notes	286,727,051
Bank acceptances	<u>69,257,746</u>
Total cash and investments	4,845,969,991
Securities receivable	9,511
Accrued interest receivable	<u>8,350,375</u>
Total assets	<u>\$ 4,854,329,877</u>
LIABILITIES	
Due to broker	<u>\$ 76,012,778</u>
Total liabilities	76,012,778
FIDUCIARY NET POSITION - held in trust	<u>4,778,317,099</u>
Total liabilities and fiduciary net position	<u>\$ 4,854,329,877</u>

Financial Statements

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER STATEMENT OF CHANGES IN FIDUCIARY NET POSITION JUNE 30, 2018

	<u>Investment Trust Fund</u>
ADDITIONS	
Investment income	\$ 34,073,989
Deposits	68,258,333,502
DEDUCTIONS	
Management fees	(259,265)
Withdrawals	<u>(67,183,899,757)</u>
Change in fiduciary net position	1,108,248,469
Fiduciary net position, held in trust for pool participants, beginning of year	<u>3,670,068,630</u>
Fiduciary net position, held in trust for pool participants, end of year	<u>\$ 4,778,317,099</u>

Boards and Commissions

Treasurer Eichenberg 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 \$60 billion, and here is a list of those boards and commissions.

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 the 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.

PHOTO: Velvet Valentine



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.

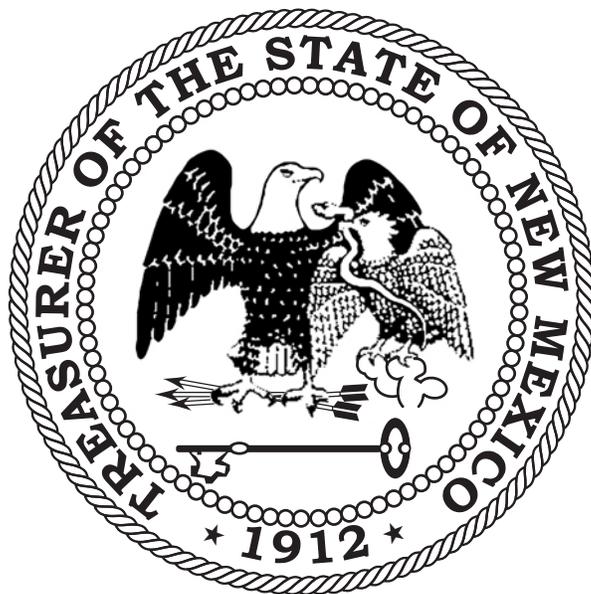
Educational Assistance Foundation (EAF) is a non-profit corporation, created pursuant to the State Educational Assistance Act, that provides financial assistance to qualified post-secondary students. The purpose of the Foundation is to improve the educational opportunities of residents of New Mexico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



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