

**STATE OF NEW MEXICO  
INVESTMENT COUNCIL  
INVESTMENT OFFICE**

**A Component Unit of  
the State of New Mexico**

**Financial Statements**

**June 30, 2009**

Moss Adams LLP  
6100 Uptown Blvd NE Suite 400  
Albuquerque, New Mexico  
(505) 878-7200

TABLE OF CONTENTS

STATE OF NEW MEXICO  
INVESTMENT COUNCIL INVESTMENT OFFICE  
A Component Unit of the State of New Mexico

OFFICIAL ROSTER..... 1

INDEPENDENT AUDITORS' REPORT .....2

MANAGEMENT'S DISCUSSION AND ANALYSIS.....4

BASIC FINANCIAL STATEMENTS

    Statement of Net Assets.....13

    Statement of Activities ..... 14

    Balance Sheet General Administrative Fund.....15

    Reconciliation of the General Administrative Fund  
        Balance Sheet to the Statement of Net Assets .....16

    General Administrative Fund Statement of Revenues,  
        Expenditures, and Changes in Fund Balance.....17

    Reconciliation of Change in Net Assets per  
        Statement of Activities to Net Change in Fund  
        Balance per Statement of Revenues, Expenditures,  
        and Changes in Fund Balance.....18

    Budget Comparison – Statement for the General  
        Administrative Fund .....19

## TABLE OF CONTENTS

STATE OF NEW MEXICO  
INVESTMENT COUNCIL INVESTMENT OFFICE  
A Component Unit of the State of New Mexico

### BASIC FINANCIAL STATEMENTS (CONTINUED)

Fiduciary Funds Statement of Net Assets.....	20
Fiduciary Funds Statement of Changes in Net Assets.....	21
Notes to Financial Statements .....	22

### SUPPLEMENTAL INFORMATION

Changes in Land Grant Permanent Fund Trust Balances Held for Beneficiaries .....	51
Detail of Interagency Transfers .....	52
Investment Office – External Investment Trust Funds.....	53
Schedule of Deposit and Investment Accounts .....	62

### OTHER INFORMATION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	64
Status of Prior Year Audit Findings .....	66
Current Year Findings and Responses.....	67
Exit Conference .....	68

STATE OF NEW MEXICO  
INVESTMENT COUNCIL INVESTMENT OFFICE  
A Component Unit of the State of New Mexico

Official Roster  
Governing Board  
June 30, 2009

Name	Position
Bill Richardson, Governor	Ex officio member, Chairman
Gary B. Bland, State Investment Officer*	Ex officio member
Katherine B. Miller, Secretary of the Department of Finance and Administration	Ex officio member
James Lewis, State Treasurer	Ex officio member
Patrick Lyons, Commissioner of Public Lands	Ex officio member
David Harris, Chief Financial Officer, University of New Mexico	Ex officio member
Andrew Davis	Public member
Stephen Feinberg	Public member
Peter Frank	Public member

\*Mr. Bland resigned his position effective October 21, 2009.

## Independent Auditors' Report

The Honorable Bill Richardson, Chairman  
and Members of the State Investment Council  
and Mr. Hector H. Balderas, State Auditor

We have audited the accompanying financial statements of the governmental activities, general fund, the general fund budget comparison, and each fiduciary fund of the State of New Mexico Investment Council – Investment Office (Office), as of and for the year ended June 30, 2009, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office'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 Office'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 Office are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the State of New Mexico that is attributable to the transactions of the Office. They do not purport to and do not, present fairly the financial position of the State of New Mexico as of June 30, 2009, and the changes in financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable Bill Richardson, Chairman  
and Members of the State Investment Council  
and Mr. Hector H. Balderas, State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, general fund, and each fiduciary fund of the Office, as of June 30, 2009, and the respective changes in financial position thereof and the general 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 10, 2009 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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.

The management's discussion and analysis on pages 4 through 12 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Office. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Moss Adams LLP*

Albuquerque, New Mexico  
December 10, 2009

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2009

This discussion and analysis of the State of New Mexico Investment Council – Investment Office (Office) provides a summary of the financial position and results of operations for the year ended June 30, 2009 with highlights and comparisons. The reader should review the actual financial statements, including the notes and supplemental schedules, for a more complete picture of the Office's financial activities.

**Financial Position**

*Net Assets*

All expenses of the Office are related to investment management of the permanent funds and of the eighteen external clients. As a result, these amounts are paid by the funds and clients based on relative market values managed. Accordingly, there tends to be very little change in the net assets of the Office.

The assets for the primary governmental unit consist of cash, due from other funds and capital assets consisting of furniture and equipment. The unrestricted net assets are equal to the amount of accrued vacation and sick pay liability, which is not a reimbursable expense of the funds until the compensated leave time is actually used. Except for the due to/due from balances, there have not been significant changes to assets, liabilities and net assets as compared to the prior year.

<b>Statement of Net Assets</b>		
	2009	2008
<b>Assets</b>		
Interest in State Treasurer General Fund Investment Pool	\$ 14,279,750	5,251,125
Due from clients	225,676	199,525
Capital assets, net	<u>27,205</u>	<u>19,220</u>
<b>Total assets</b>	<b>\$ 14,532,631</b>	<b>5,469,870</b>
<b>Liabilities</b>		
Due to Land Grant Permanent Fund	\$ 7,643,303	2,744,376
Due to Severance Tax Permanent Fund	3,275,701	1,176,161
Accounts payable	3,505,392	1,091,233
Accrued payroll	81,030	142,184
Accrued vacation and sick pay	235,104	223,874
Other	<u>-</u>	<u>296,696</u>
<b>Total liabilities</b>	<b>\$ 14,740,530</b>	<b>5,674,524</b>
<b>Net Assets</b>		
Invested in capital assets	\$ 27,205	19,220
Unrestricted	<u>(235,104)</u>	<u>(223,874)</u>
<b>Total net assets (deficit)</b>	<b>\$ (207,899)</b>	<b>(204,654)</b>

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
 INVESTMENT OFFICE  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 Year Ended June 30, 2009

**Financial Position (continued)**

*Statement of Activities*

The Statement of Activities focuses on the cost of various activities, which are funded by the Office's general and other revenues. This is intended to summarize and simplify the users' analysis of the cost of services. The governmental activities reflect the Office's basic service of collecting and optimizing revenues for its beneficiaries.

*Decrease in Expenses and Revenues*

The primary decrease for fiscal year 2009 in expenditures has been in external managers' fees. Expenses are paid by the permanent funds and clients and, correspondingly, revenues recorded from the funds and clients are also lower.

**Statement of Activities**

	2009	2008
Expenses		
General government	<u>\$ 21,836,563</u>	<u>28,251,075</u>
Revenues		
Program revenues		
Fees from external investment trust participants	809,722	1,024,003
Transfers		
Interfund services provided		
Land Grant Permanent Fund	14,716,517	19,039,414
Severance Tax Permanent Fund	<u>6,307,079</u>	<u>8,159,749</u>
<b>Total program revenues and transfer</b>	<b>21,833,318</b>	<b>28,223,166</b>
<b>Change in net assets</b>	<b>(3,245)</b>	<b>(27,909)</b>
Net assets beginning of year (deficit)	<u>(204,654)</u>	<u>(176,745)</u>
<b>Net assets end of year (deficit)</b>	<b><u>\$ (207,899)</u></b>	<b><u>(204,654)</u></b>



**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2009**

The total revenues and expenditures for the General Administrative Fund compared to the prior year are as follows:

	2009	2008	Increase/ (Decrease)
<b>Total Revenues/Expenditures</b>			
Revenues from external trust participants	<u>\$809,722</u>	<u>\$1,024,003</u>	<u>(20.9 %)</u>
Expenditures			
Personnel services & benefits	3,558,747	3,283,775	8.4 %
Contractual services & custody fees	17,547,535	24,206,692	(27.5%)
Other – Operating expenses	<u>727,036</u>	<u>732,699</u>	<u>(.8%)</u>
<b>Total expenditures</b>	<u>\$21,833,318</u>	<u>\$28,223,166</u>	<u>(22.6%)</u>

**Financial Highlights – Fiduciary Funds**

The primary governmental activity for the Office is the administration and management of five State of New Mexico permanent funds—the Land Grant Permanent Fund (LGPF), the Severance Tax Permanent Fund (STPF), the Tobacco Settlement Permanent Fund (TSPF), the Water Trust Fund (WTF), and the State Unemployment Trust Fund (SUTF). The State Investment Office, which is responsible for carrying out the policies of the State Investment Council by investment management, also provides similar services to eighteen other state agencies and political subdivisions of New Mexico.

The purpose of the permanent funds is to contribute recurring revenues for the operating budget of the State of New Mexico and the beneficiaries of the permanent funds. The investment management goal for the funds is to continue to preserve the permanent endowment funds for future generations and future benefits by growing the funds at a rate at least equal to inflation. The amount of annual distributions for the STPF, per statute, was 4.7% of the average of the year-end market values of the funds for the immediately preceding five years. The LGPF and TSPF distribution formulas are detailed below. Administrative costs are projected and added to the distribution formula to arrive at the total spending policy.

On September 23, 2003, New Mexico voters approved Constitutional Amendment No. 2, increasing the Land Grant Permanent Fund distribution formula to its beneficiaries, the public schools and 19 other specifically identified state institutions. The amendment provides for suspension of distributions greater than 5.0% under certain circumstances. Distributions changed as follows:

- Beginning October 2003, the distribution increased to 5.0%.
- For fiscal years 2005-2012, distributions increase to 5.8%.
- For fiscal years 2013-2016, distributions decrease to 5.5%.
- Beginning fiscal year 2017, distributions decrease to 5.0%.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2009**

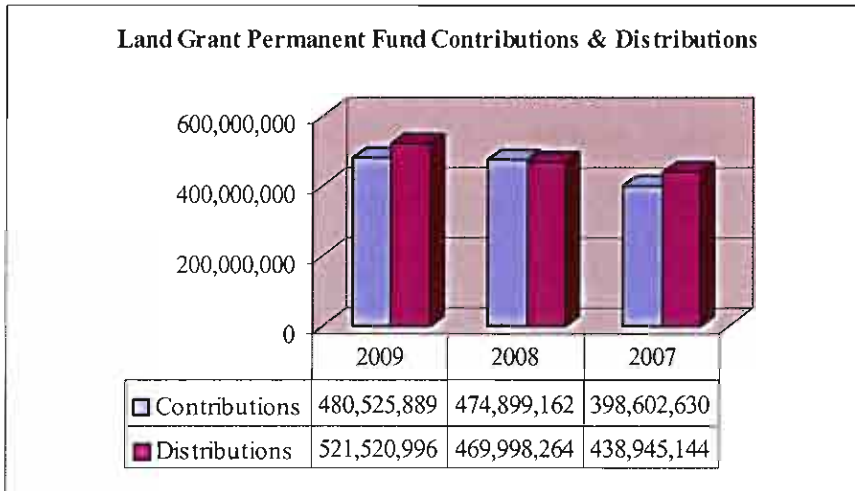
The TSPF distribution was originally established for the Tobacco Settlement Program Fund at 50% of the prior year's contributions from the legal settlement with the tobacco companies. In April 2003, the New Mexico State Legislature changed the Tobacco Settlement Permanent Fund distribution. Based on this change, in fiscal years 2003 through 2006 the distribution was changed to 100% of the current year contributions, and the distribution goes to the State General Fund rather than the Tobacco Settlement Program Fund. Beginning in fiscal year 2007, the distribution for TSPF returned to 50% of prior year's contributions. In 2009, the Legislature, by passing SB79, increased the percentage of distribution from the Tobacco Settlement Permanent Fund to the Tobacco Settlement Program Fund for fiscal years 2009 and 2010 back to 100% of the prior year's contribution received.

In April 2004, the Governmental Accounting Standards Board issued Technical Bulletin 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues (GASB TB 2004-1), which became effective for financial statements for periods ending after June 15, 2004. GASB TB 2004-1 clarifies recognition guidance for payments received under the Master Settlement Agreement (MSA) with the settling tobacco companies. Since annual tobacco settlement reimbursements (TSRs) are based on cigarette sales from the preceding calendar year, governments should estimate accrued TSRs that derive from tobacco sales from January 1 to their respective fiscal year-ends. Accordingly, the TSPF recognized \$23,789,467 and \$19,530,397 for the years ended June 30, 2009 and 2008, respectively.

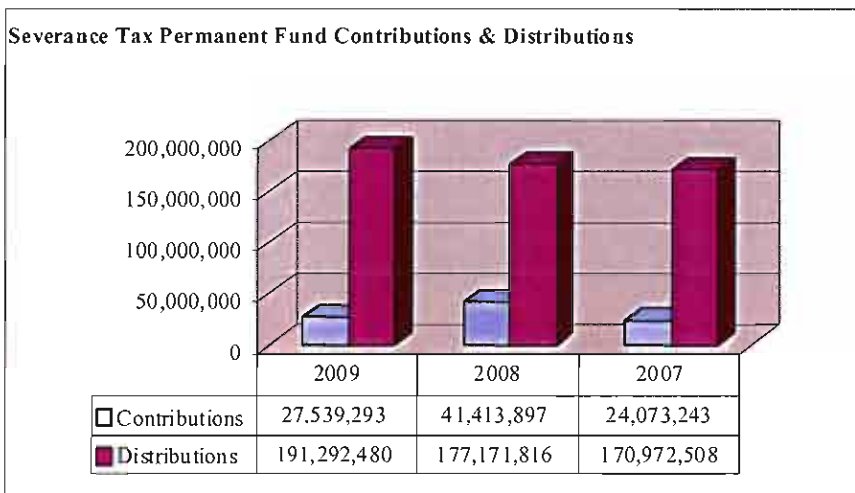
The Land Grant Permanent Fund contributions from the State Land Office (royalties and income from land grants) for fiscal year 2009 increased 1.18% from the fiscal year 2008. Distributions to the beneficiaries of the fund increased 10.96% from the prior year.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2009**

The chart below details the changes in contributions and distributions for the Land Grant Permanent Fund.



The Severance Tax Permanent Fund contributions are made from the Severance Tax Bonding Fund. Severance tax revenues first pay the required debt service on severance tax bonds issued by the State. The amounts transferred from the Severance Tax Bonding Fund to the Severance Tax Permanent Fund decreased from \$ 41.4 million in fiscal year 2008 to \$ 27.5 million in fiscal year 2009. Distributions to the State General Fund in fiscal year 2009 increased 7.97% from the previous year.



The Tobacco Settlement Permanent Fund distribution was \$48.8 million to the State General Fund in fiscal year 2009, 100% of the amount of contributions to the tobacco settlement trust funds received in fiscal year 2009.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2009**

The amounts presented below for fiscal year 2009 indicate actual receipts and differ from the total contributions and distributions for fiscal year 2009 shown in the Fiduciary Funds Statement of Net Assets because of the presentation requirements of GASB Technical Bulletin 2004-1.

	2009	2008	2007
<b>Tobacco Settlement Permanent Fund</b>			
Contributions	\$48,856,383	44,863,502	36,239,706
Distributions	48,856,383	22,431,751	18,119,853

The Water Trust Permanent Fund was created in 2003 but not funded by the Legislature until 2007. On July 1 of each fiscal year the Fund distributes \$4,000,000 to the water project fund. When 4.7% of the Fund is greater than \$4 million, annual distributions will be 4.7% of a 5-year rolling average of the Fund. At June 30, 2009, the WTPF was \$45.8 million.

House Bill 247, passed by the 48<sup>th</sup> Legislature in 2007, created the State Unemployment Trust Fund (SUTF) in the state treasury. Receipts to this fund come from a prorated portion of the unemployment insurance taxes collected by the Department of Workforce Solutions from New Mexico employers. House Bill 247 provides that these receipts be invested by the State Investment Officer in a manner similar to the land grant permanent fund. It also provides that earnings from the fund be available for appropriation to the Department of Workforce Solutions for the purpose of administering the unemployment insurance and employment security programs. At June 30, 2009, the SUTF was valued at \$77 million.

The net assets of the fiduciary funds managed by the Office increased or decreased during the fiscal year by the following amounts:

	2009 <u>Net Assets</u>	2008 <u>Net Assets</u>	<u>Change</u>
<b>Net Assets:</b>			
Land Grant Permanent Fund	\$7,943,909,129	\$10,144,843,246	(21.70%)
Severance Tax Permanent Fund	3,173,448,933	4,314,948,773	(26.45%)
Tobacco Settlement Permanent Fund	121,449,922	135,883,945	(9.06%)
Water Trust Fund	45,835,754	52,000,789	(11.86%)
State Unemployment Trust Fund	77,067,572	31,903,793	141.56%
<b>Total private purpose trust funds</b>	<u>11,361,711,310</u>	<u>14,679,580,546</u>	<u>(22.59%)</u>
External client trust funds	<u>449,458,986</u>	<u>539,084,319</u>	<u>(16.63%)</u>
<b>Total net fiduciary funds</b>	<u>\$11,811,170,294</u>	<u>\$15,218,664,865</u>	<u>(22.38%)</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2009**

The Office expenditures for fiscal year 2009 decreased in total, primarily due to lower external manager fees. Personnel costs increased slightly over fiscal year 2008, while the operating expense category declined slightly. The expenses of the Office are paid by the funds and then allocated back through the pools to appropriately associate costs to the funds and clients for services provided by the Office. The Office budgeted, but did not spend, approximately \$10.9 million.

Asset classes authorized by the state legislature include:

- Small, mid and large capitalization U.S. stocks
- Non-U.S. developed markets and emerging markets stocks
- U.S. debt obligations
- Private equity limited partnerships
- Real estate
- Absolute Return funds
- Derivative Instruments
- Structured Credit Instruments
- New Mexico direct equity investments
- New Mexico film projects
- Government guaranteed New Mexico home and farm loans
- Certificates of deposit in New Mexico financial institutions

The Office manages a portion of the large capitalization U.S. stocks, all investment-grade U.S. debt obligations and the New Mexico economically targeted investments for loans and certificates of deposits using staff portfolio managers. Real estate, private equity and New Mexico film projects are managed using external advisors and the other stocks and bonds are managed using external portfolio managers.

### **Using the Annual Report**

The Office complies with the required financial statement presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. The financial report includes the sections described below.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2009**

**Government-Wide Financial Statements**

The government-wide financial statements are designed to be corporate-like. The focus of the Statement of Net Assets is designed to be similar to a bottom line for the Office and its governmental activities. This statement combines and consolidates the governmental fund's current financial resources (short-term expendable resources) with capital assets and long term liabilities.

**Fund Financial Statements**

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds, rather than fund types.

The financial statements also include notes, which explain the history and purpose of the Council, significant accounting policies, investment details, statutory disclosures and other required information regarding the financial position of the funds.

The governmental major fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed.

The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the financial statements allow the demonstration of sources and uses and/or budgeting compliance associated with the funds.

The fund financial statements also allow the government to present its fiduciary funds. While these funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

**Infrastructure Assets**

The Office does not own any infrastructure such as road or bridges.

**Performance-based Budgeting**

The four primary performance measures are set by the Legislature in conjunction with the budget appropriation for fiscal year 2009. The Office met one of the two one-year targets and none of the five-year targets.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2009**

<b>Performance Measures:</b>	<b>Fiscal Year 2009</b>	
	<b>Target</b>	<b>Actual</b>
1. One-year annualized investment returns to exceed internal benchmarks, in basis points	>25	-250
2. Five-year annualized investment returns to exceed internal benchmarks, in basis points	>25	40
3. One-year annualized percentile performance ranking in endowment investment peer universe	<49th	89 <sup>th</sup>
4. Five-year annualized percentile performance ranking in endowment investment peer universe	<49th	73 <sup>rd</sup>

The percentiles referenced in (3) and (4) above represent a range where the best possible ranking is 1 and the worst is 100.

**Budgetary Comparisons**

As required by the Office of the State Auditor under Section 2.2.2.10 P. (2) of 2.2.2 NMAC, the Budget Comparison—Statement for the General Administrative Fund is presented as part of the basic financial statements. This information is provided at the approved budget level to demonstrate compliance with legal requirements. The budgetary comparison schedule presents both the original and the final appropriated budget for the reporting period as well as the actual inflows, outflows and balances, stated on the government's budgetary basis. The only significant budgetary variation was approximately \$10.9 million in contractual services that were not expended.

**Subsequent Events**

On Wednesday, October 21, 2009, Mr. Gary Bland submitted his immediately-effective resignation from the position of State Investment Officer. Mr. Robert Jacksha was subsequently appointed as Interim State Investment Officer and continues serving in that capacity.

**Financial Contact**

Any questions regarding the financial statements of the Office should be directed to the Chief Financial Officer, 41 Plaza la Prensa, Santa Fe, NM 87507.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
STATEMENT OF NET ASSETS  
June 30, 2009

Governmental  
Activities

**ASSETS**

Investment in State Treasurer General Fund Investment Pool	\$ 14,279,750
Accounts Receivable	225,676
Capital assets, net	27,205
<b>Total assets</b>	<b>\$ 14,532,631</b>

**LIABILITIES AND NET ASSETS**

Current Liabilities

Due to Land Grant Permanent Fund	\$ 7,643,303
Due to Severance Tax Permanent Fund	3,275,701
Accounts payable	3,505,392
Accrued payroll	81,030
Accrued vacation and sick pay, current	141,768
<b>Total current liabilities</b>	<b>14,647,194</b>

Long-term Liabilities

Accrued vacation and sick pay	93,336
	<b>14,740,530</b>

Net Assets

Invested in capital assets	27,205
Unreserved	(235,104)
<b>Total net assets (deficit)</b>	<b>(207,899)</b>

<b>Total liabilities and net assets</b>	<b>\$ 14,532,631</b>
---	----------------------

*See Notes to Financial Statements.*



STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2009

	Governmental Activities
Expenses	
General government	\$ 21,836,563
Revenues	
Program revenues	
Fees from external investment trust participants	809,722
Transfers	
Interfund services provided	
Land Grant Permanent Fund	14,716,517
Severance Tax Permanent Fund	6,307,079
	<u>21,833,318</u>
<b>Total program revenues and transfers</b>	<u>21,833,318</u>
<b>Change in net assets</b>	(3,245)
Net assets (deficit) at beginning of year	<u>(204,654)</u>
<b>Net assets (deficit) at end of year</b>	<u><u>\$ (207,899)</u></u>

*See Notes to Financial Statements.*

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
BALANCE SHEET  
GENERAL ADMINISTRATIVE FUND  
June 30, 2009

ASSETS

Investment in State Treasurer General Fund Investment Pool	\$ 14,279,750
Accounts receivable	225,676
<b>Total assets</b>	<u>\$ 14,505,426</u>

LIABILITIES AND FUND BALANCE

Liabilities	
Due to Land Grant Permanent Fund	\$ 7,643,303
Due to Severance Tax Permanent Fund	3,275,701
Accounts payable	3,505,392
Accrued payroll	81,030
Other	
<b>Total liabilities</b>	<u>14,505,426</u>
Fund Balance	
Unreserved	<u>-</u>
<b>Total liabilities and fund balance</b>	<u>\$ 14,505,426</u>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
RECONCILIATION OF THE GENERAL ADMINISTRATIVE FUND  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2009**

Total fund balance - General Administrative Fund	\$	-
Amounts reported for governmental activities in the Statement of Net Assets are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund		
Capital assets, net		27,205
Some liabilities are not due and payable in the current period and therefore are not reported in the fund.		
Accrued vacation and sick pay		(235,104)
<b>Net assets (deficit) of governmental activities</b>	<b>\$</b>	<b>(207,899)</b>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
GENERAL ADMINISTRATIVE FUND STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2009**

Revenues from external investment trust participants	<u>\$ 809,722</u>
Expenditures	
Current	21,821,091
General government	
Capital outlay	<u>12,227</u>
<b>Total expenditures</b>	<u>21,833,318</u>
<b>Deficiency of revenues under expenditures</b>	<u>(21,023,596)</u>
Other financing sources (uses)	
Interfund services provided	
Land Grant Permanent Fund	14,716,517
Severance Tax Permanent Fund	<u>6,307,079</u>
<b>Net other financing sources (uses)</b>	<u>21,023,596</u>
<b>Net change in fund balance</b>	-
Fund balance at beginning of year	<u>-</u>
<b>Fund balance at end of year</b>	<u><u>\$ -</u></u>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
RECONCILIATION OF CHANGE IN NET ASSETS PER  
STATEMENT OF ACTIVITIES TO NET CHANGE IN FUND  
BALANCE PER STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2009**

Net change in fund balance - General Administrative Fund \$ -

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

In the Statement of Activities, certain operating expenses such as compensated absences for sick and annual leave are measured by the amounts earned during the year. In the governmental funds, however, expenditure for these items is measured by the amount of financial resources used (essentially, the amounts actually paid).

Increase in accrued vacation and sick pay liability (11,230)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. In the current period these amounts are

Capital assets additions	\$ 12,227	
Depreciation expense	(4,242)	
Deficit of capital asset additions over depreciation expense	<u>7,985</u>	<u>7,985</u>

**Change in net assets of governmental activities \$ (3,245)**

*See Notes to Financial Statements.*

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
BUDGET COMPARISON-STATEMENT FOR THE GENERAL  
ADMINISTRATIVE FUND  
Year Ended June 30, 2009

	Original Budget	Final Budget	Actual Revenue/ Expenditures	Variance Positive/ (Negative)
Revenues from external investment trust participants	\$ 950,000	950,000	809,722	(140,278)
Expenditures				
Personnel services & benefits	3,420,600	3,600,350	3,558,747	41,603
Contractual services	28,558,502	28,378,752	17,547,535	10,831,217
Other - operating expenses	913,500	913,500	727,036	186,464
<b>Total expenditures</b>	<b>32,892,602</b>	<b>32,892,602</b>	<b>21,833,318</b>	<b>11,059,284</b>
Expenditures in excess of revenues	(31,942,602)	(31,942,602)	(21,023,596)	10,919,006
Transfers				
Interfund transfers in				
Land Grant Permanent Fund	22,359,820	22,359,820	14,716,517	
Severance Tax Permanent Fund	9,582,782	9,582,782	6,307,079	
<b>Total transfers</b>	<b>31,942,602</b>	<b>31,942,602</b>	<b>21,023,596</b>	
Excess of revenues and transfers over expenditures	\$ -	-	-	

See Notes to Financial Statements.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
 FIDUCIARY FUNDS  
 STATEMENT OF NET ASSETS  
 June 30, 2009

	Private-Purpose Trust Funds										Total	External Investment Trust Funds	Total			
	Land Grant Permanent Fund	Severance Tax Permanent Fund	Tobacco Settlement Permanent Fund	Water Trust Fund	State Unemployment Trust Fund	Private-Purpose Trust Funds	Investment Trust Funds	Total	Private-Purpose Trust Funds	External Investment Trust Funds						
<b>ASSETS</b>																
Cash and cash equivalents	\$ 753,321,933	224,884,382	51,637,170	14,811,954	77,042,532	1,121,697,971	31,831,143	1,153,529,114								
Investment in state treasurer general fund investment pool	21,893,765	18,436	-	-	-	21,912,201	-	21,912,201								
Due from brokers	32,014,931	13,316,513	334,179	168,379	-	45,834,002	1,280,794	47,114,796								
Due from custodian	244,128	68,616	3,325	1,364	-	317,433	24,819	342,252								
Due from general administrative fund	7,643,303	3,275,701	-	-	-	10,919,004	-	10,919,004								
Due from other state agencies	19,690,487	27,494,850	358,856	148,049	25,040	27,494,850	-	27,494,850								
Accrued investment income	-	4,045,540	23,789,467	-	-	24,267,972	2,704,298	26,972,270								
Accrued tobacco settlement income	-	-	76,122,997	-	77,067,572	23,789,467	-	23,789,467								
	834,808,547	273,104,038	76,122,997	15,129,746	77,067,572	1,276,232,900	35,841,054	1,312,073,954								
<b>Investments</b>																
Government-sponsored enterprise and agency issues (GSE)	-	55,674,636	-	-	-	55,674,636	-	55,674,636								
Corporate bonds	-	1,431,133	-	-	-	1,431,133	-	1,431,133								
<b>Investment pools</b>																
Core bonds	1,490,008,381	11,338,421	32,126,736	14,380,111	-	1,547,853,649	262,717,617	1,810,571,266								
Large cap. active	2,174,505,858	928,919,592	23,036,326	12,368,245	-	3,138,830,021	64,900,324	3,203,730,345								
Large cap. active ETF	2,356,094	-	-	-	-	2,356,094	25,227,889	27,583,983								
Large cap. index	637,238,712	201,084,894	4,230,994	-	-	842,554,600	55,979,470	898,534,070								
Large cap index ETF	1,754,131	-	-	-	-	1,754,131	14,391,618	16,145,749								
Mid/Small cap.	997,326,790	418,942,620	7,544,228	3,379,744	-	1,427,193,382	20,001,098	1,447,194,480								
Mid/Small cap. ETF	1,420,933	-	-	-	-	1,420,933	5,392,713	6,813,646								
Non-U.S. developed markets	367,395,182	178,633,904	5,088,916	2,076,638	-	553,194,640	38,873,071	592,067,711								
Non-U.S. emerging markets	298,307,440	144,575,742	2,467,943	1,103,574	-	446,454,699	459,435,601	895,890,300								
Hedge funds	901,829,943	366,246,012	7,637,591	3,337,349	-	1,279,050,895	12,980,902	1,292,031,797								
Structured Credit	123,819,277	53,904,211	-	-	-	177,723,488	-	177,723,488								
Preferred stock - private	983,527	1,714,551	-	-	-	1,714,551	-	1,714,551								
Common stock - public	-	738,939	-	-	-	738,939	-	738,939								
Conventional mortgage pass-through certificates	-	137,501	-	-	-	137,501	-	137,501								
Private equity	734,557,975	512,517,038	-	-	-	1,247,075,013	-	1,247,075,013								
Real estate	288,804,117	147,898,668	-	-	-	436,702,785	-	436,702,785								
New Mexico film investments	-	101,175,424	-	-	-	101,175,424	-	101,175,424								
Mortgage loans	9,463	-	-	-	-	9,463	-	9,463								
NMSU Equity	-	2,838,946	-	-	-	2,838,946	-	2,838,946								
<b>Total investments</b>	8,020,317,823	3,127,772,232	82,132,734	36,645,661	-	11,266,868,450	500,464,702	11,767,333,152								
<b>Total assets</b>	8,855,126,370	3,400,876,270	158,255,731	51,775,407	77,067,572	12,543,101,550	536,305,756	13,079,407,106								
<b>LIABILITIES</b>																
<b>Liabilities</b>																
Due to brokers	39,426,110	13,790,814	486,081	237,478	-	53,940,483	2,481,973	56,422,456								
Due to custodian	828,331,048	197,695,483	12,496,844	5,686,553	-	1,044,209,928	84,188,203	1,128,398,131								
Due to other state agencies	-	-	23,822,884	15,622	-	23,838,506	176,596	24,015,102								
Distributions payable to beneficiaries	43,460,083	15,941,040	-	-	-	59,401,123	-	59,401,123								
<b>Total liabilities</b>	911,217,241	227,427,337	36,805,809	5,939,653	-	1,181,390,040	86,846,772	1,268,236,812								
<b>NET ASSETS</b>																
Net assets held in trust	\$ 7,943,909,129	3,173,448,933	121,449,922	45,835,754	77,067,572	11,361,711,310	449,458,984	11,811,170,294								

See Notes to Financial Statements.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET ASSETS  
Year Ended June 30, 2009

	Private-Purpose Trust Funds							Total Private- Purpose Trust Funds	External Investment Trust Funds	Total
	Land Grant Permanent Fund	Severance Tax Permanent Fund	Tobacco Settlement Permanent Fund	Water Trust Fund	Unemployment Trust Fund	Slate Trust Fund	Total Private- Purpose Trust Funds			
<b>Additions</b>										
Contributions to external investment trust funds									5,302,474	5,302,474
Investment earnings										
Interest and dividends	205,325,281	62,902,364	2,896,677	1,179,531	452,876		272,816,729	18,140,811	290,957,540	
Net decrease in fair value of investments	(2,347,872,703)	(1,032,933,484)	(17,330,700)	(3,344,566)	-		(3,401,481,453)	(95,898,590)	(3,497,380,043)	
<b>Total investment (loss)/gain</b>	(2,142,547,422)	(969,971,120)	(14,434,023)	(2,165,035)	452,876		(3,128,664,724)	(77,757,779)	(3,206,422,503)	
<b>Total (reductions)/additions</b>	(2,142,547,422)	(969,971,120)	(14,434,023)	(2,165,035)	452,876		(3,128,664,724)	(72,455,305)	(3,201,120,029)	
<b>Deductions</b>										
Distributions from external investment trust funds										
Interagency transfers (in) out										
Distributions to beneficiaries of the										
Land Grant Permanent Fund	571,520,996	-	-	-	-	-	521,520,996	-	521,520,996	
Distributions to State General Fund by the										
Severance Tax Permanent Fund	-	191,292,480	-	-	-	-	191,292,480	-	191,292,480	
Distribution to beneficiary of the										
Tobacco Settlement Permanent Fund	-	-	50,985,919	-	-	-	50,985,919	-	50,985,919	
Distribution to beneficiary of the										
Water Permanent Fund	-	-	-	4,000,000	-	-	4,000,000	-	4,000,000	
Slate Land Office	(480,525,889)	-	-	-	-	-	(480,525,889)	-	(480,525,889)	
Severance Tax Bonding Fund	-	(27,539,293)	-	-	-	-	(27,539,293)	-	(27,539,293)	
Tobacco settlement proceeds	-	-	(50,985,919)	-	-	-	(50,985,919)	-	(50,985,919)	
State Unemployment Permanent Fund	-	-	-	-	(44,710,903)	-	(44,710,903)	-	(44,710,903)	
Interfund services used										
General Administrative Fund	14,716,517	6,307,079	-	-	-	-	21,023,596	-	21,023,596	
Internal service fees	2,675,071	1,468,454	-	-	-	-	4,143,525	709,953	4,853,478	
<b>Net deductions</b>	58,386,695	171,528,720	-	4,000,000	(44,710,903)		189,204,512	17,170,030	206,374,542	
<b>Change in net assets</b>	(2,200,934,117)	(1,141,499,840)	(14,434,023)	(6,165,035)	45,163,779		(3,317,869,236)	(89,625,335)	(3,407,494,571)	
Net assets at beginning of year	10,144,843,246	4,314,948,773	135,883,945	52,000,789	31,903,793		14,679,580,546	539,084,319	15,218,664,865	
Net assets at end of year	7,943,909,129	3,173,448,933	121,449,922	45,835,754	77,067,572		11,361,711,310	449,458,984	11,811,170,294	

See Notes to Financial Statements.



**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**NOTE 1. ORGANIZATION AND BACKGROUND**

The State of New Mexico Investment Council (Council) is responsible for the investment activities of certain State of New Mexico trust funds. The Council is composed of nine members: the Governor, the State Treasurer, the Commissioner of Public Lands, the Secretary of the Department of Finance and Administration (DFA), the State Investment Officer, the Chief Financial Officer of a State institution of higher education and three public members appointed by the Governor for five-year terms. The Governor is designated as Chairman of the Council, which is required to meet at least once each month.

Within the constraints of New Mexico law, the Council establishes policies for the investment of trust funds entrusted to it. Policies established by the Council are carried out by personnel of the State Investment Office (Investment Office or Office) under the direction of the State Investment Officer. The Office currently manages certain assets identified as the Land Grant Permanent Fund, the Severance Tax Permanent Fund, Tobacco Settlement Permanent Fund, the Water Trust Fund and the State Unemployment Trust Fund. The following is a brief description of the purpose and sources of these five funds:

*Land Grant Permanent Fund (LGPF).* The Fergusson Act of 1898 and the Enabling Act of 1910 granted certain lands held by the federal government to the territory of New Mexico. Under the terms of these grants, it was stipulated that such lands, totaling 13.4 million acres, were to be held in trust for the benefit of the public schools and other specific public institutions. Royalties and principal from land sales are transferred by the State Land Office to the Investment Office, which adds these amounts to the LGPF. Gains and losses on investment transactions are credited or charged to the LGPF and do not directly affect distributions to the beneficiaries.

On September 23, 2003, New Mexico voters approved Constitutional Amendment No. 2 that changed the LGPF distributions. Beginning with the October 2003 distribution, the annual distributions from the LGPF are five percent (5.0 percent) of the average of the year-end market values of the LGPF for the immediately preceding five calendar years. In addition to the five percent (5.0 percent) annual distribution made, an additional annual distribution shall be made pursuant to the following schedule: in fiscal years 2005 through 2012, an amount equal to eight-tenths percent (0.8 percent) of the average of the year-end market values of the LGPF for the immediately preceding five calendar years; and in fiscal years 2013 through 2016, an amount equal to one-half percent (0.5 percent) of the average of the year-end market values of the LGPF for the immediately preceding five calendar years.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 1. ORGANIZATION AND BACKGROUND (CONTINUED)**

The legislature, by a three-fifths' vote of the members elected to each house, may suspend any additional distributions noted above. In addition, no additional distribution shall be made in any fiscal year if the average of the year-end market values of the LGPF for the immediately preceding five calendar years is less than five billion eight hundred million dollars (\$5,800,000,000).

*Severance Tax Permanent Fund (STPF).* The State of New Mexico levies a severance tax on certain natural resources extracted from land within the State. Severance tax revenues are first applied to pay the required debt service on Severance Tax Bonds issued by the State. Remaining severance tax revenues are then transferred to the Investment Office, which adds these amounts to the STPF. Other State agencies are responsible for administering the severance tax and determining the amounts required to service the outstanding Severance Tax Bonds. On November 5, 1996, New Mexico voters approved Constitutional Amendment No. 1 which, among other things, provides that annual distributions from the STPF shall be one hundred two percent (102%) of the amount distributed in the immediately preceding fiscal year until the annual distributions equal four and seven-tenths percent (4.7 percent) of the average of the year-end market values of the fund for the immediately preceding five years. Thereafter, the amount of the annual distributions shall be four and seven-tenths percent (4.7 percent) of the average of the year-end market values of the fund for the immediately preceding five years. The provisions of this amendment took place upon certification of the election results by the Secretary of State and were put into effect beginning with the December 1996 income distributions.

*Tobacco Settlement Permanent Fund (TSPF).* The State of New Mexico receives funds into the Tobacco Settlement Permanent Fund pursuant to the master settlement agreement entered into between the tobacco product manufacturers and various states, including New Mexico, which was executed on November 23, 1998. Money in this fund is invested pursuant to Chapter 6, Article 8 NMSA 1978. Income from investment of the fund is credited to the fund.

Chapter 312, Laws of 2003 has amended Section 6-4-9 NMSA 1978 related to the Tobacco Settlement Permanent Funds. This legislation temporarily changes the distribution of this fund as follows: in fiscal years 2003 through 2006, a distribution shall be made from the Tobacco Settlement Permanent Fund to the general fund in an amount equal to one hundred percent of the total amount of money distributed to the Tobacco Settlement Permanent Fund in that fiscal year. In fiscal year 2007 and in each fiscal year

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 1. ORGANIZATION AND BACKGROUND (CONTINUED)**

thereafter, an annual distribution will be made from the TSPF to the Tobacco Settlement Program Fund of an amount equal to fifty percent of the total amount of money distributed to the TSPF in the immediately preceding fiscal year until that amount is less than an amount equal to four and seven-tenths percent (4.7 percent) of the average of the year-end market values of the TSPF for the immediately preceding five calendar years. Thereafter, the amount of the annual distribution shall be four and seven-tenths percent (4.7 percent) of the average of the year-end market values of the TSPF for the immediately preceding five calendar years.

Chapter 312, Laws of 2003 mandates that the Tobacco Settlement Permanent Fund shall be considered a reserve fund of the state. Based on this, for fiscal year ended June 30, 2009, The New Mexico State Department of Finance and Administration has recorded the balance of the Tobacco Settlement Permanent Fund within their Governmental Fund, State General Fund balance. The State Investment Council has also included this balance within their Fiduciary Fund financial statements as a Private-Purpose Trust Fund.

*Water Trust Fund (WTF):* The water trust fund was created in the State Treasury. The State Investment Council established the water trust fund in August 2006 upon receiving a \$40,000,000 general fund appropriation per Chapter 109, Section 12, Laws of 2006. The funds consist of money appropriated, donated, or otherwise accrued to the fund. Money in the fund shall be invested by the state investment officer as land grant permanent funds are invested pursuant to Chapter 6, Article 8 NMSA 1978. Earnings from investment of the fund shall be credited to the fund. On July 1 of each fiscal year, an annual distribution shall be made from the water trust fund to the water project fund in the amount of four million dollars (\$4,000,000) until that amount is less than an amount equal to four and seven-tenths percent of the average of the year-end market values of the water trust fund for the immediately preceding five calendar years. Thereafter, the amount of the annual distribution shall be four and seven-tenths percent of the average of the year-end market values of the water trust fund for the immediately preceding five calendar years.

*State Unemployment Trust Fund (SUTF):* House Bill 247, passed by the 48<sup>th</sup> Legislature in 2007, created the State Unemployment Trust Fund (SUTF) in the state treasury. Receipts to this fund come from a prorate portion of the unemployment insurance taxes collected by the Department of Workforce Solutions from New Mexico employers. House Bill 247 provides that these receipts be invested by the state investment officer in a manner similar to the land grant permanent fund. It also provides that earnings from the fund be available for appropriation to the Department of Workforce Solutions for the purpose of administering the unemployment insurance and employment security programs.

The Office also manages external investment trust funds identified within the Fiduciary Funds for other legally separate entities.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Office conform to generally accepted accounting principles for State governmental units. The more significant of these accounting policies are summarized below:

*Financial Reporting Entity.* For financial reporting purposes, the financial statements include all funds controlled by the Council. Control by the Council was determined on the basis of oversight responsibility derived from the ability to significantly influence operations and accountability for fiscal matters. The Investment Office is a component unit of the primary government of the State of New Mexico. The Investment Office does not have any component units. The Office understands that the State does not present audited combined financial statements for all agencies of the State.

*Basis of Presentation and Basis of Accounting.* The Office implemented provisions of GASB No. 34, 37 and 38 effective for the fiscal year ending June 30, 2002. As part of Statement No. 34, there is a reporting requirement regarding the local government's infrastructure (road, bridges, etc.). The Office does not own any infrastructure assets and therefore is unaffected by this requirement.

*Government-Wide Financial Statements:* The statement of net assets and the statement of activities display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities. This government-wide focus is more on the sustainability of the Office as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The statement of activities presents a comparison between direct expenses and revenues for the governmental activities. All expenses of the Office are considered direct expenses and are clearly identifiable to the investment function of the Office. Program revenues include external fees, and other revenues include transfers from the permanent funds for interfund services provided.

*Governmental Fund Financial Statements:* The fund financial statements are similar to the government-wide financial statements. Emphasis in these statements is on the administrative fund due to the limited fund structure of the Office. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Office's actual experience conforms to the budget or fiscal plan. Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund-based financial statements into the government-wide presentation.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

As permitted by GASB Statement No. 20, the Office has elected to not apply pronouncements of the Financial Accounting Standards Board (FASB) issued subsequent to November 30, 1989, except those conflicting with GASB pronouncements.

The Office's fiduciary funds are presented separately in the fund financial statements. Since, by definition, these assets are being held for the benefit of third parties and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

*Measurement Focus, Basis of Accounting.* The government-wide and agency fund financial statements are reported using the economic financial resources measurement focus. The government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. The governmental funds are reported under the modified accrual basis of accounting, using the current financial resources measurement focus. Under this method, revenues are recognized when measurable and available. The Office considers all revenues reported in both the government-wide and governmental funds to be measurable and available since they are collected from the permanent funds and investment pools under the management of the Office. The Office considers revenues to be available if they are collected within 60 days of the end current fiscal year. Revenues from external investment trust participants are susceptible to accrual. On the government-wide financial statement, expenditures are recorded when the related fund liability is incurred except for accrued vacation and sick pay which is recognized as an expenditure to the extent they have been earned. General capital asset acquisitions are reported as expenditures in governmental funds and are capitalized and depreciated over the estimated useful life in the government-wide financial statement.

*General Administrative Fund.* The General Administrative Fund accounts for all the administrative activities of the Office. The financing sources for the General Administrative Fund are transfers of revenue from the LGPF, STPF and other sources as authorized by the Budget Division of the DFA.

*Fiduciary Funds.* Fiduciary funds consist of trust funds as follows:

*Private-Purpose Trust Funds.* The LGPF, STPF, TSPF, WTF, and SUTF are accounted for under the accrual basis of accounting and use a capital maintenance measurement focus. This means that all assets and liabilities associated with their activity are included on the balance sheet. The funds operate under legal constraints that specify distributions to ensure that an income stream will be available in future years to designated beneficiaries.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

*External Investment Trust Funds.* Pursuant to New Mexico law Section 6-8-7G of NMSA 1978, as amended, the Office manages several equity and bond investment pools to provide long-term investment opportunities for State agencies and designated institutions that have funds available for a long-term investment program that will extend for more than one year. See exhibit 3 for detail summaries of investment pool activity by external participant.

*Budgetary Accounting.* The State legislature annually approves transfers from the LGPF and STPF to the Office's General Administrative Fund. These transfers are made to fund the operating costs of the State Investment Office's General Administrative Fund. These transfers are reflected as Interfund Transfers on in these financial statements. Any transfers made in excess of the actual accrued costs of the General Administrative Costs are reverted back to the LGPF and STPF. The reversion payable to the LGPF and STPF are reflected as Due to LGPF and Due to STPF.

Beginning with fiscal year 2005, the General Appropriation Act of 2004 established the modified accrual basis of accounting for governmental funds in accordance with the Manual of Model Accounting Practices issued by the Department of Finance and Administration as the budgetary basis of accounting for the State of New Mexico. The change in policy resulted in the recognition of budgetary control from a fiscal year to an appropriation period. As a result of this change, a reconciliation of budgetary basis to GAAP basis is not required.

*Budgetary Matters.* The Office is required to submit a budget request for the General Fund to DFA and the Legislative Finance Committee by September 1 of each year. Consistent with the General Appropriations Act of 2004, the Office prepares the budget using the modified accrual budgetary basis of accounting. The expenditures reported in the budget report agree to the amounts reported in the accompanying general administrative fund statement of revenues, expenditures, and changes in net assets.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

*Budgetary Data.* The State Legislature makes annual appropriations to the Office. Legal compliance is monitored through the establishment of an annual budget. Annual budgets are adopted each fiscal year for the General Administrative Fund.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Expenditures may not legally exceed appropriations at the object expenditure classification level. Budget amendments require approval by the State's Financial Control Division of the Department of Finance and Administration. Unexpended and unencumbered amounts in the General Fund lapse at year-end.

The Office is required to submit a budget report for the General Administrative Fund to the Department of Finance and Administration and the Legislative Finance Committee by September 1 of each year. The report submitted by the Office also details revenues and expenditures or expenses for the preceding year. The budget for the General Administrative Fund is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) that must be paid out of the next year's budget. A reconciliation of budgetary basis to GAAP basis will be necessary if any accounts payable at the end of the fiscal year are not paid by the statutory deadline. The Council has not included such reconciliation for fiscal year 2009 as all payables were paid by the statutory deadline.

The Department of Finance and Administration makes recommendations and adjustments to the appropriation request which becomes the Governor's proposal to the Legislature. The Legislative Finance Committee holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.

Both the Department of Finance and Administration and the Legislative Finance Committee's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.

All subsequent budget transfers and increases must be authorized by the Director of the State Budget Control Division.

Legal budget control for expenditures and encumbrances is by appropriation unit.

*Investments*

*Basis of Accounting.* Investments are stated at fair value in accordance with GASB Statement No. 31, with increases or decreases in fair value recognized in the statement of changes in net assets at the end of each month. Investment transactions are recorded on the trade date. Dividends are recognized as income when declared. Current fair value of investments may fluctuate markedly from what is recorded at June 30 of each year.



**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

*Investment Pools.* The Office's investments are reported in the following categories: private-purpose trust funds and external investment trust funds. Both types of funds are participants in the Office's Large Cap. Active, Large Cap. Active ETF, Large Cap. Index, Large Cap. Index ETF, Core Bonds, Mid/Small Cap., Mid/Small Cap ETF, Non-U.S. Developed Markets, Non-U.S. Emerging Markets, Absolute Return, and Structured Credit investment pools. The pools are detailed as follows:

The Large Cap Active pool is managed internally and by seven external managers using fundamental research techniques. This pool seeks to exceed the performance of the S&P 500 Index by emphasizing stock selection and by overweighting or underweighting economic sectors.

The Large Cap. Index Pool is managed internally. The objective of the pool is to generate returns within 25 basis points of the S&P 500 Index.

The Core Bonds Pool is managed internally and invests in all major segments of the broad investment-grade debt obligation markets. The primary objective of the Core Bonds Pool is to add significant value over the returns of the broad U.S. bond market and to produce relatively high total returns for the risk assumed. The Core Bonds Pool uses the BC Aggregate Index as its benchmark.

The Structured Credit Pool is managed internally investing in various classes of securities of collateralized debt obligations, collateralized loan obligations and other structured finance instruments.

The Mid/Small Cap. Pool is managed internally and by four external managers controlling five accounts. Overall, the manager mix is intended to capture the returns of the appropriate small or mid cap index.

The Non-U.S. Developed Markets Pool is an international equity fund with two external managers including one active manager and one index manager. The benchmark is the Morgan Stanley Capital International Europe Australia and Far East (MSCI EAFE) Index. The third-party managers of the described investments may trade in foreign exchange contracts in the normal course of investing activities in order to manage exposure to currency risks. Such contracts, which are generally for a period of less than one year, are used to purchase and sell foreign currency at a guaranteed future price. These contracts are recorded at fair value using foreign currency forward exchange rates.



STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

The Non-U.S. Emerging Markets Pool is an externally managed international equity fund based upon the MSCI Emerging Markets Free Index. As of June 30, 2009 the fund had one active external manager.

The Absolute Return Pool is managed by 14 external managers and consists of 16 actual funds of investments. The objective of the pool is to increase the diversification, decrease the volatility of the Land Grant, Severance Tax, Tobacco, and Water Trust fund assets and to add incremental value. The Absolute Return Pool uses 90 day treasury bills plus 200 basis points as its benchmark.

*Private Equity.* Private equity investments are recorded at estimated fair value as reported by the investees. If market declines exist which are considered to be other than temporary, an adjustment is made to reduce the fair value. Increases to fair value are reported when a definable event occurs, such as an additional round of financing to a third-party investor at a higher price or a public offering of the investee company's stock. Income is recognized when the investees report distributions received in excess of the capital invested.

*Other Investments.* Investments in mortgage pass-through certificates, the New Mexico Small Business Investment Corporation (SBIC), certificates of deposit, New Mexico Film investments, and mortgage loans are reported at cost, which approximates fair value. The Office invests in collateralized mortgage obligations issued by the Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). The United States government explicitly backs GNMA mortgage securities programs and implicitly backs FHLMC and FNMA mortgage securities programs.

*Portfolio Restrictions.* The Constitution or the laws of the State of New Mexico require a "prudent investor standard" for all investments of the LGPF, STPF, TSPF, WTF, and SUTF including the differential rate investments of the STPF for economic development purposes within the State of New Mexico. Such investments are primarily intended to stimulate residential construction, provide a source of capital to small business enterprises and create additional jobs by providing incentives to major corporations to construct large facilities in the State. External investment trust funds managed pursuant to a joint powers agreement are subject to the same standard of care.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

*Vacation and Sick Pay.* 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 the General Administrative Fund.

---

*Net Assets Held in Trust.* Amounts reserved for designated beneficiaries are required to be segregated in accordance with State law.

*Interfund Receivables and Payables.* The Office has numerous transactions between funds and other State agencies, including interfund transfers for services provided and used for all administrative activities of the Office, transfers of investment income and transfers of resources for investment. At June 30, 2009 \$7,643,303 and \$3,275,701 were due from the general administrative fund to the LGPF and STPF, respectively.

*Cash and Cash Equivalents.* Interest in the pooled investments on deposit with the State Treasurer's Office (STO) and The Northern Trust Company short-term investment fund are considered cash and cash equivalents.

*Capital Assets.* Capital assets are recorded at historical cost and depreciated over their estimated useful lives with no salvage value. Additions, improvements and other capital outlays greater than \$5,000 that significantly extend the useful life of assets are capitalized. The Office includes software in capital assets as required by the State General Services Department (GSD) Rule. Other costs incurred for repairs and maintenance are expensed as incurred.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the estimated useful lives of three to seven years for furniture and equipment.

*Encumbrances.* Due to the change in budgetary accounting as discussed above, encumbrances no longer remain after periods as any remaining amounts are reverted. As a result, there are no differences between measurement focus at June 30, 2009.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

*External Trust Fund Accounting Policies*

*Units of Participation.* Each pool is composed of units of participation of unlimited quantity. Each unit of participation represents an equal beneficial interest in the respective pool and no unit has priority or preference over any other. Each purchase or sale of units requires written authorization as defined in the joint powers agreements executed between the Office and each participant. All units are purchased by cash payment. Each unit of participation is recorded in book entry form by the Office and consists of an account for each participant that maintains the following information:

1. Name of participant;
2. Date of all unit purchases and sales;
3. Number of units purchased or sold;
4. Valuation of each unit owned; and
5. Total valuation of all units owned.

*Initial Valuation.* At the inception of each pool, all initial purchases were made by the participants for a valuation price of \$1,000 per unit.

*Method of Valuation.* The Office uses the following method of determining the value of each investment held in the pools:

- For purposes of this procedure, the recorded closing price for each investment is provided by a recognized pricing service and/or the custodian.
- In the case of a stock where a dividend has been declared and not yet paid, then the amount of such dividend accrual is included in the per unit value.
- An investment purchased and awaiting payment against delivery is included for valuation purposes as a security held and the cost thereof recorded as an account payable.
- For the purposes of valuation of an investment, with the exception of investments sold but not delivered, ascertained brokers; commissions or other expenses which would be incurred on a sale are not deducted.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

*Valuation of Units.* With respect to the valuation of investments determined as provided above, there is added the following:

- All uninvested cash;
- The value of any rights or stock dividends which may have been declared but not received as of the valuation date; and
- All cash dividends and interest that are determined to be earned but not received.

All expenses, including management fees, chargeable to the respective pool as due or accrued are deducted from the valuation as determined above. The net per unit value is then determined by dividing the number of existing units into the total valuation calculated above.

*Purchases and Sales.* A written Notice of Intent to purchase or sell units must be received by the Office on or before the fifth business day preceding the valuation date. All notices must be signed by an authorized representative as specified in the applicable joint powers agreement. The Office reserves the right to limit a participant's sale to the participant's proportional interest in the current net cash position of the respective pooled investment fund, unless the Office receives a written Notice of Intent thirty (30) days prior to the effective date of the sale. All purchases or sales of units are effective as of the first day following the valuation date.

Cash payment for all additions must be received by the Office in the form of a wire transfer or by interagency cash transfer through the DFA, on or before the third business day following the valuation date. The Office reserves the right to return funds received after this date and cancel that participant's Notice of Intent to purchase units.

*Expenses and Management Fee.* The Office assesses each pool a management fee that will at least cover the costs of the management services provided and the costs related to maintaining each pool and the individual participant's related account. The amount of the management fee is based on each participant's proportionate ownership of the net assets managed by the Office. The Office reviews the management fee periodically and adjusts the fee, if necessary.

*Reporting.* The Office provides each participant with a monthly statement that contains net asset value, units owned and change in net asset value from the previous month's transactions. The Office provides each participant with a statement that details the respective participant's total investment.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

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

*Reclassifications.* Certain reclassifications have been made to the prior year balances in order to conform to the current year presentation. The previously reported change in net assets and total net assets are unaffected by the reclassifications.

**NOTE 3. CASH AND CASH EQUIVALENTS**

*Investment in the State General Fund Investment Pool:* The Statements of Net Assets include an investment in State Treasurer General Fund Investment Pool maintained at the State Treasurer's Office (STO). All deposit accounts maintained at the State Treasurer's Office participate in an overnight repurchase agreement program administered by the State Treasurer.

The investment in the State Treasurer Investment Pool (STIP) is in accounts that are pooled with other state funds on deposit in the State Treasurer's name at commercial banking and other financial institutions. Information regarding the adequacy of collateralization of deposits is not known to individual agencies and is the responsibility of the State Treasurer. To obtain pledged collateral, investment risk, and insurance coverage information for the Department's State Treasurer deposits, a copy of separately issued financial statements can be obtained from the State Treasurer's Office.

*Deposits:* Cash and cash equivalents are held by the custodian, Northern Trust Company. Northern Trust Company cash is invested in short-term investment funds and are insured or registered with securities held by the government or its agent in the government's name.

*Custodial Credit Risk – Deposits.* The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2009, the Office's cash and cash equivalent deposits were not exposed to custodial credit risk.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**NOTE 3. CASH AND CASH EQUIVALENTS (CONTINUED)**

Investments in the STIP and Cash and cash equivalents balances as of June 30, 2009 were as follows:

	SHARE Fund	STO Funds	The Northern Trust Company	Totals
General Administrative Fund	17300	\$ 14,279,750	-	14,279,750
Subtotal		<u>\$ 14,279,750</u>	-	<u>14,279,750</u>
Land Grant Permanent Fund	60100	\$ 21,893,765	185,619,758	207,513,523
Severance Tax				
Permanent Fund	60200	18,436	40,907,821	40,926,257
Tobacco Settlement				
Permanent Fund	95200	-	45,204,449	45,204,449
Water Permanent Fund	10120	-	11,892,233	11,892,233
State Unemployment				
Trust Fund	10340	-	77,042,532	77,042,532
Large Cap. Active Pool	09400	-	246,118,162	246,118,162
Large Cap. Index Pool	62800	-	20,880,724	20,880,724
Core Bonds Pool	77000	-	156,923,958	156,923,958
Mid/Small Cap. Pool	22000	-	41,709,416	41,709,416
Non-U.S. Developed				
Markets Pool	21800	-	10,699,166	10,699,166
Non-U.S. Emerging				
Markets Pool	61100	-	10,726,251	10,726,251
Active ETF Pool	10330	-	797,017	797,017
Index ETF Pool	10320	-	346,114	346,114
Mid/Small Cap. ETF Pool	10310	-	195,902	195,902
Absolute Return Pool	72100	-	243,261,149	243,261,149
Structured Credit Pool	20140	-	61,204,462	61,204,462
Subtotal		<u>\$ 21,912,201</u>	<u>1,153,529,114</u>	<u>1,175,441,315</u>
Total		<u>\$ 36,191,951</u>	<u>1,153,529,114</u>	<u>1,189,721,065</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**NOTE 4. INVESTMENTS AND SECURITIES LENDING**

In accordance with NMSA 6-8, the Council is authorized to invest in domestic and international stocks, debt obligations of the U.S. government, its agencies or instrumentalities, debt obligations of any U.S. or foreign corporation, partnerships, or trusts with an investment-grade rating from a national rating service, real estate investments, national private equity investments, repurchase agreements secured by U.S. obligations or other securities backed by the U.S, and absolute return funds. In addition, the Council is authorized to invest in other differential-rate investments as specified in statute including New Mexico private equity, SBAs, CDs, film projects, and various other loan guarantees. Numerous restrictions, either statute or policy in origin, define various elements of the investments. Examples include investment size, limitation of percentage ownership of a particular fund or investment, percent the investment type comprises of the entire fund, and requiring guarantees or other forms of assurance of repayment. The investment policy has been structured in accordance with the Uniform Prudent Investor Act, NMSA 45-7 (600-612).

*Credit Risk – Debt Investments.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. In order to assess credit risk, the Office is required to disclose credit ratings of its debt investments. U.S. government obligations and obligations guaranteed by the U.S. government are not considered to have credit risk and accordingly, do not require disclosure. Currently, the Office does have a policy for the Core Bond Fund that all securities must be rated investment grade by one or more national rating agencies at the time of purchase. The High-Yield Bond Fund policy requires that the securities be rated at least CCC- or equivalent by one or more of the national rating agencies at the time of purchase. Securities that fall below investment grade after purchase may be held at the discretion of the staff.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 4. INVESTMENTS AND SECURITIES LENDING

The Office's investments and their exposure to credit risk at June 30, 2009 are as follows:

Investment	Rating	Fair Value
Asset Backed Securities	AAA	\$ 1,233,515
Commercial Mortgage-Backed	AAA	27,482,703
Guaranteed Fixed Income	AAA	7,031,675
Non-Government Backed C.M.O.s	AAA	44,095,104
Asset Backed Securities	A	5,557,374
Corporate Bonds	A	4,981,200
Corporate Bonds	BBB	10,941,874
Corporate Bonds	BB	2,187,921
Corporate Convertible Bonds	B	2,763,450
Non-Government Backed C.M.O.s	B	25,803,551
Corporate Convertible Bonds	CCC	4,572,400
Investments subject to credit risk - S&P Ratings		<u>\$136,650,767</u>
Asset Backed Securities	Aaa	98,749,245
Commercial Mortgage-Backed	Aaa	88,827,715
Corporate Bonds	Aaa	4,884,785
Government Agencies	Aaa	357,101,305
Government Bonds	Aaa	429,888,052
Guaranteed Fixed Income	Aaa	38,397,621
Non-Government Backed C.M.O.s	Aaa	10,102,670
Asset Backed Securities	Aa	62,699,959
Commercial Mortgage-Backed	Aa	10,142,912
Corporate Bonds	Aa	98,997,808
Asset Backed Securities	A	20,229,628
Corporate Bonds	A	237,604,597
Non-Government Backed C.M.O.s	A	13,814,368
Other Fixed Income	A	4,996,080
Asset Backed Securities	Baa	42,561,472
Corporate Bonds	Baa	91,680,598
Non-Government Backed C.M.O.s	Baa	8,374,851
Corporate Convertible Bonds	Ba	1,852,344
Asset Backed Securities	Ba	57,248,896
Corporate Bonds	Ba	8,711,441
Non-Government Backed C.M.O.s	Ba	35,665,651
Asset Backed Securities	B	18,901,394
Non-Government Backed C.M.O.s	B	12,252,717
Corporate Convertible Bonds	Caa	242,560
Asset Backed Securities	Caa	744,322
Non-Government Backed C.M.O.s	Caa	8,221,738
Corporate Convertible Bonds	Ca	831,110
Asset Backed Securities	Ca	12,582,501
Corporate Bonds	Ca	71,200
Non-Government Backed C.M.O.s	Ca	13,356,572
Investments subject to credit risk - Moody's Ratings		<u>\$1,789,736,112</u>



STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 4. INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Investment	Rating	Fair Value
<i>Investments subject to credit risk - not rated</i>		
Bank Deposits	not rated	\$ 44,820,000
Commercial Paper	not rated	56,921,581
Corporate Convertible Bonds	not rated	4,211,827
Asset Backed Securities	not rated	15,176,867
Corporate Bonds	not rated	24,214,937
Government Bonds	not rated	9,983,550
Guaranteed Fixed Income	not rated	20,079,520
Municipal/Provincial Bonds	not rated	2,750,000
Non-Government Backed C.M.O.s	not rated	1,994
Investments subject to credit risk - not rated		\$178,160,276
<i>Investments "NOT" subject to credit risk</i>		
Private Equity, Equity Securities and Real Estate N/A		9,505,926,501
NM Film Investments N/A		101,175,424
Government Agencies N/A		55,674,636
Mortgage Loans N/A		9,436
Investments "NOT" subject to credit risk		\$9,662,785,997
Total Investments		\$ 11,767,333,152

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 4. INVESTMENTS AND SECURITIES LENDING (CONTINUED)

*Interest Rate Risk – Debt Investments.* Interest rate risk is the risk that changes in interest rates could adversely affect the fair value of an investment. The Council does not have a policy for interest rate risk management, but its practice is to address interest risk through the management of debt investment duration.

A summary of the investments at June 30, 2009 and their exposure to interest rate risk are as follows:

Investment	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	Greater than 10 Years
<i>Investments subject to interest rate risk</i>					
Corporate Convertible Bonds	\$ 14,473,691	\$ -	\$ 9,662,037	\$ -	\$ 4,811,654
Asset Backed Securities	335,685,173	-	124,232,179	26,727,025	184,725,969
Commercial Mortgage-Backed	123,100,562	-	-	33,608,834	89,491,728
Corporate Bonds	484,276,362	124,658,275	165,113,378	76,549,217	117,955,492
Government Agencies	358,540,664	255,197,105	47,787,399	50,206,635	5,349,525
Government Bonds	439,871,602	50,524,620	36,014,790	157,089,205	196,242,987
Government Mortgage Backed Securities	436,098,492	184	6,322,749	1,780,255	427,995,304
Guaranteed Fixed Income	65,508,816	20,079,520	45,429,296	-	-
Municipal/Provincial Bonds	2,750,000	-	-	-	2,750,000
Non-Government Backed C.M.O.s	171,689,216	-	-	60,339,148	111,350,068
Other Fixed Income	4,996,080	4,996,080	-	-	-
Subtotal	\$ 2,436,990,658	\$ 455,455,784	\$ 434,561,828	\$ 406,300,319	\$ 1,140,672,727
<i>Investments not subject to interest rate risk</i>					
Securities, Equity, Real Estate, and NM Film Investments	9,330,342,494				
Total Investments	\$ 11,767,333,152				

*Concentration of Credit Risk – Investments.* Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent 5% or more of total investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2009, the Office was not exposed to concentration of credit risk as no single issuer represented 5% of total investments.

*Foreign Currency Risk – Investments.* Foreign currency risk is the risk that changes in exchange rates could adversely affect an investment's or deposits fair value. This risk is eliminated in the Core Bond and High-Yield Bond pools by adhering to the SIC policy that all securities be denominated in U.S. dollars, and is managed in the equity funds by limiting the size of the internationally-invested funds.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 4. INVESTMENTS AND SECURITIES LENDING (CONTINUED)

A summary of the investments at June 30, 2009 and their exposure to foreign currency risk are as follows:

Investment	Foreign Currency	Amount	% of Total Investments
Common Stock	Australian dollar	\$ 32,254,802	0.25%
Common Stock	Brazilian real	24,050,029	0.18%
Common Stock	British pound sterling	96,519,033	0.74%
Common Stock	Czech koruna	4,476,435	0.03%
Common Stock	Danish krone	4,076,426	0.03%
Common Stock	Egyptian pound	7,068,098	0.05%
Common Stock	Euro	139,599,097	1.07%
Common Stock	Hong Kong dollar	58,845,286	0.45%
Common Stock	Hungarian forint	4,044,939	0.03%
Common Stock	Indian rupee	30,429,144	0.23%
Common Stock	Indonesian rupiah	7,912,276	0.06%
Common Stock	Japanese yen	105,493,765	0.81%
Common Stock	Mexican peso	5,956,352	0.05%
Common Stock	New Israeli shekel	17,959,404	0.14%
Common Stock	New Taiwan dollar	39,897,567	0.31%
Common Stock	New Zealand dollar	468,142	0.00%
Common Stock	Norwegian krone	2,909,325	0.02%
Common Stock	Philippine peso	1,495,979	0.01%
Common Stock	Singapore dollar	8,193,648	0.06%
Common Stock	South African rand	42,445,977	0.32%
Common Stock	South Korean won	57,060,116	0.44%
Common Stock	Swedish krona	10,473,433	0.08%
Common Stock	Swiss franc	32,661,945	0.25%
Common Stock	Thai baht	20,178,045	0.15%
Common Stock	Turkish lira	30,442,995	0.23%
Cash	Argentine peso	31,582	0.00%
Cash	Australian dollar	105,176	0.00%
Cash	Brazilian real	319,919	0.00%
Cash	British pound sterling	1,042,000	0.01%
Cash	Canadian dollar	27,714	0.00%
Cash	Czech koruna	26,772	0.00%
Cash	Danish krone	14,427	0.00%
Cash	Egyptian pound	194,504	0.00%
Cash	Euro	136,379	0.00%
Cash	Hong Kong dollar	978,207	0.01%
Cash	Hungarian forint	46,476	0.00%
Cash	Indonesian rupiah	290,912	0.00%
Cash	Japanese yen	320,983	0.00%
Cash	Mexican peso	503,650	0.00%
Cash	New Israeli shekel	68,517	0.00%
Cash	New Taiwan dollar	562,622	0.00%
Cash	New Zealand dollar	37,707	0.00%
Cash	Norwegian krone	33,356	0.00%
Cash	Philippine peso	113,698	0.00%
Cash	Singapore dollar	113,803	0.00%
Cash	South African rand	853,127	0.01%
Cash	South Korean won	683,005	0.01%
Cash	Swedish krona	28,637	0.00%
Cash	Swiss franc	40,575	0.00%
Partnerships	Euro	131,335,511	1.00%
Preferred Stock	Brazilian real	33,335,197	0.26%
Preferred Stock	Euro	1,440,385	0.01%
Preferred Stock	South Korean won	8,926,881	0.07%
Rights/Warrants	Australian dollar	88,652	0.00%
Rights/Warrants	Euro	8,646	0.00%
Rights/Warrants	Japanese yen	297	0.00%
Rights/Warrants	Norwegian krone	9,619	0.00%
Rights/Warrants	Singapore dollar	7,465	0.00%
Foreign Currency Investments and Cash and Cash Equivalents		966,638,659	7.46%
Non-Foreign Currency Investments and Cash and Cash Equivalents		11,990,415,558	92.54%
Total Investments and Cash and Cash Equivalents		\$ 12,957,054,217	100.00%

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 4. INVESTMENTS AND SECURITIES LENDING (CONTINUED)**

*Securities Lending.* State statutes and Office policies permit the Office to use investments of the LGPF, STPF, TSPF, and WTF to enter into securities lending transactions (i.e., loans of securities to broker dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future). At year-end, the Office has no net credit risk exposure to borrowers because the amounts the Office owed the borrowers of securities exceeded the amounts the borrowers of securities owed the Office. The contract with the lending agent requires it to indemnify the Office if the borrowers fail to return the securities (or if collateral is inadequate to replace the securities lent) or if the counterparty fails to pay the Office for income distributions by the securities' issuers while the securities are on loan. Securities loaned to brokers at June 30, 2009 consisted of U.S. Treasury notes and bonds and U.S. and international equity securities with a fair value of approximately \$807,339,031. Security lending gross income totaled approximately \$9,396,829 for the year ended June 30, 2009; related fees were approximately \$1,127,619. The unrealized loss on securities lending for fiscal year 2009 of \$143,383,142 has been included in the statement of changes in fiduciary net assets.

All securities are loaned for a term not to exceed one year, and loans may be terminated by either party upon receipt of written instructions by the lending agent. The lending agent, as agent of the Office, is required to invest the cash collateral received in connection with the securities loaned in permitted investments as set forth in the agreement between the parties.

**NOTE 5. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

*Plan Description.* Substantially all of the Office's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement 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.* Plan members are required to contribute 7.42% of their gross salary. The Office is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Office are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**NOTE 5. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT  
ASSOCIATION (CONTINUED)**

The Office's contributions to PERA for the fiscal years ending June 30, 2009, 2008 and 2007 were \$419,489, \$387,605, and \$352,181, respectively, which equal the amount of the required contributions for each fiscal year.

There are employees who are making contributions to a deferred compensation plan funded through salary reductions in accordance with the provisions of Section 457 of the Internal Revenue Code. Neither the Office nor the State of New Mexico makes any contributions to this plan. All contributions withheld from the participants by the Office have been remitted to PERA, which administers the plan.

**NOTE 6. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Furniture and equipment	\$ 412,107	12,227	-	424,334
Accumulated depreciation	(392,887)	(4,242)	-	(397,129)
<b>Total capital assets</b>	<u>\$ 19,220</u>	<u>7,985</u>	<u>-</u>	<u>27,205</u>

Depreciation expense recognized by the Office in fiscal year 2009 is \$4,242. This amount was recognized as an expense in the general fund statement of activities.

**NOTE 7. CHANGES IN ACCRUED VACATION AND SICK PAY**

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

Balance at June 30, 2008	\$ 223,874
Additions	163,038
Deletions	<u>(151,808)</u>
Balance at June 30, 2009	<u>\$ 235,104</u>

Of the balance outstanding at June 30, 2009, \$141,768 is estimated to be due within one year of the statement date.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

NOTE 8. COMMITMENTS

The Office leases office space and equipment under noncancelable operating leases. Total rent expense for the year ended June 30, 2009 was \$257,819. Minimum annual lease payments under these leases for the years ended June 30 are as follows:

2010	\$ 275,050
2011	270,960
2012	276,325
2013	280,240
2014	280,189
thereafter	<u>1,063,296</u>
	<u>\$2,446,060</u>

In addition to the above leases, the Office has commitments for capital contributions to the various private equity partnerships, real estate investments and film projects in which it has investments. As of June 30, 2009, the Office was an investor in two hundred and fifty three private equity limited partnerships, 8 film projects and various real estate investments. When making an investment in a limited partnership, the Office commits, on the part of either the Land Grant Permanent Fund or the Severance Tax Permanent Fund, to a capital commitment that will be drawn down by the limited partnership over the life of the partnership, typically twelve to fifteen years. As of June 30, 2009, unfunded commitments to private equity partnerships were approximately \$1,364,365,512, unfunded commitments to film loans were approximately \$15,000,000, and unfunded commitments to real estate investments were approximately \$305,772,259. Due to the nature of these investments, the Office cannot predict when these capital contributions will be called.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**NOTE 9. BUDGETARY MATTERS**

The Office is required to submit a budget request for the General Fund to DFA and the Legislative Finance Committee by September 1 of each year. Consistent with the General Appropriations Act of 2004, the Office prepares the budget using the modified accrual budgetary basis of accounting. The expenditures reported in the budget report agree to the amounts reported in the accompanying general administrative fund statement of revenues, expenditures, and changes in net assets.

**NOTE 10. JOINT POWERS AGREEMENTS**

The Office manages investments under joint powers agreements that may be terminated by either party upon thirty days' notice to the other party. The revenues and expenditures of the investment pools are recorded in the accompanying financial statements, and the net changes to the participants' assets are recorded in the External Investment Trust Funds financial statements. In addition, each participant reports their net assets in their individual financial statements. At June 30, 2009, these joint powers agreements were as follows:

- (a) The Office entered into a Joint Powers Agreement with the New Mexico Retiree Healthcare Authority (NMRHCA) dated June 25, 1992, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMRHCA in accordance with guidelines established in NMRHCA's investment policy. At June 30, 2009, the NMRHCA had total net assets held in trust of \$136,474,170.
- (b) The Office entered into a Joint Powers Agreement with the New Mexico Institute of Mining & Technology (NMIMT) dated November 24, 1992, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMIMT in accordance with guidelines established in NMIMT's investment policy. At June 30, 2009, the NMIMT had total net assets held in trust of \$39,027,449.
- (c) The Office entered into a Joint Powers Agreement with the New Mexico School for the Blind and Visually Impaired (NMSBVI) dated March 25, 1993, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMSBVI in accordance with guidelines established in NMSBVI's investment policy. At June 30, 2009, the NMSBVI had total net assets held in trust of \$7,566,970.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 10. JOINT POWERS AGREEMENTS (CONTINUED)**

- (d) The Office entered into a Joint Powers Agreement with the Commissioner of Public Lands (the Commissioner) dated March 11, 1994, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Commissioner in accordance with guidelines established in the Commissioner's investment policy. At June 30, 2009, the Commissioner had total net assets held in trust of \$10,482,528.
- (e) The Office entered into a Joint Powers Agreement with the New Mexico Interstate Stream Commission (Commission) dated March 11, 1994, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Commission in accordance with guidelines established in the Commission's investment policy. At June 30, 2009, the Commission had total net assets held in trust of \$12,876,300.
- (f) The Office entered into a Joint Powers Agreement with the New Mexico Military Institute (NMMI) dated July 1, 1997, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMMI in accordance with guidelines established in NMMI's investment policy. At June 30, 2009, the NMMI had total net assets held in trust of \$13,923,811.
- (g) The Office entered into a Joint Powers Agreement with the New Mexico Department of Game and Fish (NMDGF) dated July 28, 1998, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMDGF in accordance with guidelines established in NMDGF's investment policy. At June 30, 2009, the NMDGF had total net assets held in trust of \$746,474.
- (h) The Office entered into a Joint Powers Agreement with Eastern New Mexico University (ENMU) dated December 4, 1998, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to ENMU in accordance with guidelines established in ENMU's investment policy. At June 30, 2009, the ENMU had total net assets held in trust of \$6,878,389.
- (i) The Office entered into a Joint Powers Agreement with the Springer Municipal School District (SMSD) dated February 5, 1999, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to SMSD in accordance with guidelines established in SMSD's investment policy. At June 30, 2009, the SMSD had total net assets held in trust of \$117,755.



STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 10. JOINT POWERS AGREEMENTS (CONTINUED)**

- (j) The Office entered into a Joint Powers Agreement with the City of Albuquerque (the City) dated March 29, 2000, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the City in accordance with guidelines established in the City's investment policy. At June 30, 2009, the City had total net assets held in trust of \$30,512,563.
- (k) The Office entered into a Joint Powers Agreement with the New Mexico Public Regulation Commission, Superintendent of Insurance (the Agency) dated September 18, 2000, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Agency in accordance with guidelines established in the Agency's investment policy. At June 30, 2009, the Agency had total net assets held in trust of \$27,696,400.
- (l) The Office entered into a Joint Powers Agreement with the County of Los Alamos (County) dated October 4, 2000, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the County in accordance with guidelines established in the County's investment policy. At June 30, 2009, the County had total net assets held in trust of \$26,316,116.
- (m) The Office entered into a Joint Powers Agreement with the New Mexico Public School Insurance Authority (NMPSIA) dated April 30, 2004, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMPSIA in accordance with guidelines established in NMPSIA's investment policy. At June 30, 2009, the NMPSIA had total net assets held in trust of \$27,234,396.
- (n) The Office entered into a Joint Powers Agreement with the New Mexico Highlands University (NMHU) dated December 10, 2004, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMHU in accordance with guidelines established in NMHU's investment policy. At June 30, 2009, the NMHU had total net assets held in trust of \$1,828,818.
- (o) The Office entered into a Joint Powers Agreement with the Children Youth and Family Department (CYFD) dated January 1, 2006, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to CYFD in accordance with guidelines established in CYFD's investment policy. At June 30, 2009, the CYFD had total net assets held in trust of \$1,926,576.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 10. JOINT POWERS AGREEMENTS (CONTINUED)**

- (p) The Office entered into a Joint Powers Agreement with the New Mexico Mortgage Finance Authority (NMMFA) dated November 16, 2005, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMMFA in accordance with guidelines established in NMFA's investment policy. At June 30, 2009, the NMMF had total net assets held in trust of \$22,120,310.
- (q) The Office entered into a Joint Powers Agreement with the New Mexico Higher Education Department (NMHED) dated April 3, 2007, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMHED in accordance with guidelines established in NMHED's investment policy. At June 30, 2009, the NMHED had total net assets held in trust of \$74,680,444.
- (r) The Office entered into a Joint Powers Agreement with the City of Las Cruces (Client) dated September 28, 2007, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Client in accordance with guidelines established in the Client's investment policy. At June 30, 2009, the Client had total net assets held in trust of \$9,049,517.

**NOTE 11. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

*Plan Description.* The Office 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.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 11. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH  
CARE PLAN (CONTINUED)**

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the 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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also 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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**NOTE 11. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH  
CARE PLAN (CONTINUED)**

The Office's contributions to the RHCA for the years ended June 30, 2009, 2008 and 2007 were \$33,784, \$30,859 and \$27,969 respectively, which equal the required contributions for each year.

**NOTE 12. RISK MANAGEMENT**

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

1. Liability and civil rights protection for claims made by others against the State of New Mexico;
2. Coverages to protect the State of New Mexico’s property and assets; and
3. Fringe benefit coverages for State of New Mexico employees.

At June 30, 2009, the Office had no claims that the Risk Management Division had determined not to cover. Denial of coverage by the Risk Management Division would result in the responsibility for coverage reverting to the Office.

**NOTE 13. SHORT-TERM DEBT**

The Office had no short-term debt activity during the year or an outstanding balance at year-end.

**NOTE 14. NON-REVERTING FUND**

6-8-5(B), NMSA 1978, authorizes the State Investment Council (SIC) to prepare an operating budget as follows: *“The state investment officer shall annually prepare a budget for administering and investing all funds managed by the investment office, which shall be reviewed by the council. Any funds provided for the operating budget of the investment office shall be appropriated from the assets of the land grant permanent fund, the severance tax permanent fund, funds available for investment pursuant to Subsection G of Section 6-8-7 NMSA 1978 or any other funds managed by the investment office, as authorized by law.”* The state constitution has vested sole authority for appropriation the state legislature; therefore, the legislature annually appropriates funds for the SIC operating budget from the sources specified in this statute.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**NOTE 14. NON-REVERTING FUND (CONTINUED)**

General reversion language in the appropriations act, Chapter 3, Section 3(E), New Mexico Laws of 2008, specifies in part: *Unencumbered balances in agency accounts remaining at the end of fiscal year 2009 shall revert to the general fund by October 1, 2009, unless otherwise indicated in the General Appropriation Act of 2008 or otherwise provided by law.*" Absent any specific language mandating reversion of surplus operating funds at fiscal year-end, unexpended/unencumbered operating funds revert back to their original funding source.

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
CHANGES IN LAND GRANT PERMANENT TRUST FUND  
HELD FOR BENEFICIARIES  
Year Ended June 30, 2009

Beneficiary	Balance June 30, 2008	State Land Office Transfers	Distributions to Beneficiaries	Other Increases In Capital Accounts, net	Balance June 30, 2009	Participation Percentage June 30, 2009
Charitable, penal and reform	\$ 93,233,138	3,934,805	(4,783,310)	(19,894,237)	72,490,396	0.912528%
Public schools	8,429,007,357	405,923,413	(433,497,274)	(1,794,976,637)	6,606,456,859	83.163802%
Eastern New Mexico University	8,982,244	131,073	(452,161)	(1,895,249)	6,765,907	0.085171%
Improvements to the Rio Grande	29,302,365	547,014	(1,478,953)	(6,189,443)	22,180,983	0.279220%
Miners' Colfax Medical Center	108,971,848	3,144,148	(5,537,318)	(23,076,039)	83,502,639	1.051153%
New Mexico Boys School	672,603	56,294	(35,547)	(143,949)	549,401	0.006916%
New Mexico Highlands University	2,947,077	181,665	(153,074)	(632,770)	2,342,898	0.029493%
New Mexico Institute of Mining and Technology	20,421,569	1,238,954	(1,054,873)	(4,344,547)	16,261,103	0.204699%
New Mexico Military Institute	348,473,337	12,567,965	(17,789,808)	(73,976,409)	269,275,085	3.389705%
New Mexico School for the Deaf	209,999,270	9,495,916	(10,791,849)	(44,737,795)	163,965,542	2.064041%
New Mexico School for the Blind and Visually Impaired	209,416,956	9,497,955	(10,762,881)	(44,615,301)	163,536,729	2.058643%
New Mexico State Hospital	24,704,722	1,015,432	(1,267,130)	(5,272,376)	19,180,648	0.241451%
New Mexico State University	49,929,875	2,770,474	(2,577,672)	(10,617,220)	39,505,457	0.497305%
Northern New Mexico Community College	2,256,213	182,289	(118,661)	(487,658)	1,832,183	0.023064%
Penitentiary of New Mexico	202,549,911	10,604,723	(10,438,513)	(43,095,341)	159,620,780	2.009348%
Public Buildings - Capitol	118,460,320	6,335,052	(6,116,661)	(25,229,662)	93,449,049	1.176361%
The University of New Mexico	165,505,002	6,449,078	(8,463,534)	(35,092,588)	128,397,958	1.616307%
The University of New Mexico Saline Lands	649,270	-	(32,362)	(136,460)	480,448	0.006048%
Water reservoirs	116,394,830	6,267,975	(6,015,401)	(24,889,297)	91,758,107	1.155075%
Western New Mexico University	2,965,338	181,664	(154,014)	(636,031)	2,356,957	0.029670%
	\$ 10,144,843,245	480,525,889	(521,520,996)	(2,159,939,009)	7,943,909,129	100.00%

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
DETAIL OF INTERAGENCY TRANSFERS  
Year Ended June 30, 2009

Exhibit 2

Agency Initiating Transfer/Fund	Transferring Cash Account	Agency Receiving Transfer/Fund	Receiving Cash Account
State Land Office <i>A total of \$100,384 was received from the State Land Office for FY 09. Funds transferred are from the distribution of Cimerex Energy Co. of Colorado.</i>	53900/26400	State Investment Office/ Land Grant Permanent Fund	60100
State Land Office <i>A total of \$480,425,505 was received from the State Land office for FY09. Funds transferred are from royalties and principal from land sales generated by the State Land Office (see footnote 1).</i>	53900/26400/77700	State Investment Office/ Land Grant Permanent Fund	60100
Department of Finance and Administration/ Local Government <i>A total of \$194,570 was received for FY 09 as the Land Grant Permanent Fund's portion of the Federal Grazing Act.</i>	34100/73800	State Investment Office/ Land Grant Permanent Fund	60100
State Treasurer's Office/ Severance Tax Bonding Fund <i>A total of \$41,194,692 was transferred from the Severance Tax Bonding Fund during 2009. Of this amount, \$41,127,605 was a receivable from FY08 and \$67,087 was received in January 2009, a receivable from FY09. \$30,142,180 has been recorded as a receivable at June 30, 2009</i> <i>Funds transferred are remaining severance tax revenues remaining after paying Severance Tax Bonding debt service (see footnote 1).</i>	39400/41000	State Investment Office/ Severance Tax Permanent Fund	60200
Department of Finance and Administration/ Tobacco Settlement Proceeds <i>A total of \$48,856,384 was received for FY 09 as the Tobacco Settlement Permanent Fund's portion of the Tobacco Settlement Proceeds (see footnote 1). The additional \$2,129,535 reflected in the statement of changes in net assets is due to accrued amounts recorded as a receivable at June 30, 2009.</i>	39401	State Investment Office/ Tobacco Settlement Permanent Fund	95200
Department of Finance and Administration/ Workforce Solutions <i>A total of \$44,710,904 was received in FY09 in contributions to the State Unemployment Trust Fund.</i>	39401	State Investment Office/ State Unemployment Trust Fund	10340
State Investment Office/ Land Grant Permanent Fund <i>A total of \$478,060,913 was distributed for FY 09 to the various beneficiaries of the Land Grant Permanent Fund (see footnote 1)</i>	60100	Land Grant Permanent Fund beneficiaries	Various
State Investment Office/ Severance Tax Permanent Fund <i>A total of \$175,351,440 was distributed for FY 09 to the State General Fund (see footnote 1).</i>	60200	Department of Finance and Administration/ State General Fund	85300
State Investment Office/ Tobacco Settlement Permanent Fund <i>A total of \$48,856,384 was distributed for FY 09 to the Tobacco Settlement Program Fund (see footnote 1). The additional \$2,129,535 reflected in the statement of changes in net assets is due to accrued amounts recorded as a payable at June 30, 2009.</i>	95200	Department of Finance and Administration/ Tobacco Settlement Program Fund	69700

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
 INVESTMENT OFFICE  
 EXTERNAL INVESTMENT TRUST FUNDS  
 Year ended June 30, 2009

Exhibit 3  
 Page 1 of 9

For fiscal year ended June 30, 2009, activity by participating agency was as follows:

Participant	Core Bonds Pool	Beginning Balance June 30, 2008	Contributions	Withdrawals	Net Investment income (loss)	Ending Balance June 30, 2009
		\$				
City of Albuquerque - Open Space MGM		23,360,355	-	-	414,476	23,774,831
City of Albuquerque - Urban Enhancement		6,620,271	-	-	117,461	6,737,732
Eastern New Mexico University		1,994,151	-	-	35,381	2,029,532
Los Alamos County - Cemetery		134,718	-	(51,063)	5,073	88,728
Los Alamos County - General Fund		3,004,074	-	(1,138,579)	113,334	1,978,829
Los Alamos County - Permanent Fund		4,320,501	-	(1,637,513)	163,007	2,845,995
Miners' Colfax Medical Center		1,671,296	-	(1,821,933)	150,637	-
NM Children's, Youth, Family Department Next Generation Fund		791,524	-	-	14,046	805,570
NM Children's, Youth, Family Department Trust Fund		791,524	-	-	14,046	805,570
NM Commissioner of Public Lands - Oil and Gas		5,603,954	-	-	99,429	5,703,383
NM Department of Game and Fish		286,199	-	-	5,079	291,278
NM Highlands University - Endowment Fund		681,972	-	-	12,099	694,071
NM Higher Education Department		33,236,684	-	(878,525)	625,037	32,983,196
NM Institute of Mining and Technology - Employee Benefit Trust		322,344	-	-	5,719	328,063
NM Institute of Mining and Technology - Endowment Fund		8,112,560	-	-	143,937	8,256,497
NM Institute of Mining and Technology - Plant Debt Allocated Funds		9,720,597	-	-	172,469	9,893,066
NM Interstate Stream Comm. - Improvements on the Rio Grande		528,878	-	-	9,382	538,260
NM Interstate Stream Comm. - Irrigation Works Construction		5,535,364	-	-	98,213	5,633,577
NM Military Institute - Legislative Scholarship		2,032,596	-	-	36,065	2,068,661
NM Military Institute LFC/VC Maintenance Endowment		1,339,428	-	-	23,766	1,363,194
NM Military Institute Patterson Account		1,207,956	-	-	21,434	1,229,390
NM Military Institute Trust Scholarship		1,551,728	-	(244,000)	39,085	1,346,813
NM Mortgage Finance Authority		13,907,581	-	-	246,758	14,154,339
NM Mortgage Finance Authority - IFT Housing Trust Fund		8,275,334	-	(3,011,902)	275,049	5,538,481
NM Public Regulation Commission - Patients' Comp. Fund		18,957,314	-	-	336,353	19,293,667
NM Public Schools Insurance Authority - Benefits		6,030,420	-	-	106,994	6,137,414
NM Public Schools Insurance Authority - Risk		4,020,350	-	-	71,334	4,091,684
NM Retiree Health Care Authority		51,695,107	-	-	917,211	52,612,318
NM School for the Blind and Visually Impaired		3,406,929	4,201,620	-	(41,579)	7,566,970
NM Institute of Mining and Technology		4,384,328	-	-	77,790	4,462,118
Springer Municipal School District		28,707	-	(5,800)	783	23,690
		\$ 223,554,744	4,201,620	(8,789,315)	4,309,868	223,276,917



STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS  
Year ended June 30, 2009

For fiscal year ended June 30, 2009, activity by participating agency was as follows:

Participant	Large Cap. Active Pool	Beginning Balance June 30, 2008	Contributions	Withdrawals	Net Investment income (loss)	Ending Balance June 30, 2009
Los Alamos County - Cemetery	\$	125,245	-	11,738	(26,050)	\$ 110,933
City of Las Cruces		4,276,137	-	-	(949,587)	3,326,550
Los Alamos County - General Fund		2,793,024	-	261,697	(581,048)	2,473,673
Los Alamos County - Permanent Fund		4,016,960	-	376,389	(835,673)	3,557,676
NM Commissioner of Public Lands - Oil and Gas		3,278,072	-	-	(727,951)	2,550,121
NM Children's, Youth, Family Department Next Generation Fund		149,625	-	-	(33,226)	116,399
NM Children's, Youth, Family Department Trust Fund		149,625	-	-	(33,226)	116,399
NM Higher Education Department		19,807,419	(404,663)	-	(4,472,898)	14,929,858
NM Interstate Stream Comm. - Improvements on the Rio Grande		529,465	-	-	(117,579)	411,886
NM Interstate Stream Comm. - Irrigation Works Construction		8,088,840	-	-	(1,796,263)	6,292,577
NM Military Institute LFC/VC Maintenance Endowment		287	-	-	(63)	224
NM Retiree Health Care Authority		32,688,918	-	-	(7,259,121)	25,429,797
	\$	75,903,617	(404,663)	649,824	(16,832,685)	\$ 59,316,093

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS  
Year ended June 30, 2009

For fiscal year ended June 30, 2009, activity by participating agency was as follows:

Participant	Large Cap. ETF Pool	Beginning Balance June 30, 2008	Contributions	Withdrawals	Net Investment income (loss)	Ending Balance June 30, 2009
Eastern New Mexico University	\$	1,556,187	-	-	(410,633)	\$ 1,145,554
Eastern New Mexico University - Endowment		539,811	-	(543,154)	3,343	-
Eastern New Mexico University - Restricted		13,854	-	(13,940)	86	-
Miners' Colfax Medical Center		1,373,487	-	(868,037)	(505,450)	-
NM Commissioner of Public Lands - Oil and Gas		3,028,030	-	-	(799,006)	2,229,024
NM Department of Game and Fish		394,963	-	-	(104,220)	290,743
NM Institute of Mining and Technology - Employee Benefit Trust		354,670	-	-	(93,587)	261,083
NM Institute of Mining and Technology - Endowment Fund		10,246,879	-	-	(2,703,842)	7,543,037
NM Mortgage Finance Authority		3,297,637	-	-	(870,147)	2,427,490
NM Public Regulation Commission - Patients' Comp. Fund		5,311,995	-	-	(1,401,676)	3,910,319
NM School for the Blind and Visually Impaired		769,999	-	(763,112)	(6,887)	-
NM Institute of Mining and Technology		10,681,756	-	-	(2,818,594)	7,863,162
Springer Municipal School District		12,376	-	-	(3,265)	9,111
NM Highlands University - Endowment Fund		500,886	-	-	(132,168)	368,718
	\$	38,082,530	-	(2,188,243)	(9,846,046)	\$ 26,048,241

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
 INVESTMENT OFFICE  
 EXTERNAL INVESTMENT TRUST FUNDS  
 Year ended June 30, 2009

For fiscal year ended June 30, 2009, activity by participating agency was as follows:

Participant	Large Cap. Index Pool	Beginning Balance June 30, 2008	Contributions	Withdrawals	Net Investment income (loss)	Ending Balance June 30, 2009
Los Alamos County - Cemetery		\$ 123,814	11,873	-	(28,415) \$	107,272
City of Las Cruces		2,108,371	-	-	(509,468)	1,598,903
Los Alamos County - General Fund		2,761,249	264,607	-	(633,711)	2,392,145
Los Alamos County - Permanent Fund		3,971,261	380,573	-	(911,407)	3,440,427
NM Higher Education Department		19,428,016	-	(403,007)	(4,752,199)	14,272,810
NM Military Institute Legislative Scholarship		2,169,730	-	-	(524,297)	1,645,433
NM Military Institute - Endowment Fund		1,432,515	-	-	(346,154)	1,086,361
NM Military Institute Patterson Account		1,291,261	-	-	(312,020)	979,241
NM Military Institute Trust Scholarship		1,659,976	-	-	(401,117)	1,258,859
NM Retiree Health Care Authority		31,663,593	-	-	(7,651,214)	24,012,379
		\$ 66,609,786	657,053	(403,007)	(16,070,002) \$	50,793,830

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
 INVESTMENT OFFICE  
 EXTERNAL INVESTMENT TRUST FUNDS  
 Year ended June 30, 2009

For fiscal year ended June 30, 2009, activity by participating agency was as follows:

Participant	Large Cap. Index ETF Pool	Beginning Balance June 30, 2008	Contributions	Withdrawals	Net Investment income (loss)	Ending Balance June 30, 2009
Eastern New Mexico University	\$	2,528,971	-	-	(662,992)	\$ 1,865,979
Eastern New Mexico University - Endowment		358,713	-	(361,411)	2,698	-
Eastern New Mexico University - Restricted		21,741	-	(21,903)	162	-
NM Institute of Mining and Technology - Employee Benefit Trust		407,017	-	-	(106,703)	300,314
NM Public Regulation Commission - Patients' Comp. Fund		2,115,596	-	-	(554,624)	1,560,972
NM Public Schools Insurance Authority - Benefits		8,688,696	-	-	(2,277,819)	6,410,877
NM Public Schools Insurance Authority - Risk		5,792,427	-	-	(1,518,536)	4,273,891
NM School for the Blind and Visually Impaired		1,844,458	-	(1,828,506)	(15,952)	-
Springer Municipal School District		18,203	-	-	(4,772)	13,431
NM Highlands University - Endowment Fund		478,195	-	-	(125,363)	352,832
	\$	22,254,017	-	(2,211,820)	(5,263,901)	\$ 14,778,296

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
 INVESTMENT OFFICE  
 EXTERNAL INVESTMENT TRUST FUNDS  
 Year ended June 30, 2009

For fiscal year ended June 30, 2009, activity by participating agency was as follows:

Participant	Mid/Small Cap. Pool	Beginning Balance June 30, 2008	Contributions	Withdrawals	Net Investment income (loss)	Ending Balance June 30, 2009
Los Alamos County - Cemetery	\$	99,641	-	12,130	(31,934)	\$ 79,837
Los Alamos County - General Fund		2,221,875	-	270,557	(712,174)	1,780,258
Los Alamos County - Permanent Fund		3,195,532	-	389,126	(1,024,269)	2,560,389
City of Las Cruces		4,148,953	-	-	(1,395,504)	2,753,449
NM Higher Education Department		10,030,183	-	(174,640)	(3,388,111)	6,467,432
NM Institute of Mining and Technology - Employee Benefit Trust		-	-	-	-	-
NM Military Institute Legislative Scholarship		624,787	-	-	(210,146)	414,641
NM Military Institute LFC/VC Maintenance Endowment		415,157	-	-	(139,638)	275,519
NM Military Institute Patterson Account		373,880	-	-	(125,755)	248,125
NM Military Institute Trust Scholarship		480,223	-	-	(161,523)	318,700
NM Retiree Health Care Authority		8,593,640	-	-	(2,890,477)	5,703,163
	\$	30,183,871	-	497,173	(10,079,531)	\$ 20,601,513

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS  
Year ended June 30, 2009**

For fiscal year ended June 30, 2009, activity by participating agency was as follows:

Participant	Beginning Balance June 30, 2008	Contributions	Withdrawals	Net Investment income (loss)	Ending Balance June 30, 2009
<b>Mid/Small Cap. ETF Pool</b>					
Eastern New Mexico University	\$ 1,245,611	-	-	(309,680)	\$ 935,931
NM Department of Game and Fish	108,126	-	-	(26,882)	81,244
NM Institute of Mining and Technology - Employee Benefit Trust	81,602	-	-	(20,288)	61,314
NM Public Regulation Commission - Patients' Comp. Fund	2,172,438	-	-	(540,105)	1,632,333
NM Public Schools Insurance Authority - Benefits	2,085,855	-	-	(518,579)	1,567,276
NM Public Schools Insurance Authority - Risk	1,390,557	-	-	(345,716)	1,044,841
NM School for the Blind and Visually Impaired	1,041,838	-	(1,067,755)	25,917	-
Springer Municipal School District	32,554	-	-	(8,093)	24,461
NM Highlands University - Endowment Fund	267,368	-	-	(66,471)	200,897
	<u>\$ 8,425,949</u>	<u>-</u>	<u>(1,067,755)</u>	<u>(1,809,897)</u>	<u>\$ 5,548,297</u>

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS  
Year ended June 30, 2009

For fiscal year ended June 30, 2009, activity by participating agency was as follows:

Participant	Non-U.S. Developed Markets Pool	Beginning Balance June 30, 2008	Contributions	Withdrawals	Net Investment income (loss)	Ending Balance June 30, 2009
		\$				
Eastern New Mexico University		1,159,760	-	-	(377,715)	782,045
Eastern New Mexico University - Endowment		1,201,254	-	(1,117,345)	(83,909)	-
Eastern New Mexico University - Restricted		10,637	-	(9,898)	(739)	-
City of Las Cruces		2,032,596	-	-	(661,981)	1,370,615
Los Alamos County - Cemetery		69,021	8,039	-	(21,232)	55,828
Los Alamos County - General Fund		1,539,099	179,321	-	(473,505)	1,244,915
Los Alamos County - Permanent Fund		2,213,541	257,915	-	(680,990)	1,790,466
NM Children's, Youth, Family Department Next Generation Fund		48,928	-	-	(15,934)	32,994
NM Children's, Youth, Family Department Trust Fund		48,928	-	-	(15,934)	32,994
NM Department of Game and Fish		64,989	-	-	(21,166)	43,823
NM Institute of Mining and Technology - Employee Benefit Trust		87,191	-	-	(28,396)	58,795
NM Higher Education Department		6,243,729	-	(102,900)	(2,045,045)	4,095,784
NM Military Institute - Legislative Scholarship		655,275	-	-	(213,412)	441,863
NM Military Institute LFC/VC Maintenance Endowment		433,045	-	-	(141,035)	292,010
NM Military Institute Patterson Account		390,272	-	-	(127,104)	263,168
NM Military Institute Trust Scholarship		501,633	-	-	(163,374)	338,259
NM Public Regulation Commission - Patients' Comp. Fund		1,170,228	-	-	(381,121)	789,107
NM Public Schools Insurance Authority - Benefits		1,220,771	-	-	(397,584)	823,187
NM Public Schools Insurance Authority - Risk		813,862	-	-	(265,061)	548,801
NM Retiree Health Care Authority		34,045,167	-	-	(11,087,919)	22,957,248
NM School for the Blind and Visually Impaired		1,156,288	-	(1,121,413)	(34,875)	-
Springer Municipal School District		33,190	-	-	(10,810)	22,380
NM Highlands University - Endowment Fund		190,963	-	-	(62,193)	128,770
		\$ 55,330,367	445,275	(2,351,556)	(17,311,034)	\$ 36,113,052

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS  
Year ended June 30, 2009

For fiscal year ended June 30, 2009, activity by participating agency was as follows:

Participant	Non U.S. Emerging Markets Pool	Beginning Balance June 30, 2008	Contributions	Withdrawals	Net Investment income (loss)	Ending Balance June 30, 2009
Eastern New Mexico University		\$ 174,221	-	-	(54,873)	\$ 119,348
Eastern New Mexico University - Endowment		158,639	-	(135,112)	(23,527)	-
Eastern New Mexico University - Restricted		3,714	-	(3,167)	(547)	-
Los Alamos County - Cemetery		31,206	7,283	-	(5,811)	32,678
Los Alamos County - General Fund		695,914	162,398	-	(129,871)	728,441
Los Alamos County - Permanent Fund		1,000,993	233,509	-	(186,876)	1,047,626
NM Children's, Youth, Family Department Next Generation Fund		12,155	-	-	(3,830)	8,325
NM Children's, Youth, Family Department Trust Fund		12,155	-	-	(3,830)	8,325
NM Department of Game and Fish		57,496	-	-	(18,110)	39,386
NM Higher Education Department		2,904,146	-	(36,266)	(936,516)	1,931,364
NM Military Institute - Legislative Scholarship		183,240	-	-	(57,714)	125,526
NM Military Institute LFC/VC Maintenance Endowment		108,333	-	-	(34,121)	74,212
NM Military Institute Patterson Account		98,108	-	-	(30,901)	67,207
NM Military Institute Trust Scholarship		126,131	-	-	(39,726)	86,405
NM Public Regulation Commission - Patients' Comp. Fund		744,487	-	-	(234,485)	510,002
NM Public Schools Insurance Authority - Benefits		2,046,407	-	-	(644,540)	1,401,867
NM Public Schools Insurance Authority - Risk		1,364,239	-	-	(429,681)	934,558
NM Retiree Health Care Authority		8,407,215	-	-	(2,647,950)	5,759,265
NM School for the Blind and Visually Impaired		452,672	-	(420,833)	(31,839)	-
Springer Municipal School District		36,030	-	-	(11,349)	24,681
NM Highlands University - Endowment Fund		121,937	-	-	(38,408)	83,529
		\$ 18,739,438	403,190	(595,378)	(5,564,505)	\$ 12,982,745



STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS  
June 30, 2009

Exhibit 4  
Page 1 of 2

Depository Institution	Account Name	Deposit Type	Balance Per Books	Balance per Statement
<b>Admin Fund</b>				
<i>Cash and Cash Equivalents.</i>				
NM STO	Fund 173 - General Administrative Fund	Interest in SGFIP	\$ 14,279,750	14,279,750
	<b>Total Admin Fund</b>		<b>14,279,750</b>	<b>14,279,750</b>
<b>Fiduciary Funds</b>				
<i>Cash and Cash Equivalents</i>				
NM STO	Fund 601 - Land Grant Permanent Fund	Interest in SGFIP	21,893,765	21,893,765
NM STO	Fund 602 - Severance Tax Permanent Fund	Interest in SGFIP	18,436	18,436
Northern Trust	Land Grant Permanent Fund	Money Market	184,538,108	184,538,108
Northern Trust	Land Grant Holdings	Money Market	1,081,650	1,081,650
Northern Trust	Severance Tax Permanent Fund	Money Market	36,746,270	36,746,270
Northern Trust	ST NMSU Equity	Money Market	260,864	260,864
Northern Trust	ST UNM Equity	Money Market	3,437,123	3,437,123
Northern Trust	Severance Tax Holdings	Money Market	463,564	463,564
Northern Trust	Tobacco Settlement Permanent Fund	Money Market	45,204,449	45,204,449
Northern Trust	Water Trust Fund	Money Market	11,892,233	11,892,233
Northern Trust	State Unemployment Trust Fund	Money Market	77,042,532	77,042,532
Northern Trust	All Cap SIC Managed	Money Market	2,916,741	2,916,741
Northern Trust	Alliance Bernstein	Money Market	1,248,777	1,248,777
Northern Trust	Alliance Bernstein EM	Money Market	10,726,251	10,726,251
Northern Trust	Beekman	Money Market	20,350,478	20,350,478
Northern Trust	Carret Asset Management	Money Market	14,570,898	14,570,898
Northern Trust	Credit and Structured Finance Cash	Money Market	61,204,462	61,204,462
Northern Trust	Citigroup	Money Market	6,850,919	6,850,919
Northern Trust	Denali	Money Market	589,360	589,360
Northern Trust	Earnest Partners (Mid Cap)	Money Market	8,272,456	8,272,456
Northern Trust	Earnest Partners (Small Cap)	Money Market	2,825,761	2,825,761
Northern Trust	First Quadrant	Money Market	1,267,933	1,267,933
Northern Trust	Fixed Income Pool	Money Market	156,923,958	156,923,958
Northern Trust	Fox	Money Market	6,076,047	6,076,047
Northern Trust	Hedge Fund Pooled Cash Account	Cash	243,261,149	243,261,149
Northern Trust	Hester	Money Market	39,264,636	39,264,636
Northern Trust	Jarislowky Fraser	Money Market	43,925	43,925
Northern Trust	S&P 500 Active Pool	Money Market	48,858,894	48,858,894
Northern Trust	Large Cap ETF Pool	Money Market	797,017	797,017
Northern Trust	Lombardia	Money Market	506,732	506,732
Northern Trust	Mid/Small Cap ETF	Money Market	195,902	195,902
Northern Trust	Non-US SIC Managed	Money Market	3,736	3,736
Northern Trust	S&P Active Derivatives	Money Market	115,285,640	115,285,640
Northern Trust	S&P Index 500 Derivatives	Money Market	529,106	529,106
Northern Trust	S&P Index 500 Pool	Money Market	20,351,617	20,351,617
Northern Trust	S&P Index ETF Pool	Money Market	346,114	346,114
Northern Trust	Simms	Money Market	14,438,236	14,438,236
Northern Trust	Simms	Money Market	9,402,728	9,402,728
Northern Trust	Thornburg	Money Market	5,752,848	5,752,848
	<b>Total Fiduciary Funds</b>		<b>1,175,441,315</b>	<b>1,175,441,315</b>

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS (CONTINUED)  
June 30, 2009

Exhibit 4  
Page 2 of 2

Depository Institution	Account Name	Deposit Type	Balance Per Books	Balance per Statement
<i>Investments on Deposit</i>				
Northern Trust	Alliance Bernstein	Equity	\$ 438,498,834	\$ 438,498,834
Northern Trust	Alliance Bernstein EM	Equity	450,953,090	450,953,090
Northern Trust	Beckman	Equity	289,972,931	289,972,931
Northern Trust	Citigroup	Equity	335,133,760	335,133,760
Northern Trust	Denali	Equity	168,966,952	168,966,952
Northern Trust	Earnest Partners (Mid Cap)	Equity	292,409,252	292,409,252
Northern Trust	Earnest Partners (Small Cap)	Equity	108,894,761	108,894,761
Northern Trust	First Quadrant	Equity	362,760,089	362,760,089
Northern Trust	Fox	Equity	118,325,128	118,325,128
Northern Trust	Hester	Equity	196,699,030	196,699,030
Northern Trust	Jarislowsky Fraser	Equity	407,301	407,301
Northern Trust	S&P 500 Active Pool	Equity	1,035,487,687	1,035,487,687
Northern Trust	Large Cap Active ETF Pool	Equity	27,583,982	27,583,982
Northern Trust	Lombardia	Equity	353,794,226	353,794,226
Northern Trust	Mid/Small Cap ETF	Equity	6,813,647	6,813,647
Northern Trust	S&P Index 500 Pool	Equity	822,762,712	822,762,712
Northern Trust	S&P Index 500 ETF Pool	Equity	16,145,748	16,145,748
Northern Trust	Simms	Equity	174,718,550	174,718,550
Northern Trust	Simms	Equity	114,203,031	114,203,031
Northern Trust	Thornburg	Equity	381,337,959	381,337,959
Northern Trust	Carret	Equity	184,711,100	184,711,100
Northern Trust	Fixed Income Pool	Core Bonds	1,810,571,266	1,810,571,266
Northern Trust	SIC Managed All Cap	Equity	274,832,280	274,832,280
	<i>Total Investments on Deposit</i>		<u>7,965,983,316</u>	<u>7,965,983,316</u>
<i>Other Investments</i>				
Northern Trust	Structured Credit Finance	Structured Credit	177,723,488	177,723,489
Northern Trust	Altair Stars	Hedge Investments	93,667,072	93,667,072
Northern Trust	Austin	Hedge Investments	179,223,801	179,223,801
Northern Trust	Benchmark Plus	Hedge Investments	9,537,206	9,537,206
Northern Trust	Circle T Explorer	Hedge Investments	94,632,195	94,632,195
Northern Trust	Crestline Investors	Hedge Investments	199,564,982	199,564,982
Northern Trust	CT Preferred Investors	Hedge Investments	37,256,220	37,256,220
Northern Trust	EIM Fund of Fund	Hedge Investments	102,782,704	102,782,704
Northern Trust	Entrust	Hedge Investments	24,894,838	24,894,838
Northern Trust	K2 Advisors	Hedge Investments	52,281,739	52,281,739
Northern Trust	K2 Alternative	Hedge Investments	46,878,750	46,878,750
Northern Trust	Guggenheim	Hedge Investments	101,956,368	101,956,368
Northern Trust	Mariner Select	Hedge Investments	106,250,342	106,250,342
Northern Trust	Tag Relative Value Offshore	Hedge Investments	99,877,292	99,877,292
Northern Trust	Vintage-HFV Multi-Strategy	Hedge Investments	130,247,386	130,247,386
N/A	Various	Securities on Loan	496,093,535	496,093,535
N/A	Various	NMSU Equity	2,838,946	2,838,946
N/A	Various	Government Sponsored Entities	55,674,636	55,674,636
N/A	Various	Direct Equity Investment	4,868,150	4,868,150
N/A	Various	Mortgages and Mortgage Certificates	146,964	146,964
N/A	Various	Private Equity Investments	1,247,075,013	1,247,075,014
N/A	Various	Real Estate Holding	436,702,785	436,702,785
N/A	Various	Film Loans	101,175,424	101,175,425
	<i>Total Other Investments</i>		<u>3,801,349,836</u>	<u>3,801,349,839</u>
	<i>Total Fiduciary Fund Investments</i>		<u>11,767,333,152</u>	<u>11,767,333,152</u>
	<i>Total Fiduciary Fund Cash and Investments</i>		<u>\$ 12,942,774,467</u>	<u>\$ 12,942,774,467</u>

**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 Honorable Bill Richardson, Chairman  
and Members of the State Investment Council  
and Mr. Hector H. Balderas, State Auditor

We have audited the accompanying financial statements of the governmental activities, general fund, the general fund budget comparison, and each fiduciary fund of the State of New Mexico Investment Council – Investment Office (Office) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 07-01 to be a significant deficiency in internal control over financial reporting.

The Honorable Bill Richardson, Chairman  
and Members of the State Investment Council  
and Mr. Hector H. Balderas, State Auditor

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

#### Compliance and Other Matters

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

The Office's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Office management, the State Investment Council, the Office of the State Auditor, the New Mexico Department of Finance and Administration, the New Mexico State Legislature, or its committees, and is not intended to be and should not be used by anyone other than these specified parties.

*Moss Adams LLP*

Albuquerque, New Mexico  
December 10, 2009

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
June 30, 2009

Description	Status
07-1 Use of General Ledger Software	Repeated

STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
CURRENT YEAR FINDINGS AND RESPONSES  
June 30, 2009

07-1 Use of General Ledger Software

CONDITION

As noted in the previous two fiscal years, the Council records, reconciles, and reports investment balances using Microsoft Excel. Software is utilized to maintain inventories of balances; however, the software is not a double entry accounting system. Double entry accounting is primarily performed in Excel and is maintained in various electronic files.

CRITERIA

Per the State Auditor Rule 2.2.2.10 J, Section 12-6-5, NMSA 1978 states that any violation of good accounting practices be included in the annual audit report.

EFFECT

The use of Microsoft Excel increases the risk for errors in linkage and rollforwards of accounts, which increases the risk of misstatement.

CAUSE

The nature of operations of the Council are not conducive to the use of standard off-the-shelf accounting software packages. The Council has not yet identified a custom package that would be suitable for their needs.

RECOMMENDATION

We recommend management select and implement a general ledger software package as soon as is practical.

MANAGEMENT RESPONSE

The State Investment Office accounting staff has met numerous times with various vendors of general ledger software during fiscal years 2008 and 2009, and continues to actively search for a general ledger software package that will accommodate the specific needs of the agency.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -  
INVESTMENT OFFICE  
EXIT CONFERENCE  
June 30, 2009**

An exit conference was held on December 3, 2009, and attended by the following:

**New Mexico State Investment Council**

Robert Jaksha, Interim State Investment Officer  
Rick Scroggins, Chief Financial Officer  
Cyndy Lynch, Investment Accounting Manager  
Pamela Hamilton, Financial Auditor  
Peter Frank, Public Member  
Stephen Feinberg, Public Member  
Andrew Davis, Public Member  
Patrick Lyons, Commissioner of Public Lands, Ex Officio Member

**Moss Adams LLP**

Brandon Valentini, Partner  
Julie Alliman, Manager

**Financial Statement Preparation**

The financial statements were prepared with the assistance of Moss Adams LLP.