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# Education Trust Board of New Mexico

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*Financial Statements  
and  
Independent Auditors' Report  
June 30, 2012*

**REDW**<sup>LLC</sup>  
CPAs | Business & Financial Advisors

# Education Trust Board of New Mexico

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# **Education Trust Board of New Mexico**

**Official Roster  
June 30, 2012**

## **Board of Directors**

|                           |   |
|---------------------------|---|
| Dr. Jose Garcia, PhD      | <i>Chair*/Cabinet Secretary, New Mexico Higher Education Department</i> |
| Robert J. Desiderio, J.D. | <i>Vice Chair, Education Trust Board</i>                                |
| Trevor Serrao             | <i>Student Member, Education Trust Board</i>                            |
| Robbie Heyman, Esq.       | <i>Member, Education Trust Board</i>                                    |

*\*According to state statute, the Chair of the Education Trust Board is the Cabinet Secretary of the Department of Higher Education. If the Cabinet Secretary chooses to, the Cabinet Secretary can designate an individual that is confirmed by the Governor, Senate Pro Team, and the Speaker of the House of Representatives.*

## Independent Auditors' Report

The Board of Directors  
The Education Trust Board of New Mexico  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the Administrative Fund and the fiduciary activities of the Education Trust Board of New Mexico (the "NMETB"), as of and for the year ended June 30, 2012, which collectively comprise the NMETB's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the NMETB's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NMETB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the NMETB are intended to present the financial position and changes in financial position of only that portion of the State of New Mexico that are attributable to the transactions of the NMETB. They do not purport to and do not, present fairly the financial position of the State of New Mexico as of June 30, 2012, and the changes in its financial position, and where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the Administrative Fund and each fiduciary fund (Sholar'sEdge and the Education Plan) of the NMETB as of June 30, 2012, and the changes in financial position thereof, and the Administrative Fund budgetary comparison, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the internal control over financial reporting and on compliance and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 14 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, who 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Information described as other supplementary information in the table of contents is not part of the basic financial statements and has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on such information.

REDW LLC

Phoenix, Arizona  
December 12, 2012

**Education Trust Board of New Mexico**  
**Management's Discussion and Analysis**  
**June 30, 2012**  
**(Unaudited)**

The following discussion and analysis provides an overview of the financial position and activities of the Education Trust Board of New Mexico (the "NMETB") as of and for the year ended June 30, 2012. This discussion should be read in conjunction with the accompanying financial statements and notes.

**Education Trust Board of New Mexico**

The NMETB established by New Mexico statute 21-21k-4 NMSA 1978 (Education Trust Act), which gives NMETB the authority to promulgate rules to carry out the Act; protect the financial integrity of the IRS 529 college savings plans; preserve program benefits and ensure appropriate use of tax benefits. NMSA 1978 sections 21-21K-3 and 21-21K-5 gives authority to enter into contracts with investors; review fund investments; pay institutions of higher education on behalf of beneficiaries; be a party to college investment agreements and approve circumstances for predesignation of the beneficiary; and establish a refund policy.

**Financial Highlights**

The assets of the NMETB exceeded its liabilities at June 30, 2012 by \$7,713,471 (net assets). Of this amount, \$7,713,471 (unrestricted net assets) may be used to meet NMETB's ongoing obligations.

At June 30, 2012, NMETB's Administrative Fund reported total fund balance of \$7,718,782. The fund balance represents 460% of 2012 expenditures.

The fiduciary funds had an increase in net assets of approximately \$19.07 million.

**Overview of the Financial Statements**

This financial report is comprised of four components: 1) management's discussion and analysis (this section), 2) the basic financial statements, 3) notes to the financial statements, and 4) supplementary information.

The statement of net assets presents information on all of the NMETB's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The statement of activities reports how the NMETB's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The focus of the statement of activities is on both the gross and net cost of activities.

**Education Trust Board of New Mexico**  
**Management's Discussion and Analysis**  
**June 30, 2012**  
**(Unaudited)**

The balance sheet and the statements of revenues, expenditures, and changes in fund balance report the NMETB's fund balance and how it has changed. Fund balance, the difference between assets and liabilities, is one way to measure the NMETB's financial health or position. Nonfinancial factors are also important to consider, including litigation and the vulnerability of the market in which the NMETB's assets are held.

The fund financial statements include all assets and liabilities using the modified accrual basis of accounting, which is consistent with the accounting method used by state and local government entities. Under this method revenues are recognized when susceptible to accrual and expenses are recorded when the liability is incurred.

The governmental activities reflect the NMETB's basic services which includes the administration of the Scholar'sEdge and the Education Plan. These services are financed primarily through charges for services and other general revenues.

Fiduciary fund financial statements present information about the status of the Scholar'sEdge and the Education Plan, fiduciary activities of NMETB. The financial statements are accompanied by notes that are essential to a full understanding of the financial information in this report.

**Financial Analysis – Governmental Activities**

*Net Assets:* Assets of governmental activities exceeded governmental activities liabilities by \$7.7 million at June 30, 2012. The following table summarizes the NMETB's summarized assets, liabilities and net assets as of June 30, 2012. This is the first year the NMETB has issued accrual based financial statements for its governmental activities; therefore, prior year amounts are not presented below.

**Summarized Assets, Liabilities and Net Assets – End of Year (In thousands)**

|                          |          |
|--------------------------|----------|
| <b>Assets</b>            |          |
| Current and other assets | \$ 8,311 |
| Total assets             | 8,311    |
| <br><b>Liabilities</b>   |          |
| Other liabilities        | 598      |
| Total liabilities        | 598      |
| <br><b>Net assets</b>    |          |
| Unrestricted             | 7,713    |
| Total net assets         | \$ 7,713 |



**Education Trust Board of New Mexico**  
**Management's Discussion and Analysis**  
**June 30, 2012**  
**(Unaudited)**

As of June 30, 2012, \$7.7 million of net assets were unrestricted for future operations.

**Changes in Net Assets.** Total revenues for the year ended June 30, 2012, were \$2.6 million compared with expenses of \$1.5 million. The following table summarizes the NMETB's changes in net assets:

**Net Assets – End of Year (In thousands)**

**Revenues**

Program revenues

|                                |          |
|--------------------------------|----------|
| Charges for goods and services | \$ 2,158 |
|--------------------------------|----------|

|                        |       |
|------------------------|-------|
| Total program revenues | 2,158 |
|------------------------|-------|

**General revenues**

|                   |   |
|-------------------|---|
| Investment income | 2 |
|-------------------|---|

|                     |     |
|---------------------|-----|
| Scholarship revenue | 500 |
|---------------------|-----|

|                        |     |
|------------------------|-----|
| Total general revenues | 502 |
|------------------------|-----|

|                |       |
|----------------|-------|
| Total revenues | 2,660 |
|----------------|-------|

**Expenses**

|  |       |
|--|-------|
| Administration of educational savings plan | 1,684 |
|--|-------|

|                |       |
|----------------|-------|
| Total expenses | 1,684 |
|----------------|-------|

|  |     |
|--|-----|
| Revenues under expenses before transfers | 976 |
|--|-----|

|                      |     |
|----------------------|-----|
| Change in net assets | 976 |
|----------------------|-----|

|                              |       |
|------------------------------|-------|
| Net assets—beginning of year | 6,737 |
|------------------------------|-------|

|                               |                 |
|-------------------------------|-----------------|
| <b>Net assets—end of year</b> | <b>\$ 7,713</b> |
|-------------------------------|-----------------|

**Education Trust Board of New Mexico**  
**Management's Discussion and Analysis**  
**June 30, 2012**  
**(Unaudited)**

The following table summarizes the assets, liabilities, and fund balance of the Administrative Fund as of June 30 (in thousands):

|                                    | <u>2012</u>     | <u>2011</u>     |
|------------------------------------|-----------------|-----------------|
| <b>Assets</b>                      |                 |                 |
| Cash and investments               | \$ 8,154        | \$ 7,125        |
| Accounts receivables               | <u>157</u>      | <u>157</u>      |
| Total assets                       | <u>\$ 8,311</u> | <u>\$ 7,282</u> |
| <b>Liabilities</b>                 |                 |                 |
| Accounts payable                   | \$ 586          | \$ 545          |
| Accrued expenses                   | <u>6</u>        | <u>-</u>        |
| Total liabilities                  | <u>592</u>      | <u>545</u>      |
| Fund balance                       | <u>7,719</u>    | <u>6,737</u>    |
| Total liabilities and fund balance | <u>\$ 8,311</u> | <u>\$ 7,282</u> |

As of June 30, 2012, total assets and fund balance increased due to the continuing receipt of the administration fee, as outlined in the Program Management Agreement. The deposit is made automatically each month based on the value of accounts managed in the Scholar'sEdge and the Education Plan, which are fiduciary funds of the NMETB.

The following table summarizes the revenues, expenditures, and changes in fund balance of the Administrative Fund for the year ended June 30 (in thousands):

|                                      | <u>2012</u>     | <u>2011</u>     |
|--------------------------------------|-----------------|-----------------|
| Total revenues                       | \$ 2,660        | \$ 2,441        |
| Total expenditures                   | <u>1,678</u>    | <u>1,174</u>    |
| Excess of revenues over expenditures | <u>982</u>      | <u>1,267</u>    |
| Fund balance, beginning of year      | <u>6,737</u>    | <u>5,470</u>    |
| <b>Fund balance, end of year</b>     | <u>\$ 7,719</u> | <u>\$ 6,737</u> |

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**(Unaudited)**

Total expenditures increased by \$336 thousand or 22% to \$1.5 million for the year ended June 30, 2012, compared to \$1.2 million for the year ended June 30, 2011. The increase was primarily due to increases in investment consulting fees and legal fees related to ongoing litigation.

**FIDUCIARY FUNDS BACKGROUND INFORMATION**

**Scholar'sEdge (Advisor Sold) and The Education Plan (Direct Sold)**

Scholar'sEdge and The Education Plan (the "Plans") were established by the Education Trust Board of New Mexico (the "NMETB"). The Plans are maintained by the State of New Mexico and are administered by NMETB, which serves as trustee of the Education Trust of New Mexico (the "Trust"). NMETB has the authority to appoint a Program Manager, adopt rules and regulations to implement and administer the Plans and Trust and establish investment policies for the Trust. OFI Private Investments Inc. (OFIPI) is the Program Manager of the Plans. OppenheimerFunds Distributor, Inc. (OFDI) is the sole distributor of the Plans. Brown Brothers Harriman (BBH) accounts for the Plans. Both the Plans are accounted for as fiduciary private trust funds.

The Plans are a savings vehicle for higher education expenses under Section 529 of the U.S. Internal Revenue Code of 1986, as amended (Section 529). The Plans are comprised of a variety of different investment portfolios. These portfolios offer different asset allocation mixes to investors based on their needs, time frames, and risk tolerances. In previous years, each portfolio was presented separately in the basic financial statements. Management has elected to present each portfolio as supplementary information following the basic financial statements and related notes.

**Education Trust Board of New Mexico**  
**Management's Discussion and Analysis**  
**June 30, 2012**  
**(Unaudited)**

**Financial Analysis – Scholar'sEdge**

Scholar'sEdge condensed statements of fiduciary net assets as of June 30 are as follows (in thousands):

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| <b>Assets</b>                                    |                     |                     |
| Investments, at value                            | \$ 1,606,349        | \$ 1,608,452        |
| Cash   | 2,936               | 3,913               |
| Cash restricted for payment to plan participants | 10,455              | 51,750              |
| Receivables and other assets                     | <u>2,000</u>        | <u>2,306</u>        |
| Total assets                                     | <u>1,621,740</u>    | <u>1,666,421</u>    |
| <b>Liabilities</b>                               |                     |                     |
| Cash overdraft                                   | -                   | 105                 |
| Payable and other liabilities                    | 2,927               | 2,556               |
| Payable to plan participants                     | <u>10,455</u>       | <u>51,750</u>       |
| Total liabilities                                | <u>13,382</u>       | <u>54,411</u>       |
| Net assets                                       | <u>\$ 1,608,358</u> | <u>\$ 1,612,010</u> |

The investments of the Portfolios decreased \$2 million mainly due to market depreciation. had net participant redemptions of \$11 million; and had net participant redemptions of \$2 million.

The majority of the receivables consist of participant contributions purchased but not received as of June 30. The majority of the liabilities consisted of participant redemptions processed but not yet delivered as of June 30, and payment for securities purchased June 30, but not yet cleared.

**Education Trust Board of New Mexico**  
**Management's Discussion and Analysis**  
**June 30, 2012**  
**(Unaudited)**

Scholar'sEdge condensed statements of changes in fiduciary net assets for years ended June 30 are as follows (in thousands):

|  | <u>2012</u>                | <u>2011</u>                |
|--|----------------------------|----------------------------|
| Additions  |                            |                            |
| Subscriptions  | \$ 539,166                 | \$ 532,124                 |
| Investment income                                    |                            |                            |
| Dividend income and interest                         | 27,181                     | 21,460                     |
| Less expenses  | <u>10,615</u>              | <u>12,003</u>              |
| Net investment income                                | <u>16,566</u>              | <u>9,457</u>               |
| Realized investment gains (losses)                   | (13,873)                   | (17,130)                   |
| Net increase (decrease) in fair value of investments | <u>(4,514)</u>             | <u>253,064</u>             |
| Total additions                                      | <u>537,345</u>             | <u>777,515</u>             |
| Deductions   |                            |                            |
| Redemptions  | <u>(540,997)</u>           | <u>(543,443)</u>           |
| Change in net asset                                  | (3,652)                    | 234,072                    |
| Net assets, beginning of year                        | <u>1,612,010</u>           | <u>1,377,938</u>           |
| <b>Net assets, end of year</b>                       | <u><b>\$ 1,608,358</b></u> | <u><b>\$ 1,612,010</b></u> |

Investment income is comprised of dividend and interest income; expenses are primarily management, distribution, and administrative fees.

**Education Trust Board of New Mexico**  
**Management's Discussion and Analysis**  
**June 30, 2012**  
**(Unaudited)**

**Financial Analysis – The Education Plan**

The Education Plan condensed statements of fiduciary net assets as of June 30 are as follows (in thousands):

|  | <u>2012</u>       | <u>2011</u>       |
|--|-------------------|-------------------|
| <b>Assets</b>                                    |                   |                   |
| Investments, at value                            | \$ 353,950        | \$ 331,255        |
| Cash   | 2,096             | 1,899             |
| Cash restricted for payment to plan participants | 1,696             | 15,560            |
| Receivables and other assets                     | <u>328</u>        | <u>505</u>        |
| Total assets                                     | <u>358,070</u>    | <u>349,219</u>    |
| <b>Liabilities</b>                               |                   |                   |
| Cash overdraft                                   | -                 | 1                 |
| Payable and other liabilities                    | 252               | 265               |
| Payable to plan participants                     | <u>1,696</u>      | <u>15,560</u>     |
| Total liabilities                                | <u>1,948</u>      | <u>15,826</u>     |
| Net assets                                       | <u>\$ 356,122</u> | <u>\$ 333,393</u> |

Investments increased \$23 million mainly due to market appreciation. had net participant contributions of \$9 million; and had net participant contributions of \$18 million.

The majority of the receivables consist of participant contributions purchased but not received as of June 30. The majority of the liabilities consisted of participant redemptions processed but not yet delivered as of June 30 and payment for securities purchased June 30, but not yet cleared.

**Education Trust Board of New Mexico**  
**Management's Discussion and Analysis**  
**June 30, 2012**  
**(Unaudited)**

The Education Plan condensed statements of changes in fiduciary net assets for years ended June 30 are as follows (in thousands):

|   | <u>2012</u>              | <u>2011</u>              |
|---|--------------------------|--------------------------|
| Additions   |                          |                          |
| Subscriptions   | \$ 129,814               | \$ 104,351               |
| Investment income   |                          |                          |
| Dividend income and interest (Note 2)                             | 1,099                    | 593                      |
| Less expenses   | <u>710</u>               | <u>1,035</u>             |
| Net investment income (loss)                                      | <u>389</u>               | <u>(442)</u>             |
| Capital gains (losses) from underlying funds                      | 13,293                   | (333)                    |
| Net increase (decrease) in change<br>in fair value of investments | <u>(9,238)</u>           | <u>54,242</u>            |
| Total additions   | <u>134,258</u>           | <u>157,818</u>           |
| Deductions  |                          |                          |
| Redemptions   | <u>(111,529)</u>         | <u>(95,314)</u>          |
| Change in net assets  | <u>22,729</u>            | <u>62,504</u>            |
| Net assets, beginning of year                                     | <u>333,393</u>           | <u>270,889</u>           |
| <b>Net assets, end of year</b>                                    | <u><b>\$ 356,122</b></u> | <u><b>\$ 333,393</b></u> |

Investment income is comprised of dividend and interest income; expenses are primarily management and administrative fees.

**Market Overview – Scholar'sEdge and The Education Plan**

*Economic and market environment during the 1-year reporting period ended June 30, 2012:*

The reporting period was defined by significant market volatility, with macroeconomic events resulting in multiple swings in the markets. The period began in the midst of deteriorating investor sentiment throughout the world. In Europe, Greece moved closer to defaulting on its sovereign debt, and the crisis spread to other members of the European Union. Economic data proved disappointing in the United States, and a contentious political debate about government spending and borrowing culminated in the credit-rating agency Standard & Poor's downgrading its assessment of long-term U.S. government debt, a move unprecedented in U.S. history. A torrid economic expansion in China produced an acceleration of inflation, requiring remedial

**Education Trust Board of New Mexico**  
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measures from Chinese policymakers that threatened to dampen domestic economic growth and demand for goods and services from other nations.

Better U.S. economic data in the fall of 2011 increased risk appetite as investors looked forward to better market conditions. Investors also were encouraged by apparent progress in Europe, where the European Central Bank launched the Long-Term Refinancing Operation (LTRO) to prevent a more severe crisis in the region's banking system. China also seemed to make progress in taming inflationary pressures, and while its growth slowed in 2012, its economic expansion remained intact. These developments helped further boost global investors' appetite for risk during the first quarter of 2012.

However, investor sentiment weakened again in the second quarter, as fears over the European debt crises re-emerged. Very high unemployment, soaring debt and higher borrowing costs in Greece, Spain and Italy contributed to serious questions over how to implement austerity measures, restructure debt or instead take a different tact and provide some or all of those countries with additional funds. Perhaps most worrisome of all to investors was the possibility of Greece pulling out of the Euro and its ramifications for the future of the Eurozone and its common currency. In the U.S., slower than expected first quarter growth also contributed to a sell-off in the U.S. stock market. Consumer confidence dropped as U.S. unemployment figures ticked slightly upwards after showing signs of improvement from the recession highs. However, the period ended on a positive note for the markets. The results of elections in Greece and continued efforts by European policymakers to stabilize the situation in the region appeared to soothe market jitters slightly in the final days of the period.

Given the recent spate of weaker economic news globally and the ongoing crisis in Europe, at period end headwinds exist for risk-based assets. The sense of crisis for the moment in Europe has eased to a degree, which has helped to soothe the markets at period end. However, the markets remain volatile. In the U.S., the upcoming congressional and presidential elections may provide some volatility later this year, especially given the contentious debate over entitlements, taxes, and the deficit. Markets seemed to welcome Operation Twist, and it is possible that the Fed will respond to any downdraft in domestic economic activity with additional measures such as quantitative easing or outright buying of U.S. mortgages in order to keep the modest revival of the economy on track.

In terms of the global fixed-income universe, the Barclays Capital Global Aggregate Bond Index returned 5% for the reporting period, while the Barclays Capital U.S. Aggregate Bond Index returned 9%. Within the U.S. bond market, high yield securities had a stellar reporting period, as evidenced by the BOFA Merrill Lynch High Yield Master Index, which returned 27%. Convertible securities also had a strong period and continued to rebound from the March 2009 market lows, as the BOFA Merrill Lynch All Convertibles Index returned 22.64%. The Barclays Capital Credit Index also finished in double-digits with a return of 14.68% for the period.



**Education Trust Board of New Mexico**  
**Management's Discussion and Analysis**  
**June 30, 2012**  
**(Unaudited)**

**Budget**

NMETB adopts an annual budget for the Administrative Fund based upon the recommendation of program staff and the New Mexico Higher Education Department's Administrative Services Division. The budget of the Administrative Fund is subject to the approval of the New Mexico Department of Finance and Administration (DFA) and the New Mexico Legislative Finance Committee (LFC). Expenditures may not legally exceed appropriations at the object expenditure classification (code) level. Amendments to the budget require DFA and LFC approval. All appropriations lapse at fiscal year-end, although cash balances at the end of the fiscal year do not revert back to the New Mexico State General Fund.

Administrative Fund revenues of \$2.7 million were not included in the budget. Expenditures of \$1.7 million were less than budgeted expenditures of \$1.8 million.

**Economic Outlook**

NMETB's economic outlook is closely related to the activities and status of the public investment markets. NMETB's Administrative Fund is dependent upon the automatic fee deposit that is made every month, as a percentage of the net assets that reside in the two 529 savings plans: the Scholar'sEdge and The Education Plan. For the economic outlook for the Scholar'sEdge and the Education Plan see the market overview on pages 13-14.

The Education Trust Board of New Mexico operates as a self-sustaining state entity and has one and half full-time equivalent employees. The State of New Mexico does not appropriate to NMETB any budgeted amounts, however, NMETB is administratively connected to the New Mexico Department of Higher Education.

**Contacting Management**

This financial report is designed to provide members of NMETB and others with a general overview of NMETB's Administrative and fiduciary funds and to show NMETB's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director at the following address:

Education Trust Board of New Mexico  
2048 Galisteo  
Santa Fe, NM 87505

**Education Trust Board of New Mexico**  
**Balance Sheet/Statement of Net Assets**  
**June 30, 2012**

|   | Administrative<br>Fund -<br>Balance<br>Sheet | Adjustments<br>Note 12 | Governmental<br>Activities -<br>Statement of Net<br>Assets |
|---|--|------------------------|--|
|   |  |                        |  |
| <b>Assets</b>   |  |                        |  |
| Current assets  |  |                        |  |
| Cash and cash equivalents                                     | \$ 6,484,440                                 | \$ -                   | \$ 6,484,440   |
| Investment in State General Fund Investment<br>Pool (Note 15) | 1,669,521                                    | -                      | 1,669,521  |
| Accounts receivables  | <u>157,458</u>                               | <u>-</u>               | <u>157,458</u>   |
| Total assets  | <u>\$ 8,311,419</u>                          | <u>\$ -</u>            | <u>\$ 8,311,419</u>  |
| <b>Liabilities</b>  |  |                        |  |
| Current liabilities   |  |                        |  |
| Accounts payable  | \$ 586,831                                   | \$ -                   | \$ 586,831   |
| Accrued expenses and compensated absences                     | <u>5,806</u>                                 | <u>5,311</u>           | <u>11,117</u>  |
| Total liabilities   | 592,637                                      | 5,311                  | 597,948  |
| <b>Fund Balance/Net Assets</b>                                |  |                        |  |
| Unassigned/unrestricted                                       | <u>7,718,782</u>                             | <u>(5,311)</u>         | <u>7,713,471</u>   |
| Total liabilities and fund balance/net assets                 | <u>\$ 8,311,419</u>                          | <u>\$ -</u>            | <u>\$ 8,311,419</u>  |

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

**Education Trust Board of New Mexico**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance/Statement of Activities**  
**For the Year Ended June 30, 2012**

|  | Administrative<br>Fund -<br>Changes in Fund<br>Balance | Adjustments<br>Note 12   | Governmental<br>Activities -<br>Statement of<br>Activities |
|--|--|--------------------------|--|
| <b>Revenues</b>                                  |  |                          |  |
| Program - fees                                   | \$ 2,157,916   | \$ -                     | \$ 2,157,916   |
| General revenues                                 |  |                          |  |
| Scholarship revenue                              | 500,000  | -                        | 500,000  |
| Investment income                                | 1,995  | -                        | 1,995  |
| Total revenues                                   | <u>2,659,911</u>                                       | <u>-</u>                 | <u>2,659,911</u>   |
| <b>Expenditures/ Expenses</b>                    |  |                          |  |
| Personnel services and employee benefits         | 21,144   | 5,311                    | 26,455   |
| Contractual services                             | 775,080  | -                        | 775,080  |
| Other costs                                      | 82,088   | -                        | 82,088   |
| Scholarships                                     | 800,000  | -                        | 800,000  |
| Total expenditures/expenses                      | <u>1,678,312</u>                                       | <u>5,311</u>             | <u>1,683,623</u>   |
| Excess of revenues over<br>expenditures/expenses | <u>981,599</u>   | <u>(5,311)</u>           | <u>976,288</u>   |
| Net change in fund balance/net assets            | 981,599  | (5,311)                  | 976,288  |
| Fund balance/net assets, beginning of year       | <u>6,737,183</u>                                       | <u>-</u>                 | <u>6,737,183</u>   |
| <b>Fund balance/net assets, end of year</b>      | <u><u>\$ 7,718,782</u></u>                             | <u><u>\$ (5,311)</u></u> | <u><u>\$ 7,713,471</u></u>                                 |

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

**Education Trust Board of New Mexico**  
**Administrative Fund**  
**Budgetary Comparison Statement**  
**For the Year Ended June 30, 2012**

|  | Budgeted<br>Amounts<br>Original<br>and Final | Actual            | Variance<br>with Final<br>Budget |
|--|--|-------------------|----------------------------------|
| <b>Revenues</b>                          |  |                   |                                  |
| Fee revenue                              | \$ -   | \$ 2,157,916      | \$ 2,157,916                     |
| Scholarship revenue                      | -  | 500,000           | 500,000                          |
| Investment income                        | -  | 1,995             | 1,995                            |
| Total revenues                           | <u>-</u>                                     | <u>2,659,911</u>  | <u>2,659,911</u>                 |
| <b>Expenditures</b>                      |  |                   |                                  |
| Personnel services and employee benefits | 115,000                                      | 21,144            | 93,856                           |
| Contractual services                     | 1,244,231                                    | 775,080           | 469,151                          |
| Other costs                              | 406,000                                      | 82,088            | 323,912                          |
| Scholarships                             | <u>-</u>                                     | <u>800,000</u>    | <u>(800,000)</u>                 |
| Total expenditures                       | <u>1,765,231</u>                             | <u>1,678,312</u>  | <u>86,919</u>                    |
| Net change in fund balance               | <u>\$ (1,765,231)</u>                        | <u>\$ 981,599</u> | <u>\$ 2,746,830</u>              |

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

**Education Trust Board of New Mexico**  
**Statement of Fiduciary Net Assets**  
**June 30, 2012**

|   | Scholar's<br>Edge       | The Education<br>Plan | Total<br>(Memorandum<br>only) |
|---|-------------------------|-----------------------|-------------------------------|
| <b>Assets</b>   |                         |                       |                               |
| Investments, at fair value (Scholar'sEdge cost<br>\$1,474,589,202; The Education Plan cost \$314,194,878) | \$ 1,606,349,288        | \$ 353,949,626        | \$ 1,960,298,914              |
| Cash  | 2,935,761               | 2,096,034             | 5,031,795                     |
| Cash restricted for payment to plan participants (Note 14)  | 10,454,756              | 1,695,686             | 12,150,442                    |
| Receivables and other assets  |                         |                       |                               |
| Receivable for participant shares issued  | 1,013,459               | 248,785               | 1,262,244                     |
| Receivable for securities sold  | 369,914                 | 54,879                | 424,793                       |
| Accrued income  | 616,821                 | 25,247                | 642,068                       |
| Other assets  | -                       | -                     | -                             |
| Total assets  | <u>1,621,739,999</u>    | <u>358,070,257</u>    | <u>1,979,810,256</u>          |
| <b>Liabilities and Net Assets</b>   |                         |                       |                               |
| <b>Liabilities</b>  |                         |                       |                               |
| Payable for capital shares redeemed   | 1,328,319               | 180,360               | 1,508,679                     |
| Payable for securities purchased  | 798,173                 | 72,265                | 870,438                       |
| Accrued expenses  | 800,299                 | -                     | 800,299                       |
| Payable to plan participants (Note 14)  | <u>10,454,756</u>       | <u>1,695,686</u>      | <u>12,150,442</u>             |
| Total liabilities   | <u>13,381,547</u>       | <u>1,948,311</u>      | <u>15,329,858</u>             |
| Net assets  | <u>\$ 1,608,358,452</u> | <u>\$ 356,121,946</u> | <u>\$ 1,964,480,398</u>       |

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

**Education Trust Board of New Mexico**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Year Ended June 30, 2012**

|   | Scholar's<br>Edge              | The Education<br>Plan        | Total<br>(Memorandum<br>only)  |
|---|--------------------------------|------------------------------|--------------------------------|
| <b>Additions</b>                          |                                |                              |                                |
| Subscriptions                             | \$ 539,166,139                 | \$ 129,813,930               | \$ 668,980,069                 |
| Investment income                         |                                |                              |                                |
| Dividends and interest                    | 27,180,733                     | 1,099,347                    | 28,280,080                     |
| Less expenses                             |                                |                              |                                |
| Distribution fees                         | 7,280,104                      | -                            | 7,280,104                      |
| Management fees                           | 1,794,550                      | 399,051                      | 2,193,601                      |
| State administrative fees                 | 1,559,661                      | 320,155                      | 1,879,816                      |
| Expense reimbursement                     | <u>(19,564)</u>                | <u>(8,800)</u>               | <u>(28,364)</u>                |
| Net investment income                     | 16,565,982                     | 388,941                      | 16,954,923                     |
| Realized investment gains (losses)        | (13,872,584)                   | 13,292,858                   | (579,726)                      |
| Net decrease in fair value of investments | <u>(4,513,810)</u>             | <u>(9,238,361)</u>           | <u>(13,752,171)</u>            |
| Total additions                           | <u>537,345,727</u>             | <u>134,257,368</u>           | <u>671,603,095</u>             |
| <b>Deductions</b>                         |                                |                              |                                |
| Redemptions                               | <u>(540,997,705)</u>           | <u>(111,528,668)</u>         | <u>(652,526,373)</u>           |
| Change in net assets                      | <u>(3,651,978)</u>             | <u>22,728,700</u>            | <u>19,076,722</u>              |
| <b>Net Assets</b>                         |                                |                              |                                |
| Net assets, beginning of year             | <u>1,612,010,430</u>           | <u>333,393,246</u>           | <u>1,945,403,676</u>           |
| <b>Net assets, end of year</b>            | <u><u>\$ 1,608,358,452</u></u> | <u><u>\$ 356,121,946</u></u> | <u><u>\$ 1,964,480,398</u></u> |

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

**Education Trust Board of New Mexico**  
**Notes to Financial Statements**  
**June 30, 2012**

**1) Organization and Background**

The Education Trust board of New Mexico (NMETB) established by New Mexico statute 21-21k-4 NMSA 1978 (Education Trust Act) gives NMETB the authority to promulgate rules to carry out the Act; protect the financial integrity of the IRS 529 college savings plans; and preserve program benefits and ensure appropriate use of tax benefits. NMSA 1978 sections 21-21K-3 and 21-21K-5 gives authority to enter into contract with investors, review investments, and pay institutions of higher education on behalf of beneficiaries, be a party to college investment agreements and approve circumstances for predesignation of the beneficiary, and establish a refund policy.

NMETB is the governing body for New Mexico's I.R.S. section 529 college savings plans and their administration. The Board is administratively attached to the New Mexico Higher Education Department (NMHED). Members are appointed by the Governor, Senate Pro Tem, and Speaker of the House of Representatives. The NMETB is responsible for making rules and regulations for the development and implementation of the Education Trust Act.

NMETB's financial statements include statements of financial position and changes in financial position of the Administrative Fund and the fiduciary activities, and the budgetary comparison of the Administrative Fund. They are not intended to present the financial position, changes in financial position and budgetary comparison of the State of New Mexico.

NMETB's Administrative Fund is a governmental fund used to account for the administrative operations of the NMETB. Scholar'sEdge and the Education Plan College Savings Program (the "Plans") are NMETB's fiduciary funds used to account for New Mexico's I.R.S. section 529 college savings plans. The Plans are maintained and administered by the Board, which serves as trustee of the Education Trust of New Mexico (the "Trust"). The Board has the authority to appoint a program manager, adopt rules and regulations to implement and administer the Plans and establish investment policies. OFI Private Investments Inc. (OFIPI) is the program manager of the Plans. OppenheimerFunds Distributor, Inc. (OFDI) is the sole distributor of the Plans.

The Plans are a savings vehicle for higher education expenses under Section 529 of the U.S. Internal Revenue Code of 1986, as amended (Section 529). The Plans are comprised of 46 different investment portfolios (the "Portfolios"). The Portfolios offer different asset allocation mixes to provide for investors that have different needs, time frames, and risk tolerances. Each portfolio within Scholar'sEdge is offered in retail Class A units, Class B units, and Class C units. All classes of units have identical rights to earnings and assets, except for class-specific expenses.

**Education Trust Board of New Mexico**  
**Notes to Financial Statements**  
**June 30, 2012**

College Savings Plans' assets can be used for qualified educational expenses including tuition and fees, certain room and board expenses, books and required supplies and equipment at any accredited post-secondary school that is eligible to participate in federal student financial aid programs. This includes most public or private universities, graduate schools, community colleges and vocational schools. Assets in the plans are subject to investment risk and are not guaranteed by the state.

Investment Portfolios

Scholar'sEdge and the Education Plan offer various investment portfolios to accommodate the needs of participants. Investment portfolios of each plan are as follows:

Scholar'sEdge Portfolios

The Scholar'sEdge plan includes the following portfolios: Newborn to Age 5 Years Portfolio, Ages 6 – 8 Years Portfolio, Ages 9 – 11 Years Portfolio, Ages 12 – 14 Years Portfolio, Ages 15 – 17 Years Portfolio, Ages 18 Years and Over Portfolio, Aggressive Portfolio, Moderately Aggressive Portfolio, Moderate Portfolio, Conservative Portfolio, Ultra Conservative Portfolio, School Years Portfolio, Large Cap Growth Portfolio, Large Cap Core Portfolio, Large Cap Value Portfolio, Small- & Mid- Cap Core Portfolio<sup>1</sup>, International Equity Portfolio, Intermediate Term Bond Portfolio, Diversified Income Portfolio, Short-Term Yield Portfolio, and Capital Preservation Portfolio.

The Scholar'sEdge plan invests primarily in a combination of mutual funds managed by OppenheimerFunds, Inc. (OFI), OFI Institutional Inc., Mainstay, American Century, and Invesco. The mutual funds include: Oppenheimer Capital Appreciation Fund, Oppenheimer Institutional Money Market Fund, Oppenheimer Main Street Small and Mid-Cap Fund<sup>2</sup>, Oppenheimer Global Strategic Income Fund<sup>®</sup>, Oppenheimer International Bond Fund, Oppenheimer Limited Term Government Fund, Oppenheimer Value Fund, Mainstay MAP Fund, Mainstay High Yield Corporate Bond Fund, American Century Diversified Bond Fund, and Invesco Mid Cap Core Equity Fund<sup>®</sup>. These mutual funds are management investment companies registered under the Investment Company Act of 1940, as amended.

Additionally, Scholar'sEdge invests in the following nonregistered investments: OFIPI Baring International Strategy limited partnership, which provides investment management services to institutional, retail and private clients around the world investing in both developed and emerging equities, as well as various fixed income products, and contracts with New York Life. Both the registered and nonregistered funds are individually or collectively referred to as the Underlying Investments.



**Education Trust Board of New Mexico**  
**Notes to Financial Statements**  
**June 30, 2012**

*The Education Plan Portfolios*

The Education Plan includes the following portfolios: Newborn to Age 5 Years Portfolio, Ages 6 – 8 Years Portfolio, Ages 9 – 11 Years Portfolio, Ages 12 – 14 Years Portfolio, Ages 15 – 17 Years Portfolio, Ages 18 Years and Over Portfolio, Newborn to Age 5 Years Index Portfolio, Ages 6 – 8 Years Index Portfolio, Ages 9 – 11 Years Index Portfolio, Ages 12 – 14 Years Index Portfolio, Ages 15 – 17 Years Index Portfolio, Ages 18 Years and Over Index Portfolio, Aggressive Portfolio, Moderately Aggressive Portfolio, Moderate Portfolio, Conservative Portfolio, Ultra Conservative Portfolio, School Years Portfolio, Short-Term Yield Portfolio, Aggressive Index Portfolio, Moderately Aggressive Index Portfolio, Moderate Index Portfolio, Conservative Index Portfolio, Ultra Conservative Index Portfolio, School Years Index Portfolio.

The Education Plan invests its assets in partnerships and a combination of mutual funds managed by OppenheimerFunds, Inc. (OFI), OFI Institutional Inc., Dreyfus Corporation, and The Vanguard Group. The mutual funds include: Oppenheimer Capital Appreciation Fund, Oppenheimer Institutional Money Market Fund, Oppenheimer Main Street Small- & Mid- Cap Fund<sup>®1</sup>, Oppenheimer Value Fund, Dreyfus Bond Market Index Fund, Dreyfus S&P 500 Index Fund, Vanguard Total Stock Market Index Fund, and Vanguard Intermediate Term Bond Index Fund. These mutual funds are diversified management investment companies registered under the Investment Company Act of 1940, as amended. Additionally, The Education Plan invests in the following nonregistered investments: OFIPI Baring International Strategy, OFIPI International Index Strategy, OFIPI Large Cap Core Index Strategy, LLC, and the OFIPI Small Cap Index Strategy. Both the registered and nonregistered funds are collectively referred to as the Underlying Investments.

**2) Summary of Significant Accounting Policies**

Financial Statements

The statement of net assets and statement of activities provide operational accountability information for NMETB as an economic unit. They report the entity's ability to maintain service levels and continue to meet its obligations as they come due.

The accounts of NMETB are organized on the basis of funds, each of which is considered to be an independent fiscal and accounting entity. The operations of each fund are accounted for within separate sets of self-balancing accounts, which comprise its assets, liabilities, fund balance, revenues, expenditures, and other financing sources and uses. Funds include the Administrative Fund, a governmental fund, and the Scholar'sEdge Fund and the Education Plan, both fiduciary funds,

**Education Trust Board of New Mexico**  
**Notes to Financial Statements**  
**June 30, 2012**

Basis of Accounting

The statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the government gives (or receives) value without directly receiving (or giving) equal value in exchange, include business taxes, grants, entitlements, and contributions. Revenue from grants, entitlements, and contributions is recognized in the fiscal year in which eligibility requirements have been satisfied.

NMETB's Administrative Fund is reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available if collected within ninety days after year-end. Expenditures are recorded when the related liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the Administrative Fund. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

Dividends of equity securities are recognized as they are earned and become measurable and available to pay liabilities of the current period.

As fiduciary funds, the Scholar'sEdge and the Education Plan financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with generally accepted accounting principles in the United States as defined by the Governmental Accounting Standards Board (GASB). Under this method of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows.

NMETB has elected not to adopt FASB statements and interpretations issued after November 30, 1989, unless GASB specifically adopts such FASB statements or interpretations.

Cash Equivalents

Cash equivalents are defined as highly liquid investments with original maturities of three months or less. NMETB Administrative Fund's cash and cash equivalents consist of money market accounts maintained at Oppenheimer, the program manager, and cash held at the New Mexico State Treasurer's Office invested in the General Fund Investment Pool.

**Education Trust Board of New Mexico**  
**Notes to Financial Statements**  
**June 30, 2012**

Security Valuation

Each Portfolio calculates the net asset value of its units as of the close of The New York Stock Exchange (the “Exchange”), normally 4:00 P.M. Eastern time, on each day the Exchange is open for business. The net asset values of the Underlying Investments are determined as of the close of the Exchange, on each day the Exchange is open for trading. Short-term “money market type” debt securities with remaining maturities of sixty days or less are valued at amortized cost (which approximates market value).

Guaranteed Investment Contract (GIC) – Scholar’sEdge

GIC’s are contractual arrangements, not securities and are therefore not subject to custodial credit risk. However, there is a risk that an insurance company could fail to perform its contractual obligations for financial or other reasons. Contract value of GIC’s at June 30, 2012 was approximately \$43,815,474 and the fair value was \$45,195,828. Fair value was confirmed by New York Life.

Security Transactions

Security transactions are recorded on the trade date. Realized gains and losses on securities sold are determined on the high cost method.

Investment Income and Dividends

Dividend income is recorded on the ex-dividend date. Noncash dividends included in dividend income, if any, are recorded at the fair market value of the securities received.

Interest income, which includes accretion of discount and amortization of premium, is accrued as earned. Income and capital gain distributions from the Underlying Investments are recorded on the ex-dividend date. Dividends from income are included in investment income and capital gain distributions are included in net realized gain/loss.

Allocation of Income and Dividends

Income, expenses (other than those attributable to a specific class), gains, and losses are allocated on a daily basis to each class of units based upon the relative proportion of net assets represented by such class. Operating expenses directly attributable to a specific class are charged against the operations of that class.

The Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Education Trust Board of New Mexico**  
**Notes to Financial Statements**  
**June 30, 2012**

Budget

NMETB adopts an annual budget for the Administrative Fund based upon the recommendation of program staff and the New Mexico Higher Education Department's Administrative Services Division. NMETB's budget is subject to the approval of the New Mexico Department of Finance and Administration (DFA) and the New Mexico Legislative Finance Committee (LFC). Expenditures may not legally exceed appropriations at the object expenditure classification (code) level. Amendments to the budget require DFA and LFC approval. All appropriations lapse at fiscal year-end, although cash balances at the end of the fiscal year do not revert back to the New Mexico State General Fund.

**3) Cash and Cash Equivalents**

Amounts allotted to the NMETB by the State of New Mexico are held by the New Mexico State Treasurer's Office in a pooled account. The balance held at the New Mexico State Treasurer was \$1,669,521 at June 30, 2012. Funds can be withdrawn from the New Mexico State Treasurer as needed and they are, therefore, considered to be cash equivalents. All earnings on deposits are retained by the New Mexico State Treasurer's Office General Fund investment pool; therefore, from the NMETB's perspective, the balances are noninterest-bearing and stated at cost. The New Mexico State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$250,000 insurance coverage provided by federal agencies. Accordingly, the New Mexico State Treasurer requires the depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institutions operating results and capital. Collateral is required in amounts equal to 50% of the average investment balance. To obtain pledged collateral, investment risk, custodial credit risk, and insurance coverage information for the NMETB's investment in the New Mexico State Treasurer's General Fund investment pool, a copy of separately issued financial statements of December 31, 2012, can be obtained from the New Mexico State Treasurer's Office. All collateral is held in third-party safekeeping.

Cash and cash equivalents at June 30, 2012, include a money market fund balance of \$6,484,440. The money market fund is reported at fair value and is invested in short-term, high quality, dollar dominated debt instruments issued by the U.S. government, domestic and foreign corporations and financial institutions and other entities.

**Education Trust Board of New Mexico**  
**Notes to Financial Statements**  
**June 30, 2012**

*Interest Rate Risk* – The New Mexico State Treasurer’s Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

*Credit Risk* – The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer’s Office for the fiscal year ended June 30, 2012.

A supplemental schedule of cash that the Administrative Fund held as of June 30, 2012, is presented as supplemental information to these financial statements.

**4) Investment Risk**

Certain investments are subject to investment risk based on the amount of risk in the underlying investments. The NMETB have adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The standard requires disclosure of essential risk information about deposits and investments. Investments of the NMETB are uninsured and are held in the NMETB’s name. The NMETB does not have formal policies for limiting its exposure to the risks noted below.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure, the NMETB’s deposits and investments may not be returned promptly. Because investments of the NMETB are generally in mutual funds and other Underlying Investments, this risk is significantly mitigated.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligations. The NMETB invests directly in Underlying Investments. For registered Underlying Investments, prospectuses provide greater detail about the investment strategies and practices in compliance with federal regulations and specifically, the Form N-1A of the Investment Company Act of 1940. Form N-1A discloses information investment and policies objectives, as well as information on the company structure and operations. In addition, Program Disclosure Statement and the Participation Agreements provide greater detail about the credit risk, if any, associated with nonregistered Underlying Investments.

# Education Trust Board of New Mexico

## Notes to Financial Statements

June 30, 2012

### Interest Rate Risk

Interest rate risk refers to value fluctuations of fixed-income securities resulting from the inverse relationship between price and yield. The market value fluctuations of fixed-income securities already held will not affect the interest payable on those securities. However, the fluctuations will affect the market value and in turn will affect net asset values.

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment in a foreign security. NMETB's Underlying Investments invest in assets denominated in various foreign currencies in pooled vehicles. For registered Underlying Investments, prospectuses provide greater detail about the investment strategies and practices, in compliance with federal regulations and specifically, the Form N-1A of the Investment Company Act of 1940. Form N-1A discloses information and policies about the Underlying Investment and its investment objectives, as well as information on the company structure and operations. In addition, the Program Disclosure Statement and the Participation Agreement provide greater detail about the risks of investing in foreign currencies by certain nonregistered Underlying Investments.

As of June 30, 2012, credit ratings for the fixed-income Underlying Investments are as follows:

### Scholar'sEdge

|                                       | Total Investments                                     |   |   |   |  |
|---------------------------------------|---|---|---|---|--|
|                                       | Oppenheimer<br>Global<br>Strategic<br>Income<br>Fund® | Oppenheimer<br>Limited-Term<br>Government<br>Fund | Oppenheimer<br>International<br>Bond Fund | American<br>Century<br>Diversified<br>Bond Fund | Mainstay<br>High Yield<br>Corporate<br>Bond Fund |
| AAA                                   | 21.80%  | 90.40%  | 22.30%                                    | 67.50%  | -  |
| AA                                    | 5.00%   | 7.30%   | 16.90%                                    | 3.36%   | -  |
| A                                     | 9.60%   | 0.60%   | 17.20%                                    | 11.68%  | 0.40%  |
| BBB                                   | 20.90%  | 0.10%   | 29.00%                                    | 14.08%  | 2.80%  |
| BB and lower                          | 23.90%  | 0.80%   | 7.60%                                     | 3.35%   | 93.80%   |
| NRSRO-rated total                     | 81.20%  | 99.20%  | 93.00%                                    | 99.97%  | 97.00%   |
| Not rated                             | 18.80%  | 0.80%   | 6.50%                                     | 0.03%   | 3.00%  |
| Cash and cash equivalents - not rated | -   | -   | 0.50%                                     | -   | -  |
| Total                                 | 100.00%   | 100.00%   | 100.00%                                   | 100.00%   | 100.00%  |

**Education Trust Board of New Mexico**  
**Notes to Financial Statements**  
**June 30, 2012**

The Education Plan

|                   | Total Investments                    |   |
|-------------------|--------------------------------------|---|
|                   | Dreyfus Bond<br>Market<br>Index Fund | Vanguard<br>Intermediate<br>Term Bond<br>Index Fund |
| AAA               | 7.92%                                | 1.10%   |
| AA                | 72.45%                               | 57.10%  |
| A                 | 12.20%                               | 21.20%  |
| BBB               | 7.43%                                | 20.60%  |
| NRSRO-rated total | 100.00%                              | 100.00%   |

As of June 30, 2012, the duration for the fixed-income Underlying Investments of the Scholar'sEdge Plan are as follows:

| Investment Global                         | 2012<br>(in years) |
|---|--------------------|
| Oppenheimer Global Strategic Income Fund® | 4.30               |
| Oppenheimer Limited-Term Government Fund  | 2.00               |
| Oppenheimer International Bond Fund       | 5.80               |
| American Century Diversified Bond Fund    | 5.00               |
| Mainstay High Yield Corporate Bond Fund   | 3.40               |

As of June 30, 2012, the duration for the fixed-income Underlying Investments of The Education Plan are as follows:

| Investment                                 | 2012<br>(in years) |
|--|--------------------|
| Dreyfus Bond Market Index Fund             | 5.06               |
| Vanguard Intermediate Term Bond Index Fund | 6.40               |

**Education Trust Board of New Mexico**  
**Notes to Financial Statements**  
**June 30, 2012**

**5) Accounts Receivable**

Accounts receivable reflected in the financial statements represent the administrative fee revenues earned in June but collected in July.

**6) Pension Plan – Public Employees Retirement Associations (PERA)**

*Plan Description.* NMETB's only full-time employee participates in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. PERA provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

*Funding Policy.* PERA members are required to contribute 10.67% of their gross salary. The NMETB is required to contribute 13.34% of the gross covered salary. The contribution requirements of PERA members and the NMETB are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature.

The NMETB's contributions to PERA for the fiscal year ending June 30, 2012 were \$2,172, which equal the amount of the required contributions for the fiscal year.

**7) Post-Employment Benefits – State Retiree Health Care Plan (RHCA)**

*Plan Description.* NMETB contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.



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Eligible retirees are: 1) retirees who make contributions to RHCA for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan.

That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

| <u>Fiscal Year</u> | <u>Employer Contribution Rate</u> | <u>Employee Contribution Rate</u> |
|--------------------|-----------------------------------|-----------------------------------|
| FY13               | 2.000%                            | 1.000%                            |

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Also, employers joining the program after January 1, 1998, are required to make a surplus- amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The NMETB's contributions to the RHCA for the years ended June 30, 2012 was \$299, which equal the required contributions for each year.

**8) Net Assets by Capital Units Outstanding—Scholar'sEdge and The Education Plan**

As of June 30, 2012, net assets are summarized by class and capital units outstanding as follows:

|                    | Net Assets              | Capital Units<br>Outstanding | Net Asset Value<br>Per Unit |
|--------------------|-------------------------|------------------------------|-----------------------------|
| Scholar'sEdge      |                         |                              |                             |
| Class A            | \$ 1,141,221,860        | 50,967,445                   | \$ 22.39                    |
| Class B            | 131,834,067             | 6,058,608                    | \$ 21.76                    |
| Class C            | 335,302,525             | 16,223,372                   | \$ 20.67                    |
|                    | <u>\$ 1,608,358,452</u> |                              |                             |
| The Education Plan |                         |                              |                             |
| Direct Sold Class  | <u>\$ 356,121,946</u>   | 29,119,298                   | \$ 12.23                    |

Units – Scholar'sEdge

The Portfolios have authorized an unlimited number of no par values of capital unit transactions. Contributions and withdrawals are recorded at the unit value determined on the valuation date following receipt of notice of the contribution or withdrawal.

Contributions and withdrawals are subject to sufficient advance notifications as outlined in the Plan Description and Participation Agreement. The Portfolios' unit values are determined daily. Net investment income for all Portfolios is retained and reflected in the net asset value of each Portfolio.

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Contributions, Withdrawals, and Distributions – The Education Plan

The Portfolios have authorized an unlimited number of no par values of capital unit transactions. Contributions and withdrawals are recorded at the unit value determined on the valuation date following receipt of notice of the contribution or withdrawal.

Contributions and withdrawals are subject to sufficient advance notifications as outlined in the Plan Description and Participation Agreement. The Portfolios' unit values (net asset values) are determined daily. Net investment income for all Portfolios is retained and reflected in the net asset value of each Portfolio.

**9) Fee Revenues**

During fiscal year 2012, NMETB received revenue from the program managers to pay its expenses. The agreement in place for fiscal year 2008 through fiscal year 2015 provided fees between 5 and 10 basis points from Oppenheimer Funds based on assets under management.

**10) Related Party Information and Fees**

Administration

NMETB is administratively connected to the New Mexico Department of Higher Education (NMHED). In accordance with the state statute, the Chair of the Education Trust Board is the Cabinet Secretary of the Department of Higher Education. The Board has been dependent upon the NMHED to provide administrative support and maintain SHARE on behalf of NMETB. Currently, NMHED is reimbursed by NMETB for providing administrative support equal to one half of a full-time equivalent employee.

Expenses

The Plans of the fiduciary fund bear certain ongoing fees, which are charged against the assets of the Portfolios, to provide for the cost associated with the distribution, servicing, and administration. There are also indirect fees and expenses of the Underlying Investments in which the Portfolios invest. In addition, there may be certain fees and expenses the NMETB may impose from time to time. The NMETB may change or add new fees at any time.

Program Management Fees

The Portfolios pay an annualized fee on the average daily net assets of the Plans of the fiduciary fund, which is paid on a monthly basis to OFIPI for plan administration and investment management services. The Portfolios pay an annualized fee of .10%. OFI may

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receive compensation directly from certain of the Underlying Investments in which the Portfolios invest for serving as the investment adviser of those funds. Certain Underlying Investments charge fees at the investing partner level (i.e. Portfolio).

The plan manager and the NMETB have agreed to voluntarily waive the program management fee and the administrative fee respectively, (but not below zero) to the extent necessary to assist the Short-Term Yield Portfolio in attempting to maintain at least a zero percent return. There is no guarantee that the Short-Term Yield Portfolio will maintain this return. This undertaking may be amended or withdrawn at any time.

State Administrative Fees

An administrative fee at the annual rate of 0.10% of the average daily net assets of the Plans of the fiduciary fund are paid to the NMETB on a monthly basis for acting as Plan Administrator on all portfolios except the twelve Index Portfolios, which incur a 0.05% administrative fee.

Service Plan for Class A Units – Scholar’sEdge

The Portfolios adopted a service plan for Class A units which reimburse the Distributor for a portion of its costs incurred for services provided to accounts that hold Class A units. Reimbursement is made quarterly at an annual rate of up to 0.25% of the average annual net assets of Class A units of the Portfolio. The Distributor currently uses those fees to pay dealers, brokers, banks and other financial institutions quarterly for providing personal services and maintenance of accounts of their customers that hold Class A units. Any unreimbursed expenses the Distributor incurs with respect to Class A units in any fiscal year cannot be recovered in subsequent years.

Distribution and service plans for Class B and Class C units compensate the Distributor for its services in connection with the distribution of those units and servicing accounts. Under the plans, the Portfolios pay the Distributor an annual asset-based sales charge of 1.00% per year on Class B and Class C units. The Distributor also receives a service fee of up to 0.25% per year for Class B units and up to 1% for Class C units. If either the Class B or Class C plan is terminated by the Portfolios or by the participants of a class, the Board of Trustees and its independent trustees must determine whether the Distributor shall be entitled to pay from the Portfolios on all or a portion of the service fee and/or asset-based sales charge in respect to units sold prior to the effective date of such termination.

Sales Charges – Scholar’sEdge

Front-end sales charges and contingent deferred sales charges (CDSC) do not represent expenses of the Portfolios. They are deducted from the proceeds of sales of Portfolio units prior to investment or from redemption proceeds prior to remittance, as applicable. Class A units include a maximum initial sales charge of 4.75%, except the Short-Term

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Yield Portfolio, which Financial Advisors and the brokers who sell Units of the Short-Term Yield Portfolio do not receive any initial or ongoing compensation. Class B units include a CDSC of 5% (one year) and 4% (since inception). Class C units include the CDSC of 1% for the one year period.

**11) Income Taxes**

The Plans of the fiduciary fund were established under Section 529 of the Internal Revenue Code, which provides that all Portfolios within the Plans shall be exempt from income taxes. Therefore, no federal income tax provision is required. Individual account owners may be subject to federal income tax under certain conditions.

**12) Compensated Absences**

Certain amounts of vacation and sick pay earned and not taken are obligations of the Office and recorded as payables. Sick leave accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually at a rate equal to 50 percent of the employee's hourly wage. Upon termination, vacation pay up to 240 hours becomes immediately payable. Vacation in excess of 240 hours and the first 600 hours of sick leave are forfeited upon termination. Upon retirement, sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50% hourly rate. Accrued vacation and sick pay is recorded as a liability, and the net change during the current year is recorded as an expense in NMETB's governmental activities.

A summary of changes in accrued vacation and sick pay is as follows:

|                          |           |              |
|--------------------------|-----------|--------------|
| Balance at June 30, 2011 | \$        | -            |
| Additions                |           | 5,440        |
| Deletions                |           | (129)        |
| Balance at June 30, 2012 | <u>\$</u> | <u>5,311</u> |

Of the balance outstanding at June 30, 2012, full amount of \$5,311 is estimated to be due within one year of the statement date.

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**13) Risk Management**

The NMETB, as a State Agency defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the New Mexico General Services Department. The Office of Risk Management Division pays annual premiums for coverage provided in the following areas:

- ◆ Liability and civil rights protection for claims made by others against the State of New Mexico;
- ◆ Coverage to protect the state of New Mexico's property and assets; and
- ◆ Fringe benefit coverage for the state of New Mexico employees.

At June 30, 2012 the NMETB is named as defendant in three pending legal matters. It is management's opinion that it has no exposure to liability or loss under these complaints. Subsequent to June 30, 2012, two of the matters were dismissed and, the NMETB has claimed immunity on the remaining matter, and management believes judgment in favor of the plaintiff is remote.

Pending Litigation

Since 2009, a number of class action, derivative and individual lawsuits have been pending in federal and state courts against OFI, OFDI and certain Oppenheimer mutual funds advised by OFI and distributed by OFDI (the "Defendant Funds"). Several of these lawsuits also name as defendants certain officers and current and former trustees of the respective Defendant Funds. The lawsuits raise claims under federal and state securities laws and state common law and allege, among other things, that disclosure documents of the respective Defendant Funds contained misrepresentations and omissions and that the respective Defendant Fund's investment policies were not followed.

The plaintiffs in these actions seek unspecified damages, equitable relief and awards of attorneys' fees and litigation expenses.

NMETB's management and the Plan management believe that these suits should not impair the ability of OFI or OFDI to perform their respective duties to the plans of the fiduciary funds, and that the outcome of all of the suits together should not have any material effect on the operations of any of the Oppenheimer mutual funds.

**14) Settlement**

On December 16, 2009, OFI, certain of its affiliates, and the State of New Mexico reached an agreement to resolve the state's investigation into the management of the

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Scholar'sEdge Plan and The Education Plan. In compliance with the terms of the settlement, \$67,310,000 was deposited into a NMETB bank account that is restricted to distribution to plan participants affected by the settlement. As of June 30, 2012 corresponding liabilities to Plan participants are reported by the Scholar'sEdge (\$10,454,756) and the Education plan (\$1,695,686). As of June 30, 2012, a corresponding amount of cash is reported as cash restricted for payment to plan participants.

**15) General Fund Investment Pool**

As of June 30, 2012, NMETB has \$1,669,521 invested in the General Fund Investment Pool. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to this Pool.

As described in the following paragraphs, as of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. As a result, independent, third-party verification/confirmation of The Education Trust Board of New Mexico balances is not possible.

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the statewide human resources, accounting, and management reporting system (SHARE) system in July of 2006. The diagnostic report is available in the resources section of the cash control page of the New Mexico Department of Finance and Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. Management has been informed that these changes will address the

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reconciliation issues on a *point-forward basis only*. As disclosed in 6-5-2.1 NMSA 1978, the New Mexico Department of Finance and Administration's Financial Control Division is to perform monthly reconciliations with the balances and accounts kept by the New Mexico State Treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

NMETB has procedures in place to ensure that deposits and withdrawals from the Pool are recorded timely and accurately. Therefore, management considers NMETB's investment at June 30, 2012 to represent a valid claim on the net assets of the Pool. However, if the Remediation Project and other initiatives undertaken to reconcile the Pool result in insufficient net assets to fund all investments in the Pool, a loss could be realized.



## Other Supplementary Information

**Education Trust Board of New Mexico**  
**Combining Schedule of Fiduciary Net Assets—Scholar'sEdge**  
**June 30, 2012**

|   | Newborn to<br>Age 5 Years<br>Portfolio | Ages 6-8<br>Years<br>Portfolio | Ages 9-11<br>Years<br>Portfolio |
|---|--|--------------------------------|---------------------------------|
| <b>Assets</b>   |  |                                |                                 |
| Investments, at value   | \$ 59,660,798                          | \$ 142,585,365                 | \$ 241,153,584                  |
| Cash  | 142,575                                | 419,072                        | 225,804                         |
| Receivables and other assets  |  |                                |                                 |
| Receivable for capital shares issued                                  | 118,843                                | 120,786                        | 129,565                         |
| Receivable for securities sold  | 26,171                                 | 27,721                         | 87,775                          |
| Accrued income  | -                                      | 31,183                         | 66,486                          |
| Other assets  | -                                      | -                              | -                               |
| Total assets  | <u>59,948,387</u>                      | <u>143,184,127</u>             | <u>241,663,214</u>              |
| <b>Liabilities and Net Assets</b>                                     |  |                                |                                 |
| <b>Liabilities</b>  |  |                                |                                 |
| Cash overdraft  | -                                      | -                              | -                               |
| Payables and other liabilities  |  |                                |                                 |
| Payable for capital shares as redeemed                                | 100,197                                | 188,257                        | 217,399                         |
| Payable for securities purchased                                      | -                                      | -                              | 66,486                          |
| Accrued expenses  | 27,428                                 | 64,416                         | 109,804                         |
| Total liabilities   | <u>127,625</u>                         | <u>252,673</u>                 | <u>393,689</u>                  |
| <b>Net assets</b>   |  |                                |                                 |
| Held in trust for qualified state tuition plans<br>and other purposes | <u>\$ 59,820,762</u>                   | <u>\$ 142,931,454</u>          | <u>\$ 241,269,525</u>           |

| Ages 12-14<br>Years<br>Portfolio | Ages 15-17<br>Years<br>Portfolio | Ages 18 Years<br>and Over<br>Portfolio | Aggressive<br>Portfolio | Moderately<br>Aggressive<br>Portfolio |
|----------------------------------|----------------------------------|--|-------------------------|---------------------------------------|
| \$ 217,996,354                   | \$ 220,235,939                   | \$ 186,321,041                         | \$ 133,274,506          | \$ 102,741,669                        |
| 314,855                          | 226,745                          | 379,909                                | 246,683                 | 212,044                               |
| 182,786                          | 231,565                          | 167,095                                | 16,036                  | 5,267                                 |
| -                                | 102,489                          | -                                      | -                       | 23,797                                |
| 99,311                           | 159,337                          | 151,260                                | -                       | 22,403                                |
| -                                | -                                | -                                      | -                       | -                                     |
| <u>218,593,306</u>               | <u>220,956,075</u>               | <u>187,019,305</u>                     | <u>133,537,225</u>      | <u>103,005,180</u>                    |
| -                                | -                                | -                                      | -                       | -                                     |
| 225,281                          | 202,580                          | 192,831                                | 33,509                  | 17,174                                |
| 233,966                          | 159,361                          | 181,239                                | 35,899                  | -                                     |
| <u>97,284</u>                    | <u>96,886</u>                    | <u>74,862</u>                          | <u>87,152</u>           | <u>67,058</u>                         |
| <u>556,531</u>                   | <u>458,827</u>                   | <u>448,932</u>                         | <u>156,560</u>          | <u>84,232</u>                         |
| <u>\$ 218,036,775</u>            | <u>\$ 220,497,248</u>            | <u>\$ 186,570,373</u>                  | <u>\$ 133,380,665</u>   | <u>\$ 102,920,948</u>                 |

**Education Trust Board of New Mexico**  
**Combining Schedule of Fiduciary Net Assets—Scholar’sEdge**  
**June 30, 2012**

|   | Moderate<br>Portfolio | Conservative<br>Portfolio | Ultra<br>Conservative<br>Portfolio |
|---|-----------------------|---------------------------|------------------------------------|
|   | <u>          </u>     | <u>          </u>         | <u>          </u>                  |
| <b>Assets</b>   |                       |                           |                                    |
| Investments, at value   | \$ 80,726,476         | \$ 39,066,947             | \$ 9,411,391                       |
| Cash  | 25,749                | 63,512                    | 30,559                             |
| Receivables and other assets  |                       |                           |                                    |
| Receivable for capital shares issued                                  | 9,653                 | 11,052                    | 3,724                              |
| Receivable for securities sold  | 89,561                | -                         | -                                  |
| Accrued income  | 22,259                | 17,869                    | 6,878                              |
| Other assets  | -                     | -                         | -                                  |
| Total assets  | <u>80,873,698</u>     | <u>39,159,380</u>         | <u>9,452,552</u>                   |
| <b>Liabilities and Net Assets</b>                                     |                       |                           |                                    |
| <b>Liabilities</b>  |                       |                           |                                    |
| Cash overdraft  | -                     | -                         | -                                  |
| Payables and other liabilities  |                       |                           |                                    |
| Payable for capital shares as redeemed                                | 62,268                | 29,995                    | 1,825                              |
| Payable for securities purchased                                      | 22,259                | 18,867                    | 7,042                              |
| Accrued expenses  | 51,784                | 24,783                    | 6,246                              |
| Total liabilities   | <u>136,311</u>        | <u>73,645</u>             | <u>15,113</u>                      |
| <b>Net assets</b>   |                       |                           |                                    |
| Held in trust for qualified state tuition plans<br>and other purposes | <u>\$ 80,737,387</u>  | <u>\$ 39,085,735</u>      | <u>\$ 9,437,439</u>                |

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| School<br>Years<br>Portfolio | Large Cap<br>Growth<br>Portfolio | Large Cap<br>Core<br>Portfolio | Large Cap<br>Value<br>Portfolio | Small - &<br>Mid-Cap<br>Core<br>Portfolio |
|------------------------------|----------------------------------|--------------------------------|---------------------------------|---|
| \$ 14,665,051                | \$ 13,230,698                    | \$ 7,010,021                   | \$ 8,497,831                    | \$ 14,256,323                             |
| 27,150                       | 42,816                           | 17,378                         | 35,504                          | 86,919                                    |
| 260                          | 2,208                            | 639                            | 297                             | 8,235                                     |
| 7,912                        | -                                | -                              | -                               | -   |
| 12,066                       | -                                | -                              | -                               | -   |
| -                            | -                                | -                              | -                               | -   |
| <u>14,712,439</u>            | <u>13,275,722</u>                | <u>7,028,038</u>               | <u>8,533,632</u>                | <u>14,351,477</u>                         |
| -                            | -                                | -                              | -                               | -   |
| -                            | 1,542                            | -                              | -                               | 1,905                                     |
| 12,069                       | 5,473                            | -                              | 15,943                          | 3,852                                     |
| <u>9,547</u>                 | <u>9,215</u>                     | <u>5,202</u>                   | <u>6,425</u>                    | <u>9,975</u>                              |
| <u>21,616</u>                | <u>16,230</u>                    | <u>5,202</u>                   | <u>22,368</u>                   | <u>15,732</u>                             |
| <u>\$ 14,690,823</u>         | <u>\$ 13,259,492</u>             | <u>\$ 7,022,836</u>            | <u>\$ 8,511,264</u>             | <u>\$ 14,335,745</u>                      |

**Education Trust Board of New Mexico**  
**Combining Schedule of Fiduciary Net Assets—Scholar'sEdge**  
**June 30, 2012**

|   | International<br>Equity<br>Portfolio | Intermediate<br>Term Bond<br>Portfolio | Diversified<br>Income<br>Portfolio |
|---|--------------------------------------|--|------------------------------------|
|   |                                      |  |                                    |
| <b>Assets</b>   |                                      |  |                                    |
| Investments, at value   | \$ 15,094,782                        | \$ 5,997,910                           | \$ 23,827,718                      |
| Cash  | 48,896                               | 25,178                                 | 129,765                            |
| Receivables and other assets  |                                      |  |                                    |
| Receivable for capital shares issued                                  | 1,547                                | -                                      | 2,236                              |
| Receivable for securities sold  | 4,488                                | -                                      | -                                  |
| Accrued income  | -                                    | -                                      | 24,638                             |
| Other assets  | -                                    | -                                      | -                                  |
| Total assets  | 15,149,713                           | 6,023,088                              | 23,984,357                         |
| <b>Liabilities and Net Assets</b>                                     |                                      |  |                                    |
| <b>Liabilities</b>  |                                      |  |                                    |
| Cash overdraft  | -                                    | -                                      | -                                  |
| Payables and other liabilities  |                                      |  |                                    |
| Payable for capital shares as redeemed                                | 1,413                                | 6,447                                  | 3,772                              |
| Payable for securities purchased                                      | -                                    | 312                                    | 32,249                             |
| Accrued expenses  | 11,047                               | 4,217                                  | 17,286                             |
| Total liabilities   | 12,460                               | 10,976                                 | 53,307                             |
| <b>Net assets</b>   |                                      |  |                                    |
| Held in trust for qualified state tuition plans<br>and other purposes | \$ 15,137,253                        | \$ 6,012,112                           | \$ 23,931,050                      |

— continued

| Short-Term<br>Yield<br>Portfolio | Capital<br>Preservation<br>Portfolio | Total                   |
|----------------------------------|--------------------------------------|-------------------------|
| \$ 25,698,460                    | \$ 44,896,424                        | \$ 1,606,349,288        |
| 184,200                          | 50,448                               | 2,935,761               |
| 1,188                            | 477                                  | 1,013,459               |
| -                                | -                                    | 369,914                 |
| 2,947                            | 184                                  | 616,821                 |
| -                                | -                                    | -                       |
| <u>25,886,795</u>                | <u>44,947,533</u>                    | <u>1,611,285,243</u>    |
| -                                | -                                    | -                       |
| 10,775                           | 31,149                               | 1,328,319               |
| 2,976                            | 180                                  | 798,173                 |
| -                                | <u>19,682</u>                        | <u>800,299</u>          |
| <u>13,751</u>                    | <u>51,011</u>                        | <u>2,926,791</u>        |
| <u>\$ 25,873,044</u>             | <u>\$ 44,896,522</u>                 | <u>\$ 1,608,358,452</u> |

**Education Trust Board of New Mexico**  
**Combining Schedule of Fiduciary Net Assets—The Education Plan**  
**June 30, 2012**

|   | Newborn to<br>Age 5 Years<br>Portfolio | Ages 6-8<br>Years<br>Portfolio | Ages 9-11<br>Years<br>Portfolio |
|---|--|--------------------------------|---------------------------------|
| <b>Assets</b>   |  |                                |                                 |
| Investments, at value   | \$ 11,861,969                          | \$ 28,049,141                  | \$ 51,197,548                   |
| Cash  | 78,392                                 | 283,533                        | 212,001                         |
| Receivables and other assets  |  |                                |                                 |
| Receivable for capital shares issued                                  | 13,937                                 | 32,167                         | 51,776                          |
| Receivable for securities sold  | 792                                    | -                              | 31,552                          |
| Accrued income  | -                                      | -                              | -                               |
| Other assets  | -                                      | -                              | -                               |
| Total assets  | <u>11,955,090</u>                      | <u>28,364,841</u>              | <u>51,492,877</u>               |
| <b>Liabilities and Net Assets</b>                                     |  |                                |                                 |
| <b>Liabilities</b>  |  |                                |                                 |
| Cash overdraft  | -                                      | -                              | -                               |
| Payables and other liabilities  |  |                                |                                 |
| Payable for capital shares as redeemed                                | 15,045                                 | 44,657                         | 19,104                          |
| Payable for securities purchased                                      | -                                      | 5,917                          | -                               |
| Accrued expenses  | -                                      | -                              | -                               |
| Total liabilities   | <u>15,045</u>                          | <u>50,574</u>                  | <u>19,104</u>                   |
| <b>Net assets</b>   |  |                                |                                 |
| Held in trust for qualified state tuition plans<br>and other purposes | <u>\$ 11,940,045</u>                   | <u>\$ 28,314,267</u>           | <u>\$ 51,473,773</u>            |



| Ages 12-14<br>Years<br>Portfolio | Ages 15-17<br>Years<br>Portfolio | Ages 18 Years<br>and Over<br>Portfolio | Aggressive<br>Portfolio  | Moderately<br>Aggressive<br>Portfolio | Moderate<br>Portfolio    |
|----------------------------------|----------------------------------|--|--------------------------|---------------------------------------|--------------------------|
| \$ 41,956,758<br>236,521         | \$ 30,455,864<br>132,411         | \$ 26,684,091<br>115,853               | \$ 60,843,307<br>183,855 | \$ 24,556,217<br>155,916              | \$ 13,531,558<br>134,000 |
| 25,307                           | 24,198                           | 22,479                                 | 15,489                   | 6,931                                 | 3,595                    |
| -                                | 2,433                            | -                                      | 18,453                   | -                                     | 731                      |
| 480                              | 698                              | 1,218                                  | -                        | -                                     | -                        |
| -                                | -                                | -                                      | -                        | -                                     | -                        |
| <u>42,219,066</u>                | <u>30,615,604</u>                | <u>26,823,641</u>                      | <u>61,061,104</u>        | <u>24,719,064</u>                     | <u>13,669,884</u>        |
| -                                | -                                | -                                      | -                        | -                                     | -                        |
| 22,461                           | 18,793                           | 7,732                                  | 14,871                   | 7,734                                 | 100                      |
| 32,438                           | 705                              | 7,467                                  | -                        | 904                                   | -                        |
| -                                | -                                | -                                      | -                        | -                                     | -                        |
| <u>54,899</u>                    | <u>19,498</u>                    | <u>15,199</u>                          | <u>14,871</u>            | <u>8,638</u>                          | <u>100</u>               |
| <u>\$ 42,164,167</u>             | <u>\$ 30,596,106</u>             | <u>\$ 26,808,442</u>                   | <u>\$ 61,046,233</u>     | <u>\$ 24,710,426</u>                  | <u>\$ 13,669,784</u>     |

**Education Trust Board of New Mexico**  
**Combining Schedule of Fiduciary Net Assets—The Education Plan**  
**June 30, 2012**

|   | Conservative<br>Portfolio | Ultra<br>Conservative<br>Portfolio | School<br>Years<br>Portfolio |
|---|---------------------------|------------------------------------|------------------------------|
| <b>Assets</b>   |                           |                                    |                              |
| Investments, at value   | \$ 7,979,510              | \$ 4,106,527                       | \$ 7,548,525                 |
| Cash  | 80,485                    | 29,376                             | 37,029                       |
| Receivables and other assets  |                           |                                    |                              |
| Receivable for capital shares issued                                  | 4,421                     | 925                                | 351                          |
| Receivable for securities sold  | -                         | -                                  | 918                          |
| Accrued income  | 93                        | 95                                 | 341                          |
| Other assets  | -                         | -                                  | -                            |
| Total assets  | <u>8,064,509</u>          | <u>4,136,923</u>                   | <u>7,587,164</u>             |
| <b>Liabilities and Net Assets</b>                                     |                           |                                    |                              |
| <b>Liabilities</b>  |                           |                                    |                              |
| Cash overdraft  | -                         | -                                  | -                            |
| Payables and other liabilities  |                           |                                    |                              |
| Payable for capital shares as redeemed                                | 6                         | 7,146                              | 1,000                        |
| Payable for securities purchased                                      | 688                       | 215                                | 345                          |
| Accrued expenses  | -                         | -                                  | -                            |
| Total liabilities   | <u>694</u>                | <u>7,361</u>                       | <u>1,345</u>                 |
| <b>Net assets</b>   |                           |                                    |                              |
| Held in trust for qualified state tuition plans<br>and other purposes | <u>\$ 8,063,815</u>       | <u>\$ 4,129,562</u>                | <u>\$ 7,585,819</u>          |

— continued

| Short-Term<br>Yield<br>Portfolio | Newborn to<br>Age 5 Years<br>Index<br>Portfolio | Ages 6-8<br>Years<br>Index<br>Portfolio | Ages 9-11<br>Years<br>Index<br>Portfolio | Ages 12-14<br>Years<br>Index<br>Portfolio | Ages 15-17<br>Years<br>Index<br>Portfolio |
|----------------------------------|---|---|--|---|---|
| \$ 10,900,599                    | \$ 2,339,605                                    | \$ 2,454,676                            | \$ 2,955,208                             | \$ 3,129,448                              | \$ 2,512,865                              |
| 110,779                          | 23,633  | 24,308                                  | 25,278                                   | 20,283                                    | 25,261                                    |
| 15,440                           | 14,139  | 7,816                                   | 2,160                                    | 1,467                                     | 275                                       |
| -                                | -   | -                                       | -  | -   | -   |
| 1,256                            | -   | 698                                     | 1,694                                    | 2,614                                     | 2,873                                     |
| -                                | -   | -                                       | -  | -   | -   |
| <u>11,028,074</u>                | <u>2,377,377</u>                                | <u>2,487,498</u>                        | <u>2,984,340</u>                         | <u>3,153,812</u>                          | <u>2,541,274</u>                          |
| -                                | -   | -                                       | -  | -   | -   |
| 3,011                            | -   | -                                       | -  | -   | -   |
| 1,268                            | 605   | 681                                     | 1,653                                    | 2,531                                     | 2,785                                     |
| -                                | -   | -                                       | -  | -   | -   |
| <u>4,279</u>                     | <u>605</u>                                      | <u>681</u>                              | <u>1,653</u>                             | <u>2,531</u>                              | <u>2,785</u>                              |
| <u>\$ 11,023,795</u>             | <u>\$ 2,376,772</u>                             | <u>\$ 2,486,817</u>                     | <u>\$ 2,982,687</u>                      | <u>\$ 3,151,281</u>                       | <u>\$ 2,538,489</u>                       |

**Education Trust Board of New Mexico**  
**Combining Schedule of Fiduciary Net Assets—The Education Plan**  
**June 30, 2012**

|   | Ages 18 Years<br>and Over<br>Index<br>Portfolio | Aggressive<br>Index<br>Portfolio | Moderately<br>Aggressive<br>Index<br>Portfolio |
|---|---|----------------------------------|--|
|   | <u>          </u>                               | <u>          </u>                | <u>          </u>                              |
| <b>Assets</b>   |   |                                  |  |
| Investments, at value   | \$ 1,208,680                                    | \$ 4,737,634                     | \$ 3,234,258                                   |
| Cash  | 11,444  | 47,166                           | 32,166   |
| Receivables and other assets  |   |                                  |  |
| Receivable for capital shares issued                                  | 500   | 1,143                            | 1,248  |
| Receivable for securities sold  | -   | -                                | -  |
| Accrued income  | 1,411   | -                                | 921  |
| Other assets  | -   | -                                | -  |
| Total assets  | <u>1,222,035</u>                                | <u>4,785,943</u>                 | <u>3,268,593</u>                               |
| <b>Liabilities and Net Assets</b>                                     |   |                                  |  |
| <b>Liabilities</b>  |   |                                  |  |
| Cash overdraft  | -   | -                                | -  |
| Payables and other liabilities  |   |                                  |  |
| Payable for capital shares as redeemed                                | -   | 5,000                            | 7,000  |
| Payable for securities purchased                                      | 1,365   | 533                              | 1,039  |
| Accrued expenses  | -   | -                                | -  |
| Total liabilities   | <u>1,365</u>                                    | <u>5,533</u>                     | <u>8,039</u>                                   |
| <b>Net assets</b>   |   |                                  |  |
| Held in trust for qualified state tuition plans<br>and other purposes | <u>\$ 1,220,670</u>                             | <u>\$ 4,780,410</u>              | <u>\$ 3,260,554</u>                            |

— continued

| Moderate<br>Index<br>Portfolio | Conservative<br>Index<br>Portfolio | Ultra<br>Conservative<br>Index<br>Portfolio | School<br>Years<br>Index<br>Portfolio | Total                 |
|--------------------------------|------------------------------------|---|---------------------------------------|-----------------------|
| \$ 3,585,224                   | \$ 2,146,722                       | \$ 3,949,841                                | \$ 2,023,851                          | \$ 353,949,626        |
| 35,722                         | 21,641                             | 18,575                                      | 20,406                                | 2,096,034             |
| 1,175                          | 264                                | 653   | 929                                   | 248,785               |
| -                              | -                                  | -   | -                                     | 54,879                |
| 2,027                          | 1,827                              | 4,436                                       | 2,565                                 | 25,247                |
| -                              | -                                  | -   | -                                     | -                     |
| <u>3,624,148</u>               | <u>2,170,454</u>                   | <u>3,973,505</u>                            | <u>2,047,751</u>                      | <u>356,374,571</u>    |
| -                              | -                                  | -   | -                                     | -                     |
| 900                            | -                                  | -   | 5,800                                 | 180,360               |
| 1,993                          | 1,932                              | 4,705                                       | 2,496                                 | 72,265                |
| -                              | -                                  | -   | -                                     | -                     |
| <u>2,893</u>                   | <u>1,932</u>                       | <u>4,705</u>                                | <u>8,296</u>                          | <u>252,625</u>        |
| <u>\$ 3,621,255</u>            | <u>\$ 2,168,522</u>                | <u>\$ 3,968,800</u>                         | <u>\$ 2,039,455</u>                   | <u>\$ 356,121,946</u> |

**Education Trust Board of New Mexico**  
**Combining Schedule of Changes in Fiduciary Net Assets—Scholar’sEdge**  
**June 30, 2012**

|   | Newborn to<br>Age 5 Years<br>Portfolio | Ages 6-8<br>Years<br>Portfolio | Ages 9-11<br>Years<br>Portfolio |
|---|--|--------------------------------|---------------------------------|
| <b>Additions</b>  |  |                                |                                 |
| Subscriptions   | \$ 16,157,363                          | \$ 50,739,367                  | \$ 98,352,483                   |
| Investment income   |  |                                |                                 |
| Dividend income from underlying investments                       | 682,538                                | 3,268,669                      | 3,742,366                       |
| Interest  | 210                                    | 498                            | 729                             |
| Less expenses   |  |                                |                                 |
| Distribution fees   | 319,327                                | 750,428                        | 1,050,571                       |
| Management fees   | 87,590                                 | 196,468                        | 268,638                         |
| State administrative fees   | 66,628                                 | 157,435                        | 231,777                         |
| Expense reimbursement   | -                                      | -                              | -                               |
| Net investment income   | 209,203                                | 2,164,836                      | 2,192,109                       |
| Capital gains (losses) from underlying investment                 | (1,367,384)                            | (2,721,019)                    | (1,339,492)                     |
| Net increase (decrease) in change in fair value<br>of investments | (2,376,084)                            | (5,214,881)                    | 1,310,269                       |
| Total additions   | 12,623,098                             | 44,968,303                     | 100,515,369                     |
| <b>Deductions</b>   |  |                                |                                 |
| Redemptions   | (32,500,908)                           | (86,869,312)                   | (86,683,726)                    |
| Change in net assets held in trust for individuals                | (19,877,810)                           | (41,901,009)                   | 13,831,643                      |
| <b>Net Assets</b>   |  |                                |                                 |
| Net assets, beginning of year                                     | 79,698,572                             | 184,832,463                    | 227,437,882                     |
| <b>Net assets, end of year</b>                                    | \$ 59,820,762                          | \$ 142,931,454                 | \$ 241,269,525                  |

| Ages 12-14<br>Years<br>Portfolio | Ages 15-17<br>Years<br>Portfolio | Ages 18 Years<br>and Over<br>Portfolio | Aggressive<br>Portfolio | Moderately<br>Aggressive<br>Portfolio |
|----------------------------------|----------------------------------|--|-------------------------|---------------------------------------|
| \$ 96,706,581                    | \$ 95,381,386                    | \$ 90,594,889                          | \$ 11,722,072           | \$ 10,736,108                         |
| 3,388,454                        | 3,845,477                        | 3,036,946                              | 1,391,821               | 2,148,337                             |
| 615                              | 646                              | 493                                    | 421                     | 323                                   |
| 930,840                          | 985,727                          | 826,072                                | 622,100                 | 494,542                               |
| 222,310                          | 221,232                          | 163,583                                | 174,180                 | 127,265                               |
| 202,484                          | 207,814                          | 163,582                                | 134,590                 | 103,298                               |
| -                                | -                                | -                                      | -                       | -                                     |
| 2,033,435                        | 2,431,350                        | 1,884,202                              | 461,372                 | 1,423,555                             |
| (497,632)                        | 524,164                          | (46,535)                               | (3,352,686)             | (1,725,263)                           |
| 2,981,661                        | 2,194,473                        | 2,083,023                              | (3,216,699)             | (2,752,966)                           |
| <u>101,224,045</u>               | <u>100,531,373</u>               | <u>94,515,579</u>                      | <u>5,614,059</u>        | <u>7,681,434</u>                      |
| (80,989,817)                     | (80,448,117)                     | (68,103,814)                           | (20,994,063)            | (17,306,417)                          |
| <u>20,234,228</u>                | <u>20,083,256</u>                | <u>26,411,765</u>                      | <u>(15,380,004)</u>     | <u>(9,624,983)</u>                    |
| 197,802,547                      | 200,413,992                      | 160,158,608                            | 148,760,669             | 112,545,931                           |
| <u>\$ 218,036,775</u>            | <u>\$ 220,497,248</u>            | <u>\$ 186,570,373</u>                  | <u>\$ 133,380,665</u>   | <u>\$ 102,920,948</u>                 |

**Education Trust Board of New Mexico**  
**Combining Schedule of Changes in Fiduciary Net Assets—Scholar’sEdge**  
**June 30, 2012**

|   | Moderate<br>Portfolio | Conservative<br>Portfolio | Ultra<br>Conservative<br>Portfolio |
|---|-----------------------|---------------------------|------------------------------------|
| <b>Additions</b>  |                       |                           |                                    |
| Subscriptions   | \$ 15,559,694         | \$ 9,483,766              | \$ 2,876,963                       |
| Investment income   |                       |                           |                                    |
| Dividend income from underlying investments                       | 1,243,891             | 614,218                   | 162,589                            |
| Interest  | 243                   | 115                       | 27                                 |
| Less expenses   |                       |                           |                                    |
| Distribution fees   | 387,692               | 176,148                   | 46,993                             |
| Management fees   | 90,424                | 40,293                    | 9,441                              |
| State administrative fees   | 77,552                | 36,647                    | 8,857                              |
| Expense reimbursement   | -                     | -                         | -                                  |
| Net investment income   | <u>688,466</u>        | <u>361,245</u>            | <u>97,325</u>                      |
| Capital gains (losses) from underlying investment                 | (641,727)             | 29,946                    | 115,339                            |
| Net increase (decrease) in change in fair value<br>of investments | <u>249,181</u>        | <u>409,025</u>            | <u>(10,156)</u>                    |
| Total additions   | <u>15,855,614</u>     | <u>10,283,982</u>         | <u>3,079,471</u>                   |
| <b>Deductions</b>   |                       |                           |                                    |
| Redemptions   | <u>(16,209,295)</u>   | <u>(8,130,558)</u>        | <u>(2,449,056)</u>                 |
| Change in net assets held in trust for individuals                | <u>(353,681)</u>      | <u>2,153,424</u>          | <u>630,415</u>                     |
| <b>Net Assets</b>   |                       |                           |                                    |
| Net assets, beginning of year                                     | <u>81,091,068</u>     | <u>36,932,311</u>         | <u>8,807,024</u>                   |
| <b>Net assets, end of year</b>                                    | <u>\$ 80,737,387</u>  | <u>\$ 39,085,735</u>      | <u>\$ 9,437,439</u>                |



— continued

| School<br>Years<br>Portfolio | Large Cap<br>Growth<br>Portfolio | Large Cap<br>Core<br>Portfolio | Large Cap<br>Value<br>Portfolio | Small Cap<br>Core<br>Portfolio |
|------------------------------|----------------------------------|--------------------------------|---------------------------------|--------------------------------|
| \$ 3,480,360                 | \$ 2,114,221                     | \$ 1,215,338                   | \$ 1,415,801                    | \$ 2,174,525                   |
| 263,688                      | 71,674                           | 92,321                         | 135,782                         | 80,930                         |
| 43                           | 40                               | 22                             | 26                              | 43                             |
| 74,452                       | 60,417                           | 31,770                         | 40,191                          | 65,701                         |
| 14,209                       | 12,733                           | 6,795                          | 8,456                           | 13,774                         |
| 14,210                       | 12,737                           | 6,796                          | 8,457                           | 13,773                         |
| -                            | -                                | -                              | -                               | -                              |
| 160,860                      | (14,173)                         | 46,982                         | 78,704                          | (12,275)                       |
| 55,106                       | (134,163)                        | (73,468)                       | (162,332)                       | (46,833)                       |
| 117,717                      | 173,576                          | (93,072)                       | (493,762)                       | (164,767)                      |
| <u>3,814,043</u>             | <u>2,139,461</u>                 | <u>1,095,780</u>               | <u>838,411</u>                  | <u>1,950,650</u>               |
| <u>(3,416,930)</u>           | <u>(2,424,241)</u>               | <u>(1,494,601)</u>             | <u>(1,633,129)</u>              | <u>(2,772,437)</u>             |
| <u>397,113</u>               | <u>(284,780)</u>                 | <u>(398,821)</u>               | <u>(794,718)</u>                | <u>(821,787)</u>               |
| <u>14,293,710</u>            | <u>13,544,272</u>                | <u>7,421,657</u>               | <u>9,305,982</u>                | <u>15,157,532</u>              |
| <u>\$ 14,690,823</u>         | <u>\$ 13,259,492</u>             | <u>\$ 7,022,836</u>            | <u>\$ 8,511,264</u>             | <u>\$ 14,335,745</u>           |

**Education Trust Board of New Mexico**  
**Combining Schedule of Changes in Fiduciary Net Assets—Scholar’sEdge**  
**June 30, 2012**

|   | International<br>Equity<br>Portfolio | Intermediate<br>Term Bond<br>Portfolio | Diversified<br>Income<br>Portfolio |
|---|--------------------------------------|--|------------------------------------|
| <b>Additions</b>  |                                      |  |                                    |
| Subscriptions   | \$ 1,834,129                         | \$ 2,964,718                           | \$ 4,579,507                       |
| Investment income   |                                      |  |                                    |
| Dividend income from underlying investments                       | 215,929                              | -                                      | 1,400,930                          |
| Interest  | 50                                   | 17                                     | 71                                 |
| Less expenses   |                                      |  |                                    |
| Distribution fees   | 78,493                               | 25,251                                 | 106,152                            |
| Management fees   | 40,153                               | 5,196                                  | 22,774                             |
| State administrative fees   | 16,018                               | 5,196                                  | 22,774                             |
| Expense reimbursement   | -                                    | -                                      | -                                  |
| Net investment income   | 81,315                               | (35,626)                               | 1,249,301                          |
| Capital gains (losses) from underlying investment                 | (2,382,078)                          | 7,192                                  | (113,719)                          |
| Net increase (decrease) in change in fair value<br>of investments | <u>772,569</u>                       | <u>370,316</u>                         | <u>(853,233)</u>                   |
| Total additions   | <u>305,935</u>                       | <u>3,306,600</u>                       | <u>4,861,856</u>                   |
| <b>Deductions</b>   |                                      |  |                                    |
| Redemptions   | <u>(3,394,568)</u>                   | <u>(1,665,156)</u>                     | <u>(4,421,129)</u>                 |
| Change in net assets held in trust for individuals                | <u>(3,088,633)</u>                   | <u>1,641,444</u>                       | <u>440,727</u>                     |
| <b>Net Assets</b>   |                                      |  |                                    |
| Net assets, beginning of year                                     | <u>18,225,886</u>                    | <u>4,370,668</u>                       | <u>23,490,323</u>                  |
| <b>Net assets, end of year</b>                                    | <u>\$ 15,137,253</u>                 | <u>\$ 6,012,112</u>                    | <u>\$ 23,931,050</u>               |

— continued

| Short-Term<br>Yield<br>Portfolio | Capital<br>Preservation<br>Portfolio | Total                   |
|----------------------------------|--------------------------------------|-------------------------|
| \$ 11,188,259                    | \$ 9,888,609                         | \$ 539,166,139          |
| 32,215                           | 1,357,112                            | 27,175,887              |
| 79                               | 135                                  | 4,846                   |
| -                                | 207,237                              | 7,280,104               |
| 25,429                           | 43,607                               | 1,794,550               |
| 25,429                           | 43,607                               | 1,559,661               |
| <u>(19,564)</u>                  | <u>-</u>                             | <u>(19,564)</u>         |
| 1,000                            | 1,062,796                            | 16,565,982              |
| -                                | -                                    | (13,872,584)            |
| -                                | -                                    | (4,513,810)             |
| <u>11,189,259</u>                | <u>10,951,405</u>                    | <u>537,345,727</u>      |
| <u>(9,645,920)</u>               | <u>(9,444,511)</u>                   | <u>(540,997,705)</u>    |
| <u>1,543,339</u>                 | <u>1,506,894</u>                     | <u>(3,651,978)</u>      |
| <u>24,329,705</u>                | <u>43,389,628</u>                    | <u>1,612,010,430</u>    |
| <u>\$ 25,873,044</u>             | <u>\$ 44,896,522</u>                 | <u>\$ 1,608,358,452</u> |

**Education Trust Board of New Mexico**  
**Combining Schedule of Changes in Fiduciary Net Assets—The Education Plan**  
**June 30, 2012**

|   | Newborn to<br>Age 5 Years<br>Portfolio | Ages 6-8<br>Years<br>Portfolio | Ages 9-11<br>Years<br>Portfolio |
|---|--|--------------------------------|---------------------------------|
| <b>Additions</b>  |  |                                |                                 |
| Subscriptions   | \$ 2,985,290                           | \$ 9,391,423                   | \$ 19,556,321                   |
| Investment income   |  |                                |                                 |
| Dividend income from underlying investments                       | 51,630                                 | 96,512                         | 115,818                         |
| Interest  | 43                                     | 97                             | 156                             |
| Less expenses   |  |                                |                                 |
| Management fees   | 19,230                                 | 40,618                         | 60,002                          |
| State administrative fees   | 13,631                                 | 31,082                         | 49,909                          |
| Expense reimbursement   | -                                      | -                              | -                               |
| Net investment income   | 18,812                                 | 24,909                         | 6,063                           |
| Capital gains (losses) from underlying investment                 | 1,031,049                              | 2,165,502                      | 2,620,317                       |
| Net increase (decrease) in change in fair value<br>of investments | (1,564,401)                            | (2,323,290)                    | (1,393,732)                     |
| Total additions   | 2,470,750                              | 9,258,544                      | 20,788,969                      |
| <b>Deductions</b>   |  |                                |                                 |
| Redemptions   | (7,539,575)                            | (16,231,025)                   | (19,250,860)                    |
| Change in net assets held in trust for individuals                | (5,068,825)                            | (6,972,481)                    | 1,538,109                       |
| <b>Net Assets</b>   |  |                                |                                 |
| Net assets, beginning of year                                     | 17,008,870                             | 35,286,748                     | 49,935,664                      |
| <b>Net assets, end of year</b>                                    | \$ 11,940,045                          | \$ 28,314,267                  | \$ 51,473,773                   |

| Ages 12-14<br>Years<br>Portfolio | Ages 15-17<br>Years<br>Portfolio | Ages 18 Years<br>and Over<br>Portfolio | Aggressive<br>Portfolio | Moderately<br>Aggressive<br>Portfolio | Moderate<br>Portfolio |
|----------------------------------|----------------------------------|--|-------------------------|---------------------------------------|-----------------------|
| \$ 21,019,454                    | \$ 15,222,888                    | \$ 15,109,592                          | \$ 5,333,262            | \$ 3,347,725                          | \$ 2,980,907          |
| 63,092                           | 31,694                           | 21,999                                 | 227,691                 | 72,679                                | 30,617                |
| 112                              | 83                               | 69                                     | 189                     | 74                                    | 41                    |
| 40,222                           | 28,108                           | 22,946                                 | 83,062                  | 30,917                                | 15,902                |
| 35,978                           | 26,804                           | 22,409                                 | 60,452                  | 23,979                                | 13,174                |
| -                                | -                                | -                                      | -                       | -                                     | -                     |
| (12,996)                         | (23,135)                         | (23,287)                               | 84,366                  | 17,857                                | 1,582                 |
| 796,330                          | 457,606                          | 272,024                                | 2,586,080               | 1,037,796                             | 808,931               |
| 505,292                          | 618,112                          | 532,861                                | (4,265,400)             | (1,083,053)                           | (511,782)             |
| <u>22,308,080</u>                | <u>16,275,471</u>                | <u>15,891,190</u>                      | <u>3,738,308</u>        | <u>3,320,325</u>                      | <u>3,279,638</u>      |
| (12,941,256)                     | (10,538,202)                     | (9,812,808)                            | (9,364,718)             | (4,294,258)                           | (3,301,204)           |
| <u>9,366,824</u>                 | <u>5,737,269</u>                 | <u>6,078,382</u>                       | <u>(5,626,410)</u>      | <u>(973,933)</u>                      | <u>(21,566)</u>       |
| 32,797,343                       | 24,858,837                       | 20,730,060                             | 66,672,643              | 25,684,359                            | 13,691,350            |
| <u>\$ 42,164,167</u>             | <u>\$ 30,596,106</u>             | <u>\$ 26,808,442</u>                   | <u>\$ 61,046,233</u>    | <u>\$ 24,710,426</u>                  | <u>\$ 13,669,784</u>  |

**Education Trust Board of New Mexico**  
**Combining Schedule of Changes in Fiduciary Net Assets—The Education Plan**  
**June 30, 2012**

|   | Conservative<br>Portfolio  | Ultra<br>Conservative<br>Portfolio | School<br>Years<br>Portfolio |
|---|----------------------------|------------------------------------|------------------------------|
| <b>Additions</b>  |                            |                                    |                              |
| Subscriptions   | \$ 2,630,668               | \$ 1,471,444                       | \$ 2,376,080                 |
| Investment income   |                            |                                    |                              |
| Dividend income from underlying investments                       | 14,343                     | 4,680                              | 6,827                        |
| Interest  | 24                         | 11                                 | 21                           |
| Less expenses   |                            |                                    |                              |
| Management fees   | 8,753                      | 4,054                              | 7,141                        |
| State administrative fees   | 7,745                      | 3,861                              | 6,965                        |
| Expense reimbursement   | -                          | -                                  | -                            |
| Net investment income   | (2,131)                    | (3,224)                            | (7,258)                      |
| Capital gains (losses) from underlying investment                 | 450,487                    | 103,437                            | 128,242                      |
| Net increase (decrease) in change in fair value<br>of investments | (193,298)                  | 48,429                             | 123,531                      |
| Total additions   | <u>2,885,726</u>           | <u>1,620,086</u>                   | <u>2,620,595</u>             |
| <b>Deductions</b>   |                            |                                    |                              |
| Redemptions   | <u>(2,625,360)</u>         | <u>(1,071,112)</u>                 | <u>(1,833,577)</u>           |
| Change in net assets held in trust for individuals                | <u>260,366</u>             | <u>548,974</u>                     | <u>787,018</u>               |
| <b>Net Assets</b>   |                            |                                    |                              |
| Net assets, beginning of year                                     | <u>7,803,449</u>           | <u>3,580,588</u>                   | <u>6,798,801</u>             |
| <b>Net assets, end of year</b>                                    | <u><u>\$ 8,063,815</u></u> | <u><u>\$ 4,129,562</u></u>         | <u><u>\$ 7,585,819</u></u>   |

— continued

| Short-Term<br>Yield<br>Portfolio | Newborn to<br>Age 5 Years<br>Index<br>Portfolio | Ages 6-8<br>Years<br>Index<br>Portfolio | Ages 9-11<br>Years<br>Index<br>Portfolio | Ages 12-14<br>Years<br>Index<br>Portfolio | Ages 15-17<br>Years<br>Index<br>Portfolio |
|----------------------------------|---|---|--|---|---|
| \$ 5,592,131                     | \$ 1,714,283                                    | \$ 1,959,969                            | \$ 2,407,119                             | \$ 2,401,021                              | \$ 2,450,754                              |
| 14,115                           | 18,464  | 22,833                                  | 30,737                                   | 31,272                                    | 23,101                                    |
| 34                               | 6   | 6                                       | 8  | 5   | 4   |
| 11,191                           | 1,877   | 2,067                                   | 2,450                                    | 2,198                                     | 1,444                                     |
| 11,191                           | 892   | 978                                     | 1,181                                    | 1,071                                     | 716                                       |
| (8,800)                          | -   | -                                       | -  | -   | -   |
| <u>567</u>                       | <u>15,701</u>                                   | <u>19,794</u>                           | <u>27,114</u>                            | <u>28,008</u>                             | <u>20,945</u>                             |
| -                                | 79,408  | 81,196                                  | 77,757                                   | 47,358                                    | 21,084                                    |
| -                                | <u>30,487</u>                                   | <u>(4,496)</u>                          | <u>28,289</u>                            | <u>41,604</u>                             | <u>42,689</u>                             |
| <u>5,592,698</u>                 | <u>1,839,879</u>                                | <u>2,056,463</u>                        | <u>2,540,279</u>                         | <u>2,517,991</u>                          | <u>2,535,472</u>                          |
| <u>(5,298,377)</u>               | <u>(516,544)</u>                                | <u>(1,056,493)</u>                      | <u>(1,179,390)</u>                       | <u>(976,338)</u>                          | <u>(452,006)</u>                          |
| <u>294,321</u>                   | <u>1,323,335</u>                                | <u>999,970</u>                          | <u>1,360,889</u>                         | <u>1,541,653</u>                          | <u>2,083,466</u>                          |
| <u>10,729,474</u>                | <u>1,053,437</u>                                | <u>1,486,847</u>                        | <u>1,621,798</u>                         | <u>1,609,628</u>                          | <u>455,023</u>                            |
| <u>\$ 11,023,795</u>             | <u>\$ 2,376,772</u>                             | <u>\$ 2,486,817</u>                     | <u>\$ 2,982,687</u>                      | <u>\$ 3,151,281</u>                       | <u>\$ 2,538,489</u>                       |

**Education Trust Board of New Mexico**  
**Combining Schedule of Changes in Fiduciary Net Assets—The Education Plan**  
**June 30, 2012**

|   | Ages 18 Years<br>and Over<br>Index<br>Portfolio | Aggressive<br>Index<br>Portfolio | Moderately<br>Aggressive<br>Index<br>Portfolio |
|---|---|----------------------------------|--|
|   |   |                                  |  |
| <b>Additions</b>  |   |                                  |  |
| Subscriptions   | \$ 949,960                                      | \$ 2,370,408                     | \$ 1,125,714                                   |
| Investment income   |   |                                  |  |
| Dividend income from underlying investments                       | 11,662  | 37,270                           | 30,464   |
| Interest  | 2   | 11                               | 8  |
| Less expenses   |   |                                  |  |
| Management fees   | 693   | 3,867                            | 2,789  |
| State administrative fees   | 345   | 1,810                            | 1,317  |
| Expense reimbursement   | -   | -                                | -  |
| Net investment income   | 10,626  | 31,604                           | 26,366   |
| Capital gains (losses) from underlying investment                 | 7,868   | 124,252                          | 144,071  |
| Net increase (decrease) in change in fair value<br>of investments | 18,359  | (51,395)                         | (52,988)                                       |
| Total additions   | 986,813   | 2,474,869                        | 1,243,163                                      |
| <b>Deductions</b>   |   |                                  |  |
| Redemptions   | (207,494)                                       | (456,327)                        | (203,142)                                      |
| Change in net assets held in trust for individuals                | 779,319   | 2,018,542                        | 1,040,021                                      |
| <b>Net Assets</b>   |   |                                  |  |
| Net assets, beginning of year                                     | 441,351   | 2,761,868                        | 2,220,533                                      |
| <b>Net assets, end of year</b>                                    | \$ 1,220,670                                    | \$ 4,780,410                     | \$ 3,260,554                                   |



— continued

| Moderate<br>Index<br>Portfolio | Conservative<br>Index<br>Portfolio | Ultra<br>Conservative<br>Index<br>Portfolio | School<br>Years<br>Index<br>Portfolio | Total                 |
|--------------------------------|------------------------------------|---|---------------------------------------|-----------------------|
| \$ 1,957,185                   | \$ 1,854,084                       | \$ 1,947,598                                | \$ 1,658,650                          | \$ 129,813,930        |
| 37,777                         | 22,259                             | 50,882                                      | 29,898                                | 1,098,316             |
| 11                             | -                                  | 11  | 5                                     | 1,031                 |
| 2,978                          | 1,566                              | 3,203                                       | 1,773                                 | 399,051               |
| 1,439                          | 766                                | 1,577                                       | 883                                   | 320,155               |
| -                              | -                                  | -   | -                                     | (8,800)               |
| <u>33,371</u>                  | <u>19,927</u>                      | <u>46,113</u>                               | <u>27,247</u>                         | <u>388,941</u>        |
| 109,757                        | 55,867                             | 59,759                                      | 26,680                                | 13,292,858            |
| <u>54,330</u>                  | <u>34,978</u>                      | <u>84,919</u>                               | <u>41,594</u>                         | <u>(9,238,361)</u>    |
| <u>2,154,643</u>               | <u>1,964,856</u>                   | <u>2,138,389</u>                            | <u>1,754,171</u>                      | <u>134,257,368</u>    |
| <u>(335,917)</u>               | <u>(749,266)</u>                   | <u>(545,393)</u>                            | <u>(748,026)</u>                      | <u>(111,528,668)</u>  |
| <u>1,818,726</u>               | <u>1,215,590</u>                   | <u>1,592,996</u>                            | <u>1,006,145</u>                      | <u>22,728,700</u>     |
| <u>1,802,529</u>               | <u>952,932</u>                     | <u>2,375,804</u>                            | <u>1,033,310</u>                      | <u>333,393,246</u>    |
| <u>\$ 3,621,255</u>            | <u>\$ 2,168,522</u>                | <u>\$ 3,968,800</u>                         | <u>\$ 2,039,455</u>                   | <u>\$ 356,121,946</u> |

## Supplementary Information

**Education Trust Board of New Mexico**  
**Schedule of Individual Deposit Accounts**  
**For the Year Ended June 30, 2012**

| Name of Institution                           | Account Name   | Share<br>Fund<br>No. | Deposit Type         | Bank<br>Balance at<br>June 30, 2012 | Reconciled<br>Balance at<br>June 30, 2012 |
|---|--|----------------------|----------------------|-------------------------------------|---|
| <b>Governmental Fund Types - General Fund</b> |  |                      |                      |                                     |   |
| NM State Treasurer's<br>Office                | Education Trust Board of New Mexico<br>— Administration Fund | 11250                | Interest in<br>SGFIP | \$ 1,669,521                        | \$ 1,669,521                              |
| Oppenheimer Funds                             | Education Trust Board of New Mexico<br>— Administration Fund | 11250                | Money<br>Market      | <u>6,484,440</u>                    | <u>6,484,440</u>                          |
| Total governmental fund types - general fund  |  |                      |                      | <u>\$ 8,153,961</u>                 | <u>\$ 8,153,961</u>                       |

## Other Supplementary Information

**Education Trust Board of New Mexico**  
**Fund Performance Summary—By Portfolio**  
**For the Year Ended June 30, 2012**

**Scholar’sEdge (Advisor Sold)**

The table below presents the Average Annual Total Returns for each portfolio in the New Mexico Scholar’sEdge Savings Program for the 12-month period ended June 30, 2012:

|                                  | A Unit<br>Total<br>Returns % | B Unit<br>Total<br>Returns % | C Unit<br>Returns<br>(%) | Benchmark<br>Return % |
|----------------------------------|------------------------------|------------------------------|--------------------------|-----------------------|
| Newborn to Age 5 Years Portfolio | (3.69)                       | (4.46)                       | (4.44)                   | (0.76)                |
| Ages 6-8 Years Portfolio         | (2.30)                       | (3.03)                       | (3.04)                   | 1.19                  |
| Ages 9-11 Years Portfolio        | 0.90                         | 0.15                         | 0.15                     | 2.39                  |
| Ages 12-14 Years Portfolio       | 2.45                         | 1.67                         | 1.67                     | 3.14                  |
| Ages 15-17 Years Portfolio       | 2.72                         | 1.89                         | 1.93                     | 3.24                  |
| Ages 18 Years and Over Portfolio | 2.74                         | 2.00                         | 1.96                     | 3.30                  |
| Large Cap Growth Portfolio       | 0.82                         | 0.03                         | 0.07                     | 5.76                  |
| Short-Term Yield Portfolio       | —                            | —                            | —                        | 0.05                  |
| Small- & Mid-Cap Core Portfolio  | (0.81)                       | (1.56)                       | (1.56)                   | (2.29)                |
| International Equity Portfolio   | (8.11)                       | (8.82)                       | (8.84)                   | (13.83)               |
| Aggressive Portfolio             | (3.73)                       | (4.46)                       | (4.47)                   | (0.76)                |
| Moderately Aggressive Portfolio  | (2.33)                       | (3.06)                       | (3.08)                   | 1.19                  |
| Moderate Portfolio               | 0.90                         | 0.15                         | 0.16                     | 2.39                  |
| Conservative Portfolio           | 2.45                         | 1.67                         | 1.66                     | 3.14                  |
| School Years Portfolio           | 2.74                         | 1.96                         | 1.92                     | 3.30                  |
| Large Cap Core Portfolio         | (1.05)                       | (1.77)                       | (1.79)                   | 3.84                  |
| Large Cap Value Portfolio        | (5.93)                       | (6.64)                       | (6.67)                   | 3.01                  |
| Intermediate Term Bond Portfolio | 7.29                         | 6.51                         | 6.49                     | 7.47                  |
| Diversified Income Portfolio     | 1.58                         | 0.82                         | 0.79                     | 7.47                  |
| Ultra Conservative Portfolio     | 2.73                         | 1.97                         | 1.94                     | 3.24                  |
| Capital Preservation Portfolio   | 2.70                         | 1.93                         | 1.93                     | n/a                   |

**Education Trust Board of New Mexico**  
**Fund Performance Summary—By Portfolio**  
**For the Year Ended June 30, 2012**

The benchmarks for the Scholar’sEdge® Portfolios are based on a blend of the benchmarks applicable to each Underlying Investment category as follows:

|   |   |
|---|---|
| Oppenheimer Capital Appreciation Fund           | Russell 1000 Growth Index                             |
| Oppenheimer Value Fund                          | Russell 1000 Value Index                              |
| Mainstay MAP Fund                               | Russell 3000 Index                                    |
| Invesco Mid Cap Core Equity Fund®               | Russell Midcap Index                                  |
| Oppenheimer Main Street Small- & Mid- Cap Fund® | Russell 2500 Index                                    |
| Oppenheimer International Growth Fund           | MSCI EAFE Index                                       |
| Thornburg International Value Fund              | MSCI EAFE Index                                       |
| American Century Diversified Bond Fund          | Barclays Capital US Aggregate Bond Index              |
| Oppenheimer International Bond Fund             | Citigroup World Government Bond Index ex U.S.         |
| Oppenheimer Limited-Term Government Fund        | Barclays Capital U.S. Government 1-3 Year Bond Index  |
| Oppenheimer Global Strategic Income Fund®       | Barclays Capital U.S. Aggregate Bond Index            |
| Mainstay High Yield Corporate Bond Fund         | Credit Suisse High Yield Index                        |
| Oppenheimer Institutional Money Market Fund     | iMoneyNet First Tier Institutional Money Market Index |

**Education Trust Board of New Mexico**  
**Portfolio Investment Allocations – Scholar’sEdge (Advisor Sold)**  
**For the Year Ended June 30, 2012**

| Investment                                    | Investment Return | Benchmark  | Benchmark Return | Portfolio Investment Allocations |                          |                           |                            |                            |
|---|-------------------|--|------------------|----------------------------------|--------------------------|---------------------------|----------------------------|----------------------------|
|   |                   |  |                  | Newborn to Age 5 Years Portfolio | Ages 6-8 Years Portfolio | Ages 9-11 Years Portfolio | Ages 12-14 Years Portfolio | Ages 15-17 Years Portfolio |
| American Century Diversified Bond Fund        | 8.16%             | Barclays Capital U.S. Aggregate Bond Index           | 7.47%            | —                                | —                        | 25 %                      | 30 %                       | 30 %                       |
| Invesco Mid Cap Core Equity Fund              | -7.81%            | Russell Mid Cap Index                                | -1.65%           | 8 %                              | 6 %                      | 4 %                       | —                          | —                          |
| MainStay High Yield Corporate Bond Fund       | 7.71%             | Credit Suisse High Yield Index                       | 7.30%            | —                                | —                        | 7.5 %                     | 7.5 %                      | 7.5 %                      |
| MainStay MAP Fund                             | -0.56%            | Russell 3000 Index                                   | 3.84%            | 10 %                             | 8 %                      | 6 %                       | 5 %                        | —                          |
| Oppenheimer Capital Appreciation Fund         | 1.39%             | Russell 1000 Growth Index                            | 5.76%            | 25 %                             | 20 %                     | 15 %                      | 10 %                       | 7.5 %                      |
| Oppenheimer Global Strategic Income Fund      | 2.03%             | Barclays Capital U.S. Aggregate Bond Index           | 7.47%            | —                                | 20 %                     | —                         | —                          | —                          |
| Oppenheimer Institutional Money Market Fund   | 0.12%             | iMoney Net First Tier Institutional Index            | 0.05%            | —                                | —                        | —                         | 5 %                        | 10 %                       |
| Oppenheimer International Bond Fund           | -1.17%            | Citi World Government Bond Index ex-U.S.             | 0.44%            | —                                | —                        | 7.5 %                     | 7.5 %                      | 7.5 %                      |
| Oppenheimer International Growth Fund         | -8.64%            | MSCI EAFE Index                                      | -13.38%          | 10 %                             | 8 %                      | 6 %                       | 3.5 %                      | 2.5 %                      |
| Oppenheimer Limited-Term Government Fund      | 2.08%             | Barclays Capital U.S. Government 1-3 Year Bond Index | 0.86%            | —                                | —                        | —                         | 10 %                       | 25 %                       |
| Oppenheimer Main Street Small- & Mid-Cap Fund | -0.39%            | Russell 2500 Index                                   | -2.29%           | 12 %                             | 10 %                     | 8 %                       | 7.5 %                      | —                          |
| Oppenheimer Value Fund                        | -5.55%            | Russell 1000 Value Index                             | 3.01%            | 25 %                             | 20 %                     | 15 %                      | 10 %                       | 7.5 %                      |
| Thornburg International Value Fund            | -14.63%           | MSCI EAFE Index                                      | -13.38%          | 10 %                             | 8 %                      | 6 %                       | 4 %                        | 2.5 %                      |

| Investment                                    | Investment Return | Benchmark  | Benchmark Return | Portfolio Investment Allocations |                      |                                |                            |                                 |
|---|-------------------|--|------------------|----------------------------------|----------------------|--------------------------------|----------------------------|---------------------------------|
|   |                   |  |                  | Ages 18 Years and Over Portfolio | Aggressive Portfolio | International Equity Portfolio | Large Cap Growth Portfolio | Small- & Mid-Cap Core Portfolio |
| American Century Diversified Bond Fund        | 8.16%             | Barclays Capital U.S. Aggregate Bond Index           | 7.47%            | 25 %                             | —                    | —                              | —                          | —                               |
| Invesco Mid Cap Core Equity Fund              | -7.81%            | Russell Mid Cap Index                                | -1.65%           | —                                | 8 %                  | —                              | —                          | —                               |
| MainStay High Yield Corporate Bond Fund       | 7.71%             | Credit Suisse High Yield Index                       | 7.30%            | 7.5 %                            | —                    | —                              | —                          | —                               |
| MainStay MAP Fund                             | -0.56%            | Russell 3000 Index                                   | 3.84%            | —                                | 10 %                 | —                              | —                          | —                               |
| Oppenheimer Capital Appreciation Fund         | 1.39%             | Russell 1000 Growth Index                            | 5.76%            | 5 %                              | 25 %                 | —                              | 100 %                      | —                               |
| Oppenheimer Institutional Money Market Fund   | 0.12%             | iMoney Net First Tier Institutional Index            | 0.05%            | 20 %                             | —                    | —                              | —                          | —                               |
| Oppenheimer International Bond Fund           | -1.17%            | Citi World Government Bond Index ex-U.S.             | 0.44%            | 7.5 %                            | —                    | —                              | —                          | —                               |
| Oppenheimer International Growth Fund         | -8.64%            | MSCI EAFE Index                                      | -13.38%          | —                                | 10 %                 | 50 %                           | —                          | —                               |
| Oppenheimer Limited-Term Government Fund      | 2.08%             | Barclays Capital U.S. Government 1-3 Year Bond Index | 0.86%            | 30 %                             | —                    | —                              | —                          | —                               |
| Oppenheimer Main Street Small- & Mid-Cap Fund | -0.39%            | Russell 2500 Index                                   | -2.29%           | —                                | 12 %                 | —                              | —                          | 100 %                           |
| Oppenheimer Value Fund                        | -5.55%            | Russell 1000 Value Index                             | 3.01%            | 5 %                              | 25 %                 | —                              | —                          | —                               |
| Thornburg International Value Fund            | -14.63%           | MSCI EAFE Index                                      | -13.38%          | —                                | 10 %                 | 50 %                           | —                          | —                               |

**Education Trust Board of New Mexico**  
**Portfolio Investment Allocations – Scholar’sEdge (Advisor Sold)**  
**For the Year Ended June 30, 2012**

| Investment                                    | Investment Return | Benchmark  | Benchmark Return | Portfolio Investment Allocations |                          |                    |                                 |                        |
|---|-------------------|--|------------------|----------------------------------|--------------------------|--------------------|---------------------------------|------------------------|
|   |                   |  |                  | Conservative Portfolio           | Large Cap Core Portfolio | Moderate Portfolio | Moderately Aggressive Portfolio | School Years Portfolio |
| American Century Diversified Bond Fund        | 8.16%             | Barclays Capital U.S. Aggregate Bond Index           | 7.47%            | 30 %                             | —                        | 25 %               | —                               | 25 %                   |
| Invesco Mid Cap Core Equity Fund              | -7.81%            | Russell Mid Cap Index                                | -1.65%           | —                                | —                        | 4 %                | 6 %                             | —                      |
| MainStay High Yield Corporate Bond Fund       | 7.71%             | Credit Suisse High Yield Index                       | 7.30%            | 7.5 %                            | —                        | 7.5 %              | —                               | 7.5 %                  |
| MainStay MAP Fund                             | -0.56%            | Russell 3000 Index                                   | 3.84%            | 5 %                              | 100 %                    | 6 %                | 8 %                             | —                      |
| Oppenheimer Capital Appreciation Fund         | 1.39%             | Russell 1000 Growth Index                            | 5.76%            | 10 %                             | —                        | 15 %               | 20 %                            | 5 %                    |
| Oppenheimer Global Strategic Income Fund      | 2.03%             | Barclays Capital U.S. Aggregate Bond Index           | 7.47%            | —                                | —                        | —                  | 20 %                            | —                      |
| Oppenheimer Institutional Money Market Fund   | 0.12%             | iMoney Net First Tier Institutional Index            | 0.05%            | 5 %                              | —                        | —                  | —                               | 20 %                   |
| Oppenheimer International Bond Fund           | -1.17%            | Citi World Government Bond Index ex-U.S.             | 0.44%            | 7.5 %                            | —                        | 7.5 %              | —                               | 7.5 %                  |
| Oppenheimer International Growth Fund         | -8.64%            | MSCI EAFE Index                                      | -13.38%          | 3.5 %                            | —                        | 6 %                | 8 %                             | —                      |
| Oppenheimer Limited-Term Government Fund      | 2.08%             | Barclays Capital U.S. Government 1-3 Year Bond Index | 0.86%            | 10 %                             | —                        | —                  | —                               | 30 %                   |
| Oppenheimer Main Street Small- & Mid-Cap Fund | -0.39%            | Russell 2500 Index                                   | -2.29%           | 7.5 %                            | —                        | 8 %                | 10 %                            | —                      |
| Oppenheimer Value Fund                        | -5.55%            | Russell 1000 Value Index                             | 3.01%            | 10 %                             | —                        | 15 %               | 20 %                            | 5 %                    |
| Thornburg International Value Fund            | -14.63%           | MSCI EAFE Index                                      | -13.38%          | 4 %                              | —                        | 6 %                | 8 %                             | —                      |

| Investment                                  | Investment Return | Benchmark  | Benchmark Return | Portfolio Investment Allocations |                              |                                  |                           |                              |
|---|-------------------|--|------------------|----------------------------------|------------------------------|----------------------------------|---------------------------|------------------------------|
|   |                   |  |                  | Capital Preservation Portfolio   | Diversified Income Portfolio | Intermediate Term Bond Portfolio | Large Cap Value Portfolio | Ultra Conservative Portfolio |
| American Century Diversified Bond Fund      | 8.16%             | Barclays Capital U.S. Aggregate Bond Index           | 7.47%            | —                                | —                            | 100 %                            | —                         | 30 %                         |
| MainStay High Yield Corporate Bond Fund     | 7.71%             | Credit Suisse High Yield Index                       | 7.30%            | —                                | —                            | —                                | —                         | 7.5 %                        |
| NYLIM Funding Agreement                     | -%                | -  | -%               | 95 %                             | —                            | —                                | —                         | —                            |
| Oppenheimer Capital Appreciation Fund       | 1.39%             | Russell 1000 Growth Index                            | 5.76%            | —                                | —                            | —                                | —                         | 7.5 %                        |
| Oppenheimer Global Strategic Income Fund    | 2.03%             | Barclays Capital U.S. Aggregate Bond Index           | 7.47%            | —                                | 100 %                        | —                                | —                         | —                            |
| Oppenheimer Institutional Money Market Fund | 0.12%             | iMoney Net First Tier Institutional Index            | 0.05%            | 5 %                              | —                            | —                                | —                         | 10 %                         |
| Oppenheimer International Bond Fund         | -1.17%            | Citi World Government Bond Index ex-U.S.             | 0.44%            | —                                | —                            | —                                | —                         | 7.5 %                        |
| Oppenheimer International Growth Fund       | -8.64%            | MSCI EAFE Index                                      | -13.38%          | —                                | —                            | —                                | —                         | 2.5 %                        |
| Oppenheimer Limited-Term Government Fund    | 2.08%             | Barclays Capital U.S. Government 1-3 Year Bond Index | 0.86%            | —                                | —                            | —                                | —                         | 25 %                         |
| Oppenheimer Value Fund                      | -5.55%            | Russell 1000 Value Index                             | 3.01%            | —                                | —                            | —                                | 100 %                     | 7.5 %                        |
| Thornburg International Value Fund          | -14.63%           | MSCI EAFE Index                                      | -13.38%          | —                                | —                            | —                                | —                         | 2.5 %                        |



**Education Trust Board of New Mexico**  
**The Education Plan (Direct Sold)**  
**For the Year Ended June 30, 2012**

The table below presents the Average Annual Total Returns for each portfolio in The Education Plan College Savings Program for the 12-month period ended June 30, 2012:

|  | Direct Sold<br>Total Return (%) | Benchmark<br>Return (%) |
|--|---------------------------------|-------------------------|
| Newborn to Age 5 Years Portfolio       | (2.02)                          | (0.47)                  |
| Ages 6-8 Years Portfolio               | 0.31                            | 1.42                    |
| Ages 9-11 Years Portfolio              | 2.43                            | 3.17                    |
| Ages 12-14 Years Portfolio             | 3.53                            | 4.14                    |
| Ages 15-17 Years Portfolio             | 4.13                            | 4.76                    |
| Ages 18 Years and Over Portfolio       | 3.64                            | 4.17                    |
| Aggressive Portfolio                   | (2.09)                          | (0.47)                  |
| Moderately Aggressive Portfolio        | 0.38                            | 1.42                    |
| Moderate Portfolio                     | 2.42                            | 3.17                    |
| Conservative Portfolio                 | 3.65                            | 4.14                    |
| Ultra Conservative Portfolio           | 4.04                            | 4.76                    |
| School Years Portfolio                 | 3.63                            | 4.17                    |
| Short-Term Yield Portfolio             | —                               | 0.05                    |
| Newborn to Age 5 Years Index Portfolio | (0.27)                          | 0.63                    |
| Ages 6-8 Years Index Portfolio         | 2.91                            | 2.64                    |
| Ages 9-11 Years Index Portfolio        | 4.88                            | 4.51                    |
| Ages 12-14 Years Index Portfolio       | 5.86                            | 5.58                    |
| Ages 15-17 Years Index Portfolio       | 6.18                            | 6.09                    |
| Ages 18 Years and Over Index Portfolio | 5.73                            | 5.65                    |
| Aggressive Index Portfolio             | 0.70                            | 0.63                    |
| Moderately Aggressive Index Portfolio  | 3.00                            | 2.64                    |
| Moderate Index Portfolio               | 5.01                            | 4.51                    |
| Conservative Index Portfolio           | 5.87                            | 5.58                    |
| Ultra Conservative Index Portfolio     | 6.17                            | 6.09                    |
| School Years Index Portfolio           | 5.65                            | 5.65                    |

**Education Trust Board of New Mexico**  
**The Education Plan (Direct Sold)**  
**For the Year Ended June 30, 2012**

The benchmarks for The Education Plan® Portfolios are based on a blend of the benchmarks applicable to each Underlying Investment category are as follows:

|   |   |
|---|---|
| Oppenheimer Capital Appreciation Fund           | Russell 1000 Growth Index                             |
| Oppenheimer Value Fund                          | Russell 1000 Value Index                              |
| Oppenheimer Main Street Small- & Mid- Cap Fund® | Russell 2500 Index                                    |
| Dreyfus BASIC S&P 500 Stock Index Fund          | S&P 500 Index   |
| Vanguard Extended Market Index Fund             | S&P Completion Index                                  |
| TIAA-CREF International Equity Index Fund       | MSCI EAFE Index                                       |
| Dreyfus Bond Market Index Fund                  | Barclays Capital US Aggregate Bond Index              |
| Oppenheimer Institutional Money Market Fund     | iMoneyNet First Tier Institutional Money Market Index |

**Education Trust Board of New Mexico**  
**Portfolio Investment Allocations – The Education Plan (Direct Sold)**  
**For the Year Ended June 30, 2012**

| Investment                                    | Investment Return | Benchmark                                  | Benchmark Return | Portfolio Investment Allocations |                          |                           |                            |                            |
|---|-------------------|--|------------------|----------------------------------|--------------------------|---------------------------|----------------------------|----------------------------|
|   |                   |  |                  | Newborn to Age 5 Years Portfolio | Ages 6-8 Years Portfolio | Ages 9-11 Years Portfolio | Ages 12-14 Years Portfolio | Ages 15-17 Years Portfolio |
| Dreyfus Bond Market Index Fund                | 7.31%             | Barclays Capital U.S. Aggregate Bond Index | 7.47%            | —                                | 20%                      | 40%                       | 50%                        | 60%                        |
| Dreyfus BASIC S&P 500 Index Fund              | 5.32%             | S&P 500 Index                              | 5.43%            | 30%                              | 24%                      | 18%                       | 12%                        | 7%                         |
| Oppenheimer Capital Appreciation Fund         | 1.39%             | Russell 1000 Growth Index                  | 5.76%            | 15%                              | 12%                      | 9%                        | 6.5%                       | 4%                         |
| Oppenheimer Institutional Money Market Fund   | 0.12%             | iMoney Net First Tier Institutional Index  | 0.05%            | —                                | —                        | —                         | 10%                        | 20%                        |
| Oppenheimer Main Street Small- & Mid-Cap Fund | -0.39%            | Russell 2500 Index                         | -13.38%          | 8%                               | 6%                       | 4%                        | 2.5%                       | —                          |
| Oppenheimer Value Fund                        | -5.55%            | Russell 1000 Value Index                   | 3.01%            | 15%                              | 12%                      | 9%                        | 6.5%                       | 4%                         |
| TIAA-CREF International Equity Index Fund     | -13.47%           | MSCI EAFE Index                            | -13.38%          | 20%                              | 16%                      | 12%                       | 7.5%                       | 5%                         |
| Vanguard Extended Market Index Fund           | -2.40%            | S&P Completion Index                       | -2.51%           | 12%                              | 10%                      | 8%                        | 5%                         | —                          |

| Investment                                  | Investment Return | Benchmark   | Benchmark Return | Portfolio Investment Allocations |  |                                |                                 |                                  |
|---|-------------------|---|------------------|----------------------------------|--|--------------------------------|---------------------------------|----------------------------------|
|   |                   |   |                  | Ages 18 Years and Over Portfolio | Newborn to Age 5 Years Index Portfolio | Ages 6-8 Years Index Portfolio | Ages 9-11 Years Index Portfolio | Ages 12-14 Years Index Portfolio |
| Dreyfus Bond Market Index Fund              | 7.31%             | Barclays Capital U.S. Aggregate Bond Index                | 7.47%            | 50%                              | —                                      | 10%                            | 20%                             | 20%                              |
| Dreyfus BASIC S&P 500 Index Fund            | 5.32%             | S&P 500 Index   | 5.43%            | 5%                               | 30%                                    | 24%                            | 18%                             | 12.5%                            |
| Oppenheimer Capital Appreciation Fund       | 1.39%             | Russell 1000 Growth Index                                 | 5.76%            | 2%                               | —                                      | —                              | —                               | —                                |
| Oppenheimer Institutional Money Market Fund | 0.12%             | iMoney Net First Tier Institutional Index                 | 0.05%            | 40%                              | —                                      | —                              | —                               | 10%                              |
| Oppenheimer Value Fund                      | -5.55%            | Russell 1000 Value Index                                  | 3.01%            | 2%                               | —                                      | —                              | —                               | —                                |
| TIAA-CREF International Equity Index Fund   | -13.47%           | MSCI EAFE Index   | -13.38%          | 1%                               | 20%                                    | 16%                            | 12%                             | 7.5%                             |
| Vanguard Intermediate Term Bond Index Fund  | 11.11%            | Barclays Capital U.S. government & Credit 5-10 Year Index | 11.04%           | —                                | —                                      | 10%                            | 20%                             | 30%                              |
| Vanguard Total Stock Market Index Fund      | 3.96%             | MSCI U.S. Broad Market Index                              | 3.96%            | —                                | 50%                                    | 40%                            | 30%                             | 20%                              |

**Education Trust Board of New Mexico**  
**Portfolio Investment Allocations – The Education Plan (Direct Sold)**  
**For the Year Ended June 30, 2012**

| Investment                                    | Investment Return | Benchmark   | Benchmark Return | Portfolio Investment Allocations |  |                      |                                 |                    |
|---|-------------------|---|------------------|----------------------------------|--|----------------------|---------------------------------|--------------------|
|   |                   |   |                  | Ages 15-17 Years Index Portfolio | Ages 18 Years and Over Index Portfolio | Aggressive Portfolio | Moderately Aggressive Portfolio | Moderate Portfolio |
| Dreyfus Bond Market Index Fund                | 7.31%             | Barclays Capital U.S. Aggregate Bond Index                | 7.47%            | 20%                              | 6%                                     | —                    | 20%                             | 40%                |
| Dreyfus BASIC S&P 500 Index Fund              | 5.32%             | S&P 500 Index   | 5.43%            | 5%                               | 3%                                     | 30%                  | 24%                             | 18%                |
| Oppenheimer Institutional Money Market Fund   | 0.12%             | iMoney Net First Tier Institutional Index                 | 0.05%            | 20%                              | 40%                                    | —                    | —                               | 8%                 |
| Oppenheimer Capital Appreciation Fund         | 1.39%             | Russell 1000 Growth Index                                 | 5.76%            | —                                | —                                      | 15%                  | 12%                             | 9%                 |
| Oppenheimer Main Street Small- & Mid-Cap Fund | -0.39%            | Russell 2500 Index  | -2.29%           | —                                | —                                      | 8%                   | 6%                              | 4%                 |
| Oppenheimer Value Fund                        | -5.55%            | Russell 1000 Value Index                                  | 3.01%            | —                                | —                                      | 15%                  | 12%                             | 9%                 |
| TIAA-CREF International Equity Index Fund     | -13.47%           | MSCI EAFE Index   | -13.38%          | 5%                               | 1%                                     | 20%                  | 16%                             | 12%                |
| Vanguard Extended Market Index Fund           | -2.40%            | S&P Completion Index                                      | -2.51%           | —                                | —                                      | 12%                  | 10%                             | 8%                 |
| Vanguard Intermediate Term Bond Index Fund    | 11.11%            | Barclays Capital U.S. government & Credit 5-10 Year Index | 11.04%           | 40%                              | 44%                                    | —                    | —                               | —                  |
| Vanguard Total Stock Market Index Fund        | 3.96%             | MSCI U.S. Broad Market Index                              | 3.96%            | 10%                              | 6%                                     | —                    | —                               | —                  |

| Investment                                    | Investment Return | Benchmark                                  | Benchmark Return | Portfolio Investment Allocations |                              |                        |                            |                            |
|---|-------------------|--|------------------|----------------------------------|------------------------------|------------------------|----------------------------|----------------------------|
|   |                   |  |                  | Conservative Portfolio           | Ultra Conservative Portfolio | School Years Portfolio | Short-Term Yield Portfolio | Aggressive Index Portfolio |
| Dreyfus Bond Market Index Fund                | 7.31%             | Barclays Capital U.S. Aggregate Bond Index | 7.47%            | 50%                              | 60%                          | 50%                    | —                          | —                          |
| Dreyfus BASIC S&P 500 Index Fund              | 5.32%             | S&P 500 Index                              | 5.43%            | 12%                              | 7%                           | 5%                     | —                          | 30%                        |
| Oppenheimer Capital Appreciation Fund         | 1.39%             | Russell 1000 Growth Index                  | 5.76%            | 6.5%                             | 4%                           | 2%                     | —                          | —                          |
| Oppenheimer Institutional Money Market Fund   | 0.12%             | iMoney Net First Tier Institutional Index  | 0.05%            | 10%                              | 20%                          | 40%                    | 100%                       | —                          |
| Oppenheimer Main Street Small- & Mid-Cap Fund | -0.39%            | Russell 2500 Index                         | -2.29%           | 2.5%                             | —                            | —                      | —                          | —                          |
| Oppenheimer Value Fund                        | -5.55%            | Russell 1000 Value Index                   | 3.01%            | 6.5%                             | 4%                           | 2%                     | —                          | —                          |
| TIAA-CREF International Equity Index Fund     | -13.47%           | MSCI EAFE Index                            | -13.38%          | 7.5%                             | 5%                           | 1%                     | —                          | 20%                        |
| Vanguard Extended Market Index Fund           | -2.40%            | S&P Completion Index                       | -2.51%           | 5%                               | —                            | —                      | —                          | —                          |
| Vanguard Total Stock Market Index Fund        | 3.96%             | MSCI U.S. Broad Market Index               | 3.96%            | —                                | —                            | —                      | —                          | 50%                        |

| Investment                                  | Investment Return | Benchmark   | Benchmark Return | Portfolio Investment Allocations      |                          |                              |                                    |                              |
|---|-------------------|---|------------------|---------------------------------------|--------------------------|------------------------------|------------------------------------|------------------------------|
|   |                   |   |                  | Moderately Aggressive Index Portfolio | Moderate Index Portfolio | Conservative Index Portfolio | Ultra Conservative Index Portfolio | School Years Index Portfolio |
| Dreyfus Bond Market Index Fund              | 7.31%             | Barclays Capital U.S. Aggregate Bond Index                | 7.47%            | 10%                                   | 20%                      | 20%                          | 20%                                | 6%                           |
| Dreyfus BASIC S&P 500 Index Fund            | 5.32%             | S&P 500 Index   | 5.43%            | 24%                                   | 18%                      | 12.5%                        | 5%                                 | 3%                           |
| Oppenheimer Institutional Money Market Fund | 0.12%             | iMoney Net First Tier Institutional Index                 | 0.05%            | —                                     | —                        | 10%                          | 20%                                | 40%                          |
| TIAA-CREF International Equity Index Fund   | -13.47%           | MSCI EAFE Index   | -13.38%          | 16%                                   | 12%                      | 7.5%                         | 5%                                 | 1%                           |
| Vanguard Intermediate Term Bond Index Fund  | 11.11%            | Barclays Capital U.S. government & Credit 5-10 Year Index | 11.04%           | 10%                                   | 20%                      | 30%                          | 40%                                | 44%                          |
| Vanguard Total Stock Market Index Fund      | 3.96%             | MSCI U.S. Broad Market Index                              | 3.96%            | 40%                                   | 30%                      | 20%                          | 10%                                | 6%                           |

## Audit Results

**Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards***

The Board of Directors  
Education Trust Board of New Mexico  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor

We have audited the financial statements of The Education Trust Board of New Mexico (the “NMETB”), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

Management of NMETB, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the NMETB’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NMETB’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NMETB’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weakness and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as items FS 11-1, FS 12-1, and FS 12-2 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS 10-1, FS 10-2, and FS 12-3 to be a significant deficiencies.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the NMETB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

The NMETB's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the NMETB's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management (including the Program Manager), The Education Trust Board of New Mexico, others within the entity, the State Auditor, the New Mexico Legislature, and Department of Finance and Administration, and is not intended to be and should not be used by anyone other than these specified parties.

REDW LLC

Albuquerque, New Mexico  
December 12, 2012

**Education Trust Board of New Mexico**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2012**

**A. Findings – Financial Statement Audit**

**FS 12-1 — Reliability of Financial Recording, Accounting, and Reporting (Material Weakness)**

---

*Condition:* As a result of the lack of internal control procedures, the financial information produced by the SHARE accounting system was not reliable. As a result significant audit adjustments were necessary as a result of the following:

- Balances at the Money Market account were not recorded in SHARE. Reconciliations of the account were not prepared on a monthly basis.
- Accounts receivable reconciliations were not prepared to account for the management fee receivables from Oppenheimer Funds, Inc. (OFI) deposited in the Money Market account.
- Due from other state agency was incorrectly recorded in SHARE.
- Payable balances were significantly adjusted to reflect unrecorded liabilities.
- Beginning fund balance was zero and was adjusted to reflect prior year ending fund balance.
- Management fee revenues deposited in the Money Market account were not analyzed and accounted for, and consequently were not accurately reflected in SHARE system.
- Revenues and expenses related to the Pathway Scholarship were not recorded in SHARE system.
- Expenses related to the professional and legal services were significantly adjusted to reflect unrecorded expenses.

*Criteria:* As a state agency, NMETB must follow the existing Manual of Model Accounting Practices' (MAPS) procedures for the items above. MAPs (FIN 2.1) states that state agencies shall log all monies receiving, specifying the amount, date and source of the revenue. Additionally, MAPs (Vol. 1, Chapter 8, Section 3.2) requires monthly reconciliations of all accounts. Individual accounts should be reconciled on a monthly basis and any discrepancies or inconsistencies should be investigated as soon as they are discovered.

*Cause:* Lack of effective procedures and understanding of MAPs has created these conditions. The issues are intensified by lack of or insufficient staff resources.



**Education Trust Board of New Mexico**  
**Schedule of Findings and Responses — continued**  
**For the Year Ended June 30, 2012**

**A. Findings – Financial Statement Audit**

FS 12-1 — Reliability of Financial Recording, Accounting, and Reporting (Material Weakness)  
— continued

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*Effect:* The information produced by the system cannot be relied on for the purpose of making financial decisions. Problems reporting timely and current financial information can impact management’s ability to effectively guide NMETB.

*Auditors’ Recommendations:* Establish internal control procedures to ensure accurate, timely accounting and financial reporting. Consider implementing the policies and procedures as described by the New Mexico Department of Financial Administration are being followed.

*Management’s Response:* NMETB accepts the auditor’s recommendation that it establish internal control procedures to ensure accurate, timely accounting and financial reporting.

NMETB has only been a part of SHARE for two years and has been dependent upon the Higher Education Department (NMHED) to maintain SHARE on behalf of NMETB. Clearly, NMETB and NMHED have not had the staffing needed to properly maintain the system.

During FY 2013, NMETB’s executive director will work with the Department of Finance and Administration and NMHED’s Administrative Services Division director to fully implement accounting and financial reporting in SHARE.

**Education Trust Board of New Mexico**  
**Schedule of Findings and Responses — continued**  
**For the Year Ended June 30, 2012**

A. Findings – Financial Statement Audit — continued

**FS 12-2 — Procurement Violations (Material Weakness)**

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*Condition:* Four professional contracts had not followed applicable procurement rules. In three of four cases, services by vendors were provided after the professional contracts expired and in one case, before the contract's effective date. Procedures were not in place to prevent receipt of services without contracts required by the New Mexico State Procurement Code.

*Criteria:* The New Mexico State Procurement Code prohibits receipt of services without having a valid contract in place.

*Cause:* NMETB failed to follow the New Mexico State Procurement Code mainly due to lack of effective procedures and understanding of the New Mexico State Procurement Code. The issues are intensified by lack of or insufficient staff resources, as NMETB did not have full time staff until January 2012.

*Effect:* The NMETB is in violation of the New Mexico State Procurement Code.

*Recommendation:* We recommend management develop and establish controls and procedures that addresses proper processing and reviewing professional contracts in compliance with the New Mexico State Procurement Code.

*Management's Response:* NMETB is now in compliance with the New Mexico State Procurement Code and has implemented internal controls to improve contract management.

NMETB hired an executive director in January 2012 who quickly identified the procurement violations and resolved the violations according to the directives of the New Mexico General Services Department and the New Mexico Department of Finance and Administration.

During FY 2012, NMETB and the New Mexico Higher Education Department conducted a comprehensive review of NMETB's contract procedures and implemented new procedures and controls to improve contract maintenance and oversight. NMETB executive director and administrative assistant also completed Contract's Review Bureau training programs during 2012. As a result of this commitment, NMETB successfully executed three professional contracts, two emergency contracts, two audit contracts, and a sole-source contract during FY 2012.

**Education Trust Board of New Mexico**  
**Schedule of Findings and Responses — continued**  
**For the Year Ended June 30, 2012**

A. Findings – Financial Statement Audit — continued

**FS 12-3 —Budget Overages (Significant Deficiency)**

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*Condition:* During FY 12, NMETB overspent the Other Financing Use budget category unit in NMETB’s Administrative Fund by \$800,000. In addition, no initial budgets were submitted and all budgetary amounts were recorded utilizing Budget Adjustment Requests (BAR’s). No revenue balances have been recorded either in initial or final budget. Procedures were not in place to prevent expenditures in excess of budget.

*Criteria:* According to State Auditor Rule 2.2.2.10, any actual expenditure that exceeds the budget in any category must be reported as a finding.

*Cause:* NMETB failed to budget the payments related to the Pathway Scholarship Fund and existing procedures did not prevent payments without a budget.

*Effect:* NMETB is out of compliance with statutory requirements to obtain approval prior to making expenditures.

*Recommendation:* We recommend that management establish controls necessary to initially establish and monitor the budget and submit any necessary adjustments on a timely basis in order to avoid overages.

*Management’s Response:* NMETB accepts the auditor’s recommendation that it establish controls necessary to monitor the budget.

NMETB has only been a part of SHARE for two years and has been dependent upon the New Mexico Higher Education Department (NMED) to maintain SHARE on behalf of NMETB. Clearly, NMED and NMETB have not had the staffing needed to properly maintain the system.

During FY 2013, NMETB’s executive director will work with the Department of Finance and Administration and NMED’s Administrative Services Division director to fully implement accounting and financial accounting in SHARE.

**Education Trust Board of New Mexico**  
**Schedule of Prior Year Audit Findings and Responses**  
**For the Year Ended June 30, 2012**

A. Findings – Financial Statement Audit — continued

**FS 11-01 – Oversight of the Financial Reporting and Internal Controls by Those Charged With Governance (Material Weakness)**

---

*Condition:* Review processes were not in place to ensure outsourced accounting services provided by the plan administrator were consistent with GAAP and fees charged were consistent with fee schedules. This increases the risk of undetected financial reporting errors and/or payment of fees not consistent with related fee schedules.

*Criteria:* Internal controls should be in place to ensure monitoring and oversight of the outsourced accounting services and the Plan administrator. The NMETB should possess the skills or use the investment committee to understanding the financial statements and supporting schedules, in addition to understanding the responsibilities of and giving instruction to the plan administrator. A system of internal control over financial reporting does not stop at the general ledgers; rather it includes controls over the preparation of the financial statements and supporting schedules, in addition to understanding and interpreting third party accounting services performed as well.

*Cause:* The NMETB is limited in staff and lacks the position of an Executive Director or external investment consultant for the year-end of FY2012.

*Effect:* Inefficiencies may cause the financial records and financial statements to be misrepresentative as well as they may allow possible irregularities.

*Auditors' Recommendations:* We recommend the NMETB develop and implement internal controls over the financial reporting process to facilitate independent review of the Plan administrator and outsourced accounting service provider.

**Education Trust Board of New Mexico**  
**Schedule of Prior Year Audit Findings and Responses — continued**  
**For the Year Ended June 30, 2012**

A. Findings – Financial Statement Audit — continued

FS 11-01 – Oversight of the Financial Reporting and Internal Controls by Those Charged With Governance (Material Weakness) — continued

---

*Management's Response:* The NMETB concurs with the auditor's recommendations to develop and implement internal controls over financial reporting process to facilitate the creation of timely and accurate financials.

In December 2011, the NMETB hired Pension Consulting Alliance to serve as NMETB's independent investment consultant. It is the responsibility of the investment consultant to monitor the NMETB's investments and to provide general advice, counsel, and recommendations on investment strategy. In May 2012, NMETB adopted an investment policy statement and monitoring guidelines governing the criteria used to select, monitor, and replace investment funds.

In January 2012, the New Mexico Higher Education Department hired an executive director to administer the program on behalf of the NMETB. The executive director is responsible for the day-to-day administration of the NMETB programs and will supervise NMETB's financial activities.

During FY 2013, the Executive Director will conduct a review of outsourced accounting services provided by the plan administrator and report to the Board any findings or recommendations for improving oversight of third party accounting services.

**Education Trust Board of New Mexico**  
**Schedule of Prior Year Audit Findings and Responses — continued**  
**For the Year Ended June 30, 2012**

A. Findings – Financial Statement Audit — continued

**FS 10-1 — Cash Basis Accounting**

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*Condition:* NMETB’s Administrative Fund records revenues and expenses using the cash basis of accounting rather than the modified accrual basis of accounting, which is considered an Other Comprehensive Basis of Accounting (OCBOA), but is not consistent with U.S. generally accepted accounting principles (GAAP).

*Criteria:* Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*, requires governmental fund types to utilize the modified accrual of accounting.

*Cause:* Due to the lack of complexity of the NMETB’s Administrative Fund’s financial activity, the NMETB chose to maintain their records using cash basis of accounting.

*Effect:* NMETB Administrative Fund’s internal records are not prepared in accordance with GAAP.

*Auditors’ Recommendations:* We recommend that NMETB convert their internal record-keeping from the cash basis of accounting to the modified accrual basis of accounting for their Administrative Fund.

*Management’s Response:* In fiscal year 2013, NMETB’s Administrative Fund will be managed within the statewide SHARE financial system and will use accrual accounting procedures required by the system.

**Education Trust Board of New Mexico**  
**Schedule of Prior Year Audit Findings and Responses — continued**  
**For the Year Ended June 30, 2012**

A. Findings – Financial Statement Audit — continued

**FS 10-2 — Internal Controls Over Fee Revenue**

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*Condition:* All revenue items are recognized and reported in the period in which cash is physically collected. There is no formal review of the fee revenues received to ensure they are complete and accurate in accordance with the Program Management Agreement between the NMETB and Oppenheimer Funds, Inc. (OFI).

*Criteria:* Internal controls over financial reporting are an integral component of an effective financial management system.

*Cause:* NMETB has relied on the accuracy of OFI's calculation and distribution of fee revenue in accordance with Program Management Agreement.

*Effect:* It is possible that fee revenue calculated and remitted by OFI is not in accordance with agreements between NMETB and OFI and that revenue will be incorrectly reported by the NMETB.

*Auditors' Recommendations:* We recommend that NMETB perform a monthly reconciliation of the fee revenues received from OFI to ensure the completeness and accuracy of the fee revenues in accordance with the effective agreements.

*Management's Response:* Upon accession to his/her position before the end of December 31, 2012, the NMETB's Executive Director will establish and implement fee revenue internal controls as specified.

**Education Trust Board of New Mexico**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2011**

| <b>Fiscal Year Findings</b>   | <b>Current Status</b>                         |
|---|---|
| <b>FS 07-1 – Late Audit Filing</b>  | Resolved.                                     |
| <b>FS 10-1 – Cash Basis Accounting</b>                                      | Unresolved. See current year finding FS 10-1. |
| <b>FS 10-2 – Internal Controls over Fee Revenues</b>                        | Unresolved. See current year finding FS 10-2  |
| <b>FS 11-1 – Oversight of the Financial Reporting and Internal Controls</b> | Unresolved. See current year finding FS 11-1. |
| <b>FS 11-2 – Lack of Approval for Per Diem</b>                              | Resolved.                                     |



# **Education Trust Board of New Mexico**

## **Exit Conference**

**For the Year Ended June 30, 2012**

### **Exit Conference**

An exit conference was conducted on December 7, 2012, in which the contents of this report were discussed with the following:

#### **Education Trust Board of New Mexico**

Dr. Jose Garcia                      Board Chairman

Kevin Deiters                      Executive Director

#### **REDW<sub>LLC</sub>**

Mike Allen                      Principal

Javier Machuca                      Senior Manager

Alan Demir                      Manager