

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

FINANCIAL STATEMENTS

JUNE 30, 2011

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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TABLE OF CONTENTS

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

OFFICIAL ROSTER..... 1

REPORT OF INDEPENDENT AUDITORS..... 2

MANAGEMENT’S DISCUSSION AND ANALYSIS 4

BASIC FINANCIAL STATEMENTS

 Statement of Net Assets (Deficit).....13

 Statement of Activities14

 Balance Sheet General Administrative Fund.....15

 Reconciliation of the General Administrative Fund
 Balance Sheet to the Statement of Net Assets (Deficit)16

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

 Reconciliation of Change in Net Assets (Deficit) per
 Statement of Activities to Net Change in Fund
 Balance per Statement of Revenues, Expenditures,
 and Changes in Fund Balance18

 Budget Comparison – Statement for the General
 Administrative Fund19

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	70

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

**Official Roster
Governing Board
June 30, 2011**

Name	Position
The Hon. Susana Martinez, Governor	<i>Ex officio</i> member, Chair
Richard May, Secretary of the Department of Finance and Administration	<i>Ex officio</i> member
The Hon. James B. Lewis, State Treasurer	<i>Ex officio</i> member
The Hon. Ray Powell, State Land Commissioner	<i>Ex officio</i> member
Scott Smart, V.P. of Business Affairs Eastern New Mexico University	Public Member, Governor's Appointment
Douglas M. Brown	Public Member, Governor's Appointment
Peter Frank	Public Member, Legislative Appointment
Leonard Lee Rawson	Public Member, Legislative Appointment
Michael R. Martin	Public Member, Legislative Appointment

Report of Independent Auditors

The Honorable Susana Martinez, Chair
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, 2011, 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, 2011, 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.

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, 2011, and the

The Honorable Susana Martinez, Chair
and Members of the State Investment Council
and Mr. Hector H. Balderas, State Auditor

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 22, 2011 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 accounting principles generally accepted in the United States of America. 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.

Mess Adams LLP

Albuquerque, New Mexico
December 22, 2011

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011**

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, 2011, 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 external, governmental clients. As a result, these amounts are paid by the funds and clients based on relative market values managed. Accordingly, there tends to be little change in the net assets of the Office.

The assets for the primary agency 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 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

Statement of Net Assets

	2011	2010
Assets		
Interest in State Treasurer General Fund		
Investment Pool	\$ 23,087,277	8,036,362
Due from clients	883,078	265,563
Capital assets, net	<u>43,230</u>	<u>34,094</u>
Total assets	<u>\$ 24,013,585</u>	<u>8,336,019</u>
Liabilities		
Due to Land Grant Permanent Fund	\$ 13,563,386	2,773,775
Due to Severance Tax Permanent Fund	5,312,882	1,188,761
Accounts payable	4,998,424	4,258,683
Accrued payroll	95,663	80,706
Accrued vacation and sick pay	<u>158,413</u>	<u>115,086</u>
Total liabilities	<u>\$ 24,128,768</u>	<u>8,417,011</u>
Net Assets		
Invested in capital assets	\$ 43,230	34,094
Unrestricted	<u>(158,413)</u>	<u>(190,856)</u>
Total net assets (deficit)	<u>\$ (115,183)</u>	<u>(156,762)</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2011**

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 fund beneficiaries and clients.

Decrease in Expenses and Revenues

The primary decrease in expenditures for fiscal year 2011 has been in external legal 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

	2011	2010
Expenses		
General government	<u>\$ 23,022,793</u>	31,454,985
Revenues		
Program revenues		
Fees from external investment trust participants	883,883	1,479,158
Transfers		
Interfund services provided		
Land Grant Permanent Fund	15,526,343	21,018,875
Severance Tax Permanent Fund	<u>6,654,146</u>	<u>9,008,089</u>
Total program revenues and transfer	23,064,372	31,506,122
Change in net assets (deficit)	41,579	51,137
Net assets (deficit) at beginning of year	<u>(156,762)</u>	<u>(207,899)</u>
Net assets (deficit) at end of year	<u>\$ (115,183)</u>	<u>(156,762)</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2011**

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

	2011	2010	Increase/ (Decrease)
Total Revenues/Expenditures			
Revenues from external trust participants	<u>\$ 883,883</u>	<u>1,479,158</u>	<u>(40.2%)</u>
Expenditures			
Personnel services and benefits	3,356,175	3,581,962	(6.3%)
Contractual services and custody fees	19,108,197	27,257,844	(29.9%)
Other – Operating expenses	<u>600,000</u>	<u>666,316</u>	<u>(10.0%)</u>
Total expenditures	<u>\$ 23,064,372</u>	<u>31,506,122</u>	<u>(26.8%)</u>

The Office expenditures for fiscal year 2011 decreased in total, primarily due to decreased litigation expenses. Personnel costs decreased slightly over fiscal year 2011, while the operating expenses decreased 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 \$12.8 million.

Financial Highlights – Fiduciary Funds

The primary governmental activity for the Office is the administration and management of four State of New Mexico permanent funds—the Land Grant Permanent Fund (LGPF), the Severance Tax Permanent Fund (STPF), the Tobacco Settlement Permanent Fund (TSPF), and the Water Trust Fund (WTF). The State Investment Office, which is responsible for carrying out the investment management policies of the State Investment Council, also provides similar services to 17 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 Office's mission is to protect and grow the State's permanent (endowment) funds for current and future generations, through prudent, professional investment management – with a vision of becoming one of the best performing, most respected sovereign wealth funds worldwide. 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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2011**

In September 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 increased to 5.8%.
- For fiscal years 2013-2016, distributions decrease to 5.5%.
- Beginning fiscal year 2017, distributions decrease to 5.0%.

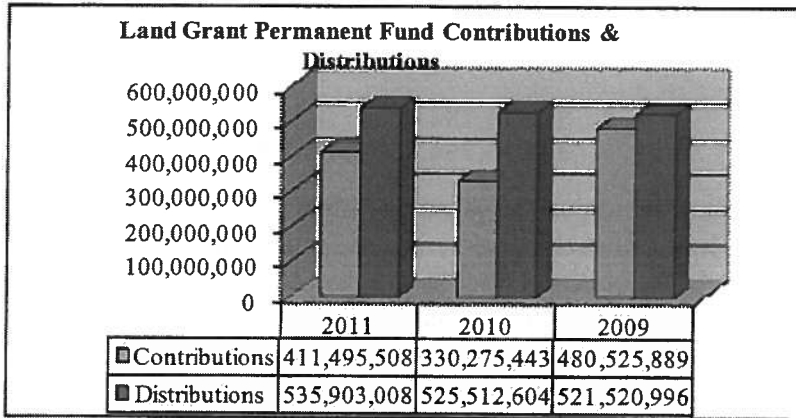
The TSPF distribution was originally established for the Tobacco Settlement Permanent Fund at 50% of the prior year's contributions from legal settlement with certain tobacco companies. In April 2003, the New Mexico State Legislature changed the Tobacco Settlement Permanent Fund distribution. Based on this change, in fiscal years 2003 through 2006 the distribution was increased to 100% of the current year contributions, and the distribution went to the State General Fund rather than the Tobacco Settlement Permanent 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 2010 and 2011 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 \$21,440,254 and \$21,659,932 for the years ended June 30, 2011 and 2010, respectively.

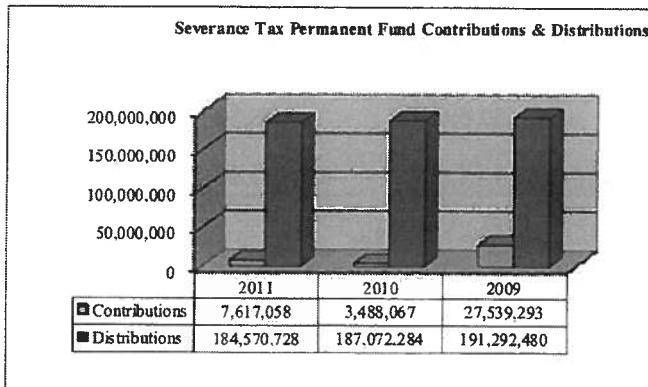
The Land Grant Permanent Fund contributions from the State Land Office (mineral royalties and income from land grants) for fiscal year 2011 increased 24.6% from the fiscal year 2010. Distributions to the beneficiaries of the fund increased 2.0% from the prior year.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2011**

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



Severance Tax Permanent Fund contributions are received from the Severance Tax Bonding Fund. Severance tax revenues first pay the required debt service on severance tax bonds issued by the State. Amounts transferred from the Severance Tax Bonding Fund to the Severance Tax Permanent Fund increased from \$3.5 million in fiscal year 2010 to \$7.6 million in fiscal year 2011. Distributions to the State General Fund in fiscal year 2011 decreased 1.3% from the previous year.



The Tobacco Settlement Permanent Fund distribution was \$37.5 million to the State General Fund in fiscal year 2011, 100% of the amount of contributions to the tobacco settlement trust funds received in fiscal year 2011.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2011**

The amounts presented below for fiscal year 2011 indicate actual receipts and differ from the total contributions and distributions for fiscal year 2011 shown in the Fiduciary Funds Statement of Net Assets because of the presentation requirements of GASB Technical Bulletin 2004-1.

	2011	2010	2009
Tobacco Settlement Permanent Fund			
Contributions	\$ 37,515,754	40,164,708	50,985,919
Distributions	37,515,754	40,164,708	50,985,919

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 water projects. 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, 2011, the WTPF was \$49.7 million.

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

	2011 <u>Net Assets</u>	2010 <u>Net Assets</u>	<u>Change</u>
Net Assets:			
Land Grant Permanent Fund	\$10,766,530,632	8,886,904,230	21.2%
Severance Tax Permanent Fund	3,966,034,159	3,379,772,625	17.3%
Tobacco Settlement Permanent	148,798,796	132,805,921	12.0%
Water Trust Fund	49,657,986	46,831,249	6.0%
State Unemployment Trust Fund	-	117,801,155	(100%)
Total private purpose trust funds	<u>14,931,021,573</u>	<u>12,564,115,180</u>	<u>18.8%</u>
External client trust funds	<u>521,114,000</u>	<u>435,521,493</u>	<u>19.7%</u>
Total net fiduciary funds	<u>\$15,452,135,573</u>	<u>12,999,636,673</u>	<u>18.9%</u>

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2011**

The Office manages a portion of the large capitalization U.S. stocks and the New Mexico economically targeted investments for loans and certificates of deposits using staff portfolio managers. Real estate and private equity 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.

Government-Wide Financial Statements

The government-wide financial statements provide readers with a broad overview of the Office's finances in a manner similar to a private-sector business. The statement of net assets presents information on all of the Office's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the Office is improving or deteriorating. The statement of activities presents information showing how the Office's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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 Office, 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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2011**

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.

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 \$12.3 million in contractual services that were not expended.

Statutory Changes to the Council and its Powers

In FY 2011, the legislature passed and the Governor signed Senate Bill 86, legislation authorizing the office to retain contingent fee attorneys. Other notable FY 2011 legislation included:

- SB 82, which removed the State Investment Officer or designees from four governmental agency boards; and
- HB 52, which allows greater discretion in investing the TSPF.

Economic Outlook

The Land Grant Permanent fund finished fiscal year 2011 with a return of 22.5%; one of the highest fiscal year returns in the fund's history. The Severance Tax Permanent fund finished slightly better at 22.6%, also one of the highest fiscal year returns in that fund's history.

The investment strategy of the permanent funds is one that seeks to gain from the long-term performance of the financial markets and underlying economy. The funds are presently in the process of further diversification from that begun in fiscal 2006, particularly in moving from publicly-traded assets (primarily stocks and bonds), to privately held assets (such as real estate, private equity and real assets), and from publicly-traded equity investments (the stock market) to a more diversified mix of income-producing and less volatile investments.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2011**

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 (DEFICIT)
June 30, 2011**

	Governmental Activities
ASSETS	
Investment in State Treasurer General Fund Investment Pool	\$ 23,087,277
Accounts receivable	883,078
Capital assets, net	43,230
Total assets	<u>\$ 24,013,585</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Due to Land Grant Permanent Fund	\$ 13,563,386
Due to Severance Tax Permanent Fund	5,312,882
Accounts payable	4,998,424
Accrued payroll	95,663
Accrued vacation and sick pay, current	158,413
Total current liabilities	<u>24,128,768</u>
Net Assets (Deficit)	
Invested in capital assets	43,230
Unreserved	<u>(158,413)</u>
Total net assets (deficit)	<u>(115,183)</u>
Total liabilities and net assets (deficit)	<u>\$ 24,013,585</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011**

	Governmental Activities
Expenses	
General government	<u>\$ 23,022,793</u>
Revenues	
Program revenues	
Fees from external investment trust participants and other revenue	883,883
Transfers	
Interfund services provided	
Land Grant Permanent Fund	15,526,343
Severance Tax Permanent Fund	<u>6,654,146</u>
Total program revenues and transfers	<u>23,064,372</u>
Change in net assets (deficit)	41,579
Net assets (deficit) at beginning of year	<u>(156,762)</u>
Net assets (deficit) at end of year	<u><u>\$ (115,183)</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
BALANCE SHEET
GENERAL ADMINISTRATIVE FUND
June 30, 2011**

ASSETS

Investment in State Treasurer General Fund Investment Pool	\$ 23,087,277
Accounts receivable	883,078
Total assets	<u>\$ 23,970,355</u>

LIABILITIES AND FUND BALANCE

Liabilities	
Due to Land Grant Permanent Fund	\$ 13,563,386
Due to Severance Tax Permanent Fund	5,312,882
Accounts payable	4,998,424
Accrued payroll	95,663
Total liabilities	<u>23,970,355</u>
Fund Balance	
Unassigned	-
Total liabilities and fund balance	<u>\$ 23,970,355</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 (DEFICIT)
June 30, 2011**

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	43,230
Some liabilities are not due and payable in the current period and therefore are not reported in the fund.	
Accrued vacation and sick pay	<u>(158,413)</u>
Net assets (deficit) of governmental activities	<u><u>\$ (115,183)</u></u>

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, 2011**

Revenues from external investment trust participants and other revenue	\$ 883,883
Expenditures	
Current	23,044,292
General government	
Capital outlay	20,080
Total expenditures	<u>23,064,372</u>
Deficiency of revenues under expenditures	<u>(22,180,489)</u>
Other financing sources	
Interfund services provided	
Land Grant Permanent Fund	15,526,343
Severance Tax Permanent Fund	6,654,146
Net other financing sources	<u>22,180,489</u>
Net change in fund balance	-
Fund balance at beginning of year	-
Fund balance at end of year	<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, 2011**

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).

Decrease in accrued vacation and sick pay liability 32,443

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	\$ 20,080	
Depreciation expense	(10,944)	
Excess of capital asset additions over depreciation expense		9,136

Change in net assets (deficit) of governmental activities \$ 41,579

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, 2011**

	Original Budget	Final Budget	Actual Revenue/ Expenditures	Variance Positive/ (Negative)
Revenues from external investment trust participants	\$ 950,000	950,000	883,883	(66,117)
Expenditures				
Personnel services and benefits	3,582,100	3,582,100	3,356,175	225,925
Contractual services	30,071,100	31,446,887	19,108,197	12,338,690
Other - operating expenses	824,400	824,400	600,000	224,400
Total expenditures	34,477,600	35,853,387	23,064,372	12,789,015
Expenditures in excess of revenues	(33,527,600)	(34,903,387)	(22,180,489)	12,722,898
Transfers				
Interfund transfers in				
Land Grant Permanent Fund	23,469,320	24,432,371	15,526,343	
Severance Tax Permanent Fund	10,058,280	10,471,016	6,654,146	
Total transfers	33,527,600	34,903,387	22,180,489	
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, 2011

	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	State Unemployment Trust Fund	Water Trust Fund	Water Trust Fund	Water Trust Fund	Water Trust Fund	Water Trust Fund				
ASSETS														
Cash and cash equivalents	\$ 394,947,612	105,827,410	48,370,772	5,286,873	-	-	-	-	-	-	12,396,381	566,829,048		
Investment in state treasurer general fund investment pool	44,708,080	66,294	-	-	-	-	-	-	-	-	44,774,374	44,774,374		
Due from brokers	341,110,637	63,261,373	3,029,113	1,008,141	-	-	-	-	-	-	19,405,826	427,815,090		
Due from custodian	100,240	34,249	872	386	-	-	-	-	-	-	14,003	149,750		
Due from general administrative fund	13,563,386	5,312,882	-	-	-	-	-	-	-	-	-	18,876,268		
Due from other state agencies	25,174,423	7,617,058	-	-	-	-	-	-	-	-	7,617,058	32,791,481		
Accrued investment income	-	9,531,740	339,884	150,262	-	-	-	-	-	-	2,318,293	37,514,602		
Accrued tobacco settlement income	-	-	21,440,254	-	-	-	-	-	-	-	-	21,440,254		
	819,604,378	191,651,006	73,180,895	6,445,662	-	-	-	-	-	-	34,134,503	1,125,016,444		
Investments														
Government-sponsored enterprise and agency issues (GSE)	-	41,567,045	-	-	-	-	-	-	-	-	-	41,567,045		
Corporate bonds	-	1,276,062	-	-	-	-	-	-	-	-	-	1,276,062		
Investment pools														
Core bonds	1,937,591,043	728,685,302	33,391,435	14,946,198	-	-	-	-	-	-	209,910,554	2,924,524,532		
Large cap. active	2,962,901,291	1,148,962,794	32,266,870	17,324,141	-	-	-	-	-	-	65,403,724	4,226,858,820		
Large cap. active ETF	3,739,797	-	-	-	-	-	-	-	-	-	37,244,474	40,984,271		
Large cap. index	955,235,875	88,712,824	5,801,999	-	-	-	-	-	-	-	52,666,087	1,102,416,785		
Large cap index ETF	2,595,207	-	-	-	-	-	-	-	-	-	20,585,323	23,180,530		
Mid/Small cap.	557,955,063	204,791,564	12,241,299	5,483,865	-	-	-	-	-	-	39,142,885	819,614,676		
Mid/Small cap. ETF	4,239,102	-	-	-	-	-	-	-	-	-	780,471,791	784,710,894		
Non-U.S. developed markets	1,019,372,051	348,063,052	6,682,956	2,727,509	-	-	-	-	-	-	15,384,007	1,376,845,568		
Non-U.S. emerging markets	536,456,061	178,307,233	3,963,587	1,771,821	-	-	-	-	-	-	49,596,089	754,000,267		
Hedge funds	621,501,675	119,775,113	9,100,917	3,622,562	-	-	-	-	-	-	40,639,484	761,138,186		
National Private Equity Pool	27,217,147	9,072,376	-	-	-	-	-	-	-	-	-	36,289,523		
Structured Credit	348,960,733	138,929,215	-	-	-	-	-	-	-	-	487,889,948	487,889,948		
Preferred stock - private	2,557,492	1,463,297	-	-	-	-	-	-	-	-	1,463,297	4,020,789		
Common stock - public	-	1,661,034	-	-	-	-	-	-	-	-	-	1,661,034		
Conventional mortgage pass-through certificates	-	74,367	-	-	-	-	-	-	-	-	-	74,367		
Private equity	1,003,453,164	681,730,716	-	-	-	-	-	-	-	-	-	1,685,183,880		
Treasury bonds	140,653,100	-	-	-	-	-	-	-	-	-	-	140,653,100		
Real estate	377,701,123	183,548,123	-	-	-	-	-	-	-	-	-	561,249,246		
New Mexico film investments	-	60,000,000	-	-	-	-	-	-	-	-	-	60,000,000		
UNIM fixed income	-	1,981,351	-	-	-	-	-	-	-	-	-	1,981,351		
UNIM Equity	-	2,843,745	-	-	-	-	-	-	-	-	-	2,843,745		
NMSU Equity	-	3,947,944	-	-	-	-	-	-	-	-	-	3,947,944		
Total investments	10,502,129,924	3,945,393,157	103,449,063	45,876,096	-	-	-	-	-	-	530,572,627	15,127,420,867		
Total assets	11,321,734,302	4,137,044,163	176,629,958	52,321,758	-	-	-	-	-	-	564,707,130	16,252,437,311		
LIABILITIES														
Liabilities														
Due to brokers	255,110,990	60,256,245	2,962,821	989,707	-	-	-	-	-	-	20,186,577	339,506,340		
Due to custodian	255,434,096	95,372,865	3,253,005	1,592,973	-	-	-	-	-	-	22,610,272	378,263,211		
Due to other state agencies	-	-	21,615,336	81,092	-	-	-	-	-	-	796,281	22,492,709		
Distributions payable to beneficiaries	44,658,584	15,380,894	-	-	-	-	-	-	-	-	-	60,039,478		
Total liabilities	555,203,670	171,010,004	27,831,162	2,663,772	-	-	-	-	-	-	43,593,130	800,301,738		
NET ASSETS														
Net assets held in trust	\$ 10,766,530,632	3,966,034,159	148,798,796	49,657,986	-	-	-	-	-	-	521,114,000	15,452,135,573		

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, 2011

	Private-Purpose Trust Funds							Total
	Land Grant Permanent Fund	Severance Tax Permanent Fund	Tobacco Settlement Permanent Fund	Water Trust Fund	State Unemployment Trust Fund	Total Private-Purpose Trust Funds	External Investment Trust Funds	
Additions								
Contributions to external investment trust funds								51,276,093
Investment earnings	238,963,617	83,948,664	2,230,252	979,094		326,121,627	14,357,903	340,479,530
Interest and dividends	1,781,857,627	687,584,035	13,762,623	5,847,643		2,489,051,928	67,794,110	2,556,846,038
Net increase in fair value of investments	2,020,821,244	771,532,699	15,992,875	6,826,737		2,815,173,555	82,152,013	2,897,325,568
Total investment gain								2,897,325,568
Total additions	2,020,821,244	771,532,699	15,992,875	6,826,737		2,815,173,555	133,428,106	2,948,601,661
Deductions								
Distributions from external investment trust funds								46,952,490
Interagency transfers (in) out								
Distributions to beneficiaries of the								
Land Grant Permanent Fund	535,903,008					535,903,008		535,903,008
Distributions to State General Fund by the		184,570,728				184,570,728		184,570,728
Severance Tax Permanent Fund								
Distribution to beneficiary of the			37,515,754			37,515,754		37,515,754
Tobacco Settlement Permanent Fund								
Distribution to beneficiary of the				4,000,000		4,000,000		4,000,000
Water Permanent Fund								
Distribution to beneficiary of the					117,801,155	117,801,155		117,801,155
State Unemployment Permanent Fund								
State Land Office	(411,495,508)					(411,495,508)		(411,495,508)
Severance Tax Bonding Fund		(7,617,058)				(7,617,058)		(7,617,058)
Tobacco settlement proceeds			(37,515,754)			(37,515,754)		(37,515,754)
State Unemployment Permanent Fund								
Interfund services used								
General Administrative Fund	15,526,343	6,654,146				22,180,489		22,180,489
Internal service fees	1,260,999	1,663,349				2,924,348	883,109	3,807,457
Net deductions	141,194,842	185,271,165		4,000,000	117,801,155	448,267,162	47,835,599	496,102,761
Change in net assets	1,879,626,402	586,261,534	15,992,875	2,826,737	(117,801,155)	2,366,906,393	85,592,507	2,452,498,900
Net assets at beginning of year	8,886,904,230	3,379,772,625	132,805,921	46,831,249	117,801,155	12,564,115,180	435,521,493	12,999,636,673
Net assets at end of year	\$ 10,766,530,632	\$ 3,966,034,159	\$ 148,798,796	\$ 49,657,986	\$ -	\$ 14,931,021,573	\$ 521,114,000	\$ 15,452,135,573

See Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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 eleven members: the Governor, the State Treasurer, the Commissioner of Public Lands, the Secretary of the Department of Finance and Administration (DFA), four public members appointed by the Legislative Council, and three public members appointed by the Governor, one which must be the Chief Financial Officer of a State institution of higher education. 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. At June 30, 2011, the Office no longer managed the State Unemployment 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, 2011**

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. 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.

In 2009, State Bill 79 amended Section 6-4-9 NMSA 1978 related to the Tobacco Settlement Permanent Fund. This legislation temporarily changes the distribution of this fund as follows: in fiscal years 2009 through 2010, 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 2011 and in each fiscal year 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

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. ORGANIZATION AND BACKGROUND (CONTINUED)

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, 2011, 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 (4.7 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 48th 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. The Office also

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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 current fiscal year end. 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 Department of Finance and Administration.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Reservations and Designations. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or, in some cases, by legislation.

The Office's fund balances represent: 1) Restricted Purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned Purposes, which includes balances that are constrained by the government's intent to be used for specific purposes but are neither restricted or committed. As of June 30, 2011, there was no fund balance, and therefore, there were no reserves.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, restricted fund balance must be spent first. When expenditures are incurred for purposes for which amounts in any of unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts and then unassigned amounts.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2011 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.

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, and Structured Credit investment pools. The pools are detailed as follows:

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Large Cap Active Pool is managed internally and by five 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 externally by three managers 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 value over the returns of the broad U.S. bond market at similar levels of volatility. 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 two 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 one external 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.

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, 2011, the fund had one active external manager.

The Absolute Return Pool is managed by 13 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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Private Equity. Private equity investments are recorded at estimated fair value as reported by the general partner fund managers. 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.

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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2011, \$13,563,386 and \$5,312,882 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 J.P. Morgan 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, encumbrances no longer remain outstanding at year end as any remaining amounts are reverted. As a result, there are no differences between measurement focus at June 30, 2011.

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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 3. CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits. Cash and cash equivalents are held by the custodian, J.P. Morgan. J.P. Morgan 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, 2011, the Office's cash and cash equivalent deposits were not exposed to custodial credit risk.

Investments in the STIP and Cash and cash equivalents balances as of June 30, 2011 were as follows:

	SHARE Fund	STO Funds	J.P. Morgan	Totals
General Administrative Fund	17300	\$23,087,277	-	23,087,277
Subtotal		<u>\$23,087,277</u>	-	<u>23,087,277</u>
Land Grant Permanent Fund	60100	\$44,708,080	129,114,070	173,822,150
Severance Tax				
Permanent Fund	60200	66,294	9,780,400	9,846,623
Tobacco Settlement				
Permanent Fund	95200	-	45,386,699	45,386,699
Water Permanent Fund	10120	-	3,919,387	3,919,387
Large Cap. Active Pool	09400	-	88,514,808	88,514,808
Large Cap. Index Pool	62800	-	4,236,524	4,236,524
Core Bonds Pool	77000	-	99,774,282	99,774,282
Mid/Small Cap. Pool	22000	-	47,843,458	47,843,458
Non-U.S. Developed				
Markets Pool	21800	-	12,944,195	12,944,195
Non-U.S. Emerging				
Markets Pool	61100	-	7,757,410	7,757,410
Active ETF Pool	10330	-	154,644	154,644
Index ETF Pool	10320	-	406,539	406,539
Mid/Small Cap. ETF Pool	10310	-	15,672	15,672
Absolute Return Pool	72100	-	27,446,158	27,446,158
Structured Credit Pool	20140	-	89,534,802	89,534,802
Subtotal		<u>\$44,774,374</u>	<u>566,829,048</u>	<u>611,603,422</u>
Total		<u>\$67,861,651</u>	<u>566,829,048</u>	<u>634,690,699</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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 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.

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.

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4. INVESTMENTS AND SECURITIES LENDING (CONTINUED)

The Office's investments and their exposure to credit risk at June 30, 2011 are as follows:

Investment	Rating	Fair Value
<i>Investments subject to credit risk</i>		
Mortgage Backed Securities	AAA	\$ 329,945,987
Commercial Mortgage-Backed	AAA	114,549,265
Non-Government Backed C.M.O.s	AAA	92,053,760
Asset Backed Securities	AAA	40,397,838
Corporate Bonds	AAA	12,369,130
Government Bonds	AAA	5,091,810
Corporate Bonds	AA+	24,849,254
Asset Backed Securities	AA+	19,683,120
Corporate Bonds	AA	22,214,692
Asset Backed Securities	AA	5,923,426
Non-Government Backed C.M.O.s	AA	4,968,406
Government Bonds	AA	2,707,250
Municipal Bonds	AA	695,513
Corporate Bonds	AA-	43,024,423
Municipal Bonds	AA-	9,984,125
Commercial Mortgage-Backed	AA-	4,328,718
Non-Government Backed C.M.O.s	AA-	189,480
Corporate Bonds	A	173,869,269
Commercial Mortgage-Backed	A	8,437,764
Non-Government Backed C.M.O.s	A	5,680,950
Corporate Bonds	A+	49,557,789
Municipal Bonds	A+	30,846,630
Commercial Mortgage-Backed	A+	30,686,317
Asset Backed Securities	A+	2,211,585
Corporate Bonds	A-	114,524,669
Municipal Bonds	A-	14,023,519
Commercial Mortgage-Backed	A-	11,368,323
Asset Backed Securities	A-	2,396,523
Certificate of deposit	A-1	2,100,237
Certificate of deposit	A-1+	28,298,011
Certificate of deposit	A-3	2,099,384
Corporate Bonds	BBB	101,684,826
Asset Backed Securities	BBB	12,516,508

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4. INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Investment	Rating	Fair Value
<i>Investments subject to credit risk (continued)</i>		
Commercial Mortgage-Backed	BBB	10,643,640
Government Bonds	BBB	4,945,472
Non-Government Backed C.M.O.s	BBB	2,898,914
Corporate Bonds	BBB+	106,781,195
Commercial Mortgage-Backed	BBB+	24,354,755
Asset Backed Securities	BBB+	15,578,093
Corporate Bonds	BBB-	213,556,844
Non-Government Backed C.M.O.s	BBB-	10,137,271
Commercial Mortgage-Backed	BBB-	6,704,634
Government Bonds	BBB-	2,056,500
Corporate Bonds	BB	73,158,055
Government Bonds	BB	7,869,000
Asset Backed Securities	BB	2,529,676
Corporate Bonds	BB+	26,734,371
Non-Government Backed C.M.O.s	BB+	3,949,421
Corporate Bonds	BB-	72,749,337
Corporate Bonds	B	30,192,638
Corporate Bonds	B-	15,355,506
Non-Government Backed C.M.O.s	B-	6,785,814
Corporate Bonds	B+	43,881,389
Non-Government Backed C.M.O.s	CCC	49,535,624
Asset Backed Securities	CCC	5,764,555
Corporate Bonds	CCC	4,805,464
Corporate Bonds	CCC+	3,468,312
Non-Government Backed C.M.O.s	CC	2,041,890
Non-Government Backed C.M.O.s	D	8,175,588
Investments subject to credit risk - S&P Ratings		<u>2,077,932,459</u>
<i>Investments subject to credit risk - not rated</i>		
Corporate Bonds	not rated	\$ 102,727,477
Asset Backed Securities	not rated	83,807,904
Commercial Mortgage-Backed	not rated	30,412,197
Non-Government Backed C.M.O.s	not rated	22,672,419
Government Bonds	not rated	5,000,000
Money Markets		3,428,000
Investments subject to credit risk - not rated		<u>\$ 248,047,997</u>
<i>Investments "NOT" subject to credit risk</i>		
Private Equity, Equity Securities and Real Estate		\$ 12,699,873,366
NM Film Investments		60,000,000
Government Agencies		41,567,045
Investments "NOT" subject to credit risk		<u>12,801,440,411</u>
Total Investments		<u>\$ 15,127,420,867</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 4. INVESTMENTS AND SECURITIES LENDING (CONTINUED)

A summary of the investments at June 30, 2011 and their exposure to interest rate risk are as follows:

Investment	Fair Value	Life not available	Less than 1 Year	1-5 Years	6-10 Years	Greater than 10 Years
<i>Investments subject to interest rate risk</i>						
Asset Backed Securities	\$ 190,809,226	\$ -	\$ 116,685,148	\$ 66,743,453	\$ -	\$ 7,380,625
Certificate of Deposit	32,497,633	-	32,497,633	-	-	-
Commercial Mortgage-Backed	241,485,612	-	158,854,398	-	5,261,880	77,369,334
Corporate Bonds	1,319,192,336	-	214,005,888	436,215,472	534,200,461	134,770,515
Derivatives/Interest Rate SWAP	2,353,390	(612,128)	2,949,277	16,241	-	-
Government Agencies	3,961,811	-	3,961,811	-	-	-
Government Backed C.M.O.s	33,301,296	-	-	-	-	33,301,296
Government Bonds	23,708,222	-	-	5,000,000	8,999,000	9,709,222
Government Mortgage Backed Securities	352,975,093	-	28,322,778	2,315,710	2,299,228	320,037,377
Money Market	3,428,000	3,428,000	-	-	-	-
Municipal/Provincial Bonds	55,549,788	-	-	-	1,024,902	54,524,886
Non-Government Backed C.M.O.s	175,788,242	194	73,319,758	-	25,522,893	76,945,397
U.S. Treasury Bonds/Bills/Notes	379,377,025	-	202,470,277	29,593,389	108,637,067	38,676,292
Subtotal	\$ 2,814,427,674	\$ 2,816,066	\$ 833,066,968	\$ 539,884,265	\$ 685,945,431	\$ 752,714,944

Investments not subject to interest rate risk

Securities, Equity, Real Estate, and NM Film Investments	<u>12,312,993,193</u>
Total Investments	<u>\$ 15,127,420,867</u>

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, 2011, 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 deposit's 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, 2011

NOTE 4. INVESTMENTS AND SECURITIES LENDING (CONTINUED)

A summary of the investments and cash and cash equivalents at June 30, 2011 and their exposure to foreign currency risk are as follows:

Investment	Foreign Currency	Amount	% of Total Investments
Common Stock	Australian dollar	\$ 107,380,809.00	0.68%
Common Stock	Brazilian real	54,000,288.00	0.34%
Common Stock	British pound sterling	266,238,519.00	1.69%
Common Stock	Czech koruna	7,847,224.00	0.05%
Common Stock	Danish krone	13,193,054.00	0.08%
Common Stock	Egyptian pound	2,263,539.00	0.01%
Common Stock	Euro	372,244,637.00	2.36%
Common Stock	Hong Kong dollar	90,966,959.00	0.58%
Common Stock	Indian rupee	64,591,351.00	0.41%
Common Stock	Indonesian rupiah	16,122,869.00	0.10%
Common Stock	Israeli shekel	8,772,917.00	0.06%
Common Stock	Japanese yen	247,961,694.00	1.57%
Common Stock	New Taiwan dollar	57,630,304.00	0.37%
Common Stock	New Turkish lira	47,182,541.00	0.30%
Common Stock	New Zealand dollar	1,488,562.00	0.01%
Common Stock	Norwegian krone	11,471,329.00	0.07%
Common Stock	Philippine peso	68,651.00	0.00%
Common Stock	Polish zloty	25,646,669.00	0.16%
Common Stock	Singapore dollar	20,278,251.00	0.13%
Common Stock	South African rand	26,442,424.00	0.17%
Common Stock	South Korean won	141,914,952.00	0.90%
Common Stock	Swedish krona	39,057,160.00	0.25%
Common Stock	Swiss franc	104,012,921.00	0.66%
Common Stock	Thai baht	13,435,938.00	0.09%
Common Stock	Turkish lira	18,380,737	0.12%
Cash	Australian dollar	5,787.00	0.00%
Cash	Brazilian real	190,063.00	0.00%
Cash	British pound sterling	651,328.00	0.00%
Cash	Czech koruna	79,214.00	0.00%
Cash	Danish krone	1,319.00	0.00%
Cash	Egyptian pound	107,680.00	0.00%
Cash	Euro	741,326.00	0.00%
Cash	Hong Kong dollar	131,845.00	0.00%
Cash	Indian rupee	816,341.00	0.01%
Cash	Indonesian rupiah	49,096.00	0.00%
Cash	Israeli shekel	58,200.00	0.00%
Cash	Japanese yen	2,285,519.00	0.01%
Cash	Mexican peso	32,020.00	0.00%
Cash	New Taiwan dollar	1,041,733.00	0.01%
Cash	New Turkish lira	101,706.00	0.00%
Cash	New Zealand dollar	9,418.00	0.00%
Cash	Norwegian krone	117,831.00	0.00%
Cash	Philippine peso	19,279.00	0.00%
Cash	Polish zloty	143,859.00	0.00%
Cash	Singapore dollar	173,184.00	0.00%
Cash	South African rand	66,078.00	0.00%
Cash	South Korean won	60.00	0.00%
Cash	Swiss franc	35,219.00	0.00%
Derivatives	Indonesian rupiah	356.00	0.00%
Derivatives	Indian rupee	(110.00)	0.00%
Derivatives	Egyptian pound	(223.00)	0.00%
Derivatives	New Turkish lira	(289.00)	0.00%
Derivatives	Brazilian real	(3,776.00)	0.00%
Global Depository Receipt	Euro	6,017,998.00	0.04%
Partnerships	Euro	224,150,495.00	1.42%
Preferred Stock	Brazilian real	28,272,827.00	0.18%
Preferred Stock	Euro	7,673,132.00	0.05%
Preferred Stock	South Korean won	12,305,156.00	0.08%
Rights/ Warrants	Euro	34,908.00	0.00%
Real Estate Investment Trust	Euro	4,974,908.00	0.03%
Real Estate Investment Trust	Japanese yen	1,742,994.00	0.01%
Real Estate Investment Trust	British pound sterling	1,480,240.00	0.01%
Real Estate Investment Trust	Hong Kong dollar	826,808.00	0.01%
Real Estate Investment Trust	Singapore dollar	632,528.00	0.00%
Foreign Currency Investments and Cash and Cash Equivalents		<u>2,053,560,356</u>	<u>13.03%</u>
Non-Foreign Currency Investments and Cash and Cash Equivalents		<u>13,708,551,210</u>	<u>86.97%</u>
Total Investments and Cash and Cash Equivalents		<u>\$ 15,762,111,566</u>	<u>100.00%</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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 of 102% of the fair value of securities lent 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 loaned) 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, 2011 consisted of U.S. Treasury notes and bonds and U.S. and international equity securities with a fair value of approximately \$320,158,857. Securities lending gross income totaled approximately \$2,620,547 for the year ended June 30, 2011; related fees were approximately \$314,466. The unrealized gain on securities lending for fiscal year 2011 of \$119,116,161 has been included in the statement of changes in fiduciary net assets. Subsequent to year end, the Office made the determination to terminate its securities lending program and accordingly, began the liquidation process.

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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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

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.

The Office's contributions to PERA for the fiscal years ending June 30, 2011, 2010 and 2009 were \$371,435, \$392,907 and \$419,489, 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, 2010	Additions	Deletions	Balance June 30, 2011
Furniture and equipment	\$ 441,356	20,080	-	461,436
Accumulated depreciation	<u>(407,262)</u>	<u>(10,944)</u>	-	<u>(418,206)</u>
Total capital assets	\$ 34,094	9,136	-	43,230

Depreciation expense recognized by the Office in fiscal year 2011 was \$10,944. 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, 2010	\$ 190,856
Additions	171,087
Deletions	<u>(203,530)</u>
Balance at June 30, 2011	<u>\$ 158,413</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 7. CHANGES IN ACCRUED VACATION AND SICK PAY (CONTINUED)

Of the balance outstanding at June 30, 2011, \$158,413 is estimated to be due within one year of the statement date.

NOTE 8. COMMITMENTS

The Office has commitments for capital contributions to the various private equity partnerships and real estate investments. As of June 30, 2011, the Office was an investor in approximately 124 private equity limited partnerships 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, 2011, unfunded commitments to private equity partnerships were approximately \$2,764,274,740, and unfunded commitments to real estate investments were approximately \$238,279,082. Due to the nature of these investments, the Office cannot predict when these capital contributions will be called. Subsequent to June 30, 2011, the Office approved an additional \$250,000,000 of commitments to private equity partnerships.

In addition to the above investment commitments, the Office leases office space and equipment under noncancelable operating leases. Total rent expense for the year ended June 30, 2011 was \$270,960. Minimum annual lease payments under these leases for the years ended June 30 are as follows:

2012	\$ 276,325
2013	280,240
2014	280,189
2015	284,339
2016	288,612
Thereafter	<u>490,345</u>
	<u>\$ 1,900,050</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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, 2011, 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, 2011, the NMRHCA had total net assets held in trust of \$213,559,353.
- (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, 2011, the NMIMT had total net assets held in trust of \$49,390,071.
- (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, 2011, the NMSBVI had total net assets held in trust of \$7,981,374.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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, 2011, the Commissioner had total net assets held in trust of \$10,072,984.
- (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, 2011, the Commission had total net assets held in trust of \$17,595,536.
- (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, 2011, the NMMI had total net assets held in trust of \$22,781,575.
- (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, 2011, the NMDGF had total net assets held in trust of \$963,999.
- (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, 2011, the ENMU had total net assets held in trust of \$7,231,661.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 10. JOINT POWERS AGREEMENTS (CONTINUED)

- (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, 2011, the SMSD had total net assets held in trust of \$158,129.
- (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. The City liquidated this investment during fiscal year 2011, and accordingly there were no net assets held in trust at June 30, 2011.
- (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, 2011, the Agency had total net assets held in trust of \$35,894,186.
- (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, 2011, the County had total net assets held in trust of \$44,231,324.
- (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, 2011, the NMPSIA had total net assets held in trust of \$37,496,557.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 10. JOINT POWERS AGREEMENTS (CONTINUED)

- (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, 2011, the NMHU had total net assets held in trust of \$2,510,455.
- (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, 2011, the CYFD had total net assets held in trust of \$2,437,886.
- (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 NMMFA's investment policy. At June 30, 2011, the NMMFA had total net assets held in trust of \$32,554,838.
- (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, 2011, the NMHED had total net assets held in trust of \$22,397,661.
- (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, 2011, the Client had total net assets held in trust of \$13,856,411.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

**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.

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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
 INVESTMENT OFFICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee’s annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will rise as follows:

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

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
2012	1.834%	0.917%
2013	2.000%	1.000%

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

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

The Office's contributions to the RHCA for the years ended June 30, 2011, 2010 and 2009 were \$40,658, \$33,933 and \$33,784, 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 and the members of the State Investment Council;
2. Coverage to protect the State of New Mexico’s property and assets; and
3. Fringe benefit coverage for State of New Mexico employees.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 12. RISK MANAGEMENT (CONTINUED)

At June 30, 2011, 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.

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 2011 shall revert to the general fund by October 1, 2011, 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, 2011

Exhibit 1

Beneficiary	Balance June 30, 2010	State Land Office Transfers	Distributions to Beneficiaries	Other Increases In Capital Accounts, net	Balance June 30, 2011	Participation Percentage June 30, 2011
Carrie Tingley Hospital	\$ 2,638	169,750	(7,204)	23,482	188,666	0.001752%
Charitable, penal and reform	80,479,943	2,738,956	(4,835,026)	18,103,364	96,487,237	0.896178%
Public schools	7,395,621,794	353,822,245	(446,227,165)	1,668,401,833	8,971,618,707	83.328781%
Eastern New Mexico University	7,625,081	408,471	(462,183)	1,727,606	9,298,975	0.086369%
Improvements to the Rio Grande	24,246,609	415,740	(1,445,350)	5,420,675	28,637,674	0.265988%
Miners' Colfax Medical Center	92,049,141	2,311,742	(5,509,070)	20,636,886	109,488,699	1.016936%
New Mexico Boys School	592,496	17,925	(35,420)	132,415	707,416	0.006571%
New Mexico Highlands University	2,566,592	43,995	(153,012)	573,921	3,031,496	0.028157%
New Mexico Institute of Mining and Technology	18,428,580	814,960	(1,111,646)	4,157,392	22,289,286	0.207024%
New Mexico Military Institute	299,934,425	14,218,895	(18,064,014)	67,557,692	363,646,998	3.377569%
New Mexico School for the Deaf	183,597,817	7,861,986	(11,063,417)	41,391,025	221,787,411	2.059971%
New Mexico School for the Blind and Visually Impaired	183,130,516	7,862,021	(11,035,753)	41,287,086	221,243,870	2.054923%
New Mexico State Hospital	21,217,927	532,184	(1,269,776)	4,758,794	25,239,129	0.234422%
New Mexico State University	44,658,058	1,403,036	(2,682,251)	10,049,359	53,428,202	0.496243%
Northern New Mexico Community College	2,016,140	44,126	(120,428)	451,493	2,391,331	0.022211%
Penitentiary of New Mexico	179,905,157	8,413,462	(10,856,923)	40,602,711	218,064,407	2.025392%
Public Buildings - Capitol	103,639,655	3,241,726	(6,210,937)	23,262,446	123,932,890	1.151094%
The University of New Mexico	141,728,287	3,365,240	(8,475,321)	31,766,762	168,384,968	1.563967%
The University of New Mexico Saline Lands	517,978	-	(30,665)	115,214	602,527	0.005596%
Water reservoirs	102,363,756	3,765,053	(6,153,544)	23,036,478	123,011,743	1.142538%
Western New Mexico University	2,581,640	43,995	(153,903)	577,268	3,049,000	0.028319%
	\$ 8,886,904,230	411,495,508	(535,903,008)	2,004,033,902	10,766,530,632	100.00%

STATE OF NEW MEXICO INVESTMENT COUNCIL -
 INVESTMENT OFFICE
 DETAIL OF INTERAGENCY TRANSFERS
 Year Ended June 30, 2011

Exhibit 2

Agency Initiating Transfer/Fund	Transferring Cash Account	Agency Receiving Transfer/Fund	Receiving Cash Account
State Land Office <i>A total of \$411,495,508 was received from the State Land office for FY 11. Funds transferred are from royalties and principal from land sales generated by the State Land Office (see footnote 1).</i>	53900/26400/7770	State Investment Office/ Land Grant Permanent Fund	60100
Department of Finance and Administration/ Local Government <i>A total of \$105,467 was received for FY 11 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 \$3,488,067 was transferred from the Severance Tax Bonding Fund during 2011. This balance was a receivable from FY10. \$7,617,058 has been recorded as a receivable at June 30, 2011. 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 \$38,565,432 was received in FY 11 for the Tobacco Settlement Permanent Fund's portion of the Tobacco Settlement Proceeds (see footnote 1). The difference between what was received and what was recorded in the statement of changes in net assets is due to accrued amounts recorded as receivables at June 30, 2011.</i>	39401	State Investment Office/ Tobacco Settlement Permanent Fund	95200
State Investment Office/ Land Grant Permanent Fund <i>A total of \$528,829,683 was distributed for FY 11 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 \$184,779,191 was distributed for FY 11 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 \$38,565,432 was distributed for FY 11 to the Tobacco Settlement Program Fund (see footnote 1).</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, 2011

Exhibit 3
 Page 1 of 9

For fiscal year ended June 30, 2011, activity by participating agency was as follows:

Participant	Core Bonds Pool	Beginning Balance June 30, 2010	Withdrawals	Contributions	Net Investment Income	Ending Balance June 30, 2011
City of Albuquerque - Open Space MGM		\$ 10,086,381	(10,449,986)	-	363,605	-
City of Albuquerque - Urban Enhancement		7,776,975	(8,057,331)	-	280,356	-
Eastern New Mexico University		2,342,572	(625,000)	-	138,336	1,855,908
Los Alamos County - Cemetery		139,534	-	-	8,235	147,769
Los Alamos County - General Fund		3,111,364	-	-	183,608	3,294,972
Los Alamos County - Permanent Fund		5,642,146	-	-	332,954	5,975,100
NM Children's, Youth, Family Department Next Generation Fund		929,822	-	-	54,870	984,692
NM Children's, Youth, Family Department Trust Fund		929,822	-	-	54,870	984,692
NM Commissioner of Public Lands - Oil and Gas		4,794,769	-	-	282,948	5,077,717
NM Department of Game and Fish		336,204	(30,000)	-	19,123	325,327
NM Highlands University - Endowment Fund		801,127	-	-	47,276	848,403
NM Higher Education Department		6,031,882	(2,000,000)	-	320,870	4,352,752
NM Institute of Mining and Technology - Employee Benefit Trust		378,664	(150,000)	-	18,188	246,852
NM Institute of Mining and Technology - Endowment Fund		9,529,999	-	-	562,381	10,092,380
NM Institute of Mining and Technology - Plant Debt Allocated Funds		11,418,997	-	-	673,854	12,092,851
NM Interstate Stream Comm. - Improvements on the Rio Grande		621,283	-	-	36,664	657,947
NM Interstate Stream Comm. - Irrigation Works Construction		6,502,512	-	-	383,727	6,886,239
NM Military Institute Capital Outlay		-	-	450,000	10,857	460,857
NM Military Institute - Legislative Scholarship		2,402,111	-	524,105	146,672	3,072,888
NM Military Institute LFC/VC Maintenance Endowment		1,573,457	-	-	92,851	1,666,308
NM Military Institute Patterson Account		1,419,014	(170,200)	-	79,954	1,328,768
NM Military Institute Trust Scholarship		1,582,193	-	-	93,368	1,675,561
NM Mortgage Finance Authority		16,337,537	-	-	964,109	17,301,646
NM Mortgage Finance Authority - IFT Housing Trust Fund		7,710,156	-	3,402,335	543,834	11,656,325
NM Public Regulation Commission - Patients' Comp. Fund		22,269,568	-	-	1,314,168	23,583,736
NM Public Schools Insurance Authority - Benefits		7,084,063	-	-	418,045	7,502,108
NM Public Schools Insurance Authority - Risk		4,722,795	-	-	278,701	5,001,496
NM Retiree Health Care Authority		60,727,363	-	8,998,120	3,775,686	73,501,169
NM School for the Blind and Visually Impaired		7,646,548	(3,424,442)	-	355,935	4,578,041
NM Institute of Mining and Technology		5,150,366	(775,000)	-	258,068	4,633,434
Springer Municipal School District		24,247	(5,400)	-	1,371	20,218
		\$ 210,023,471	(25,687,359)	13,374,560	12,095,484	209,806,156

STATE OF NEW MEXICO INVESTMENT COUNCIL -
 INVESTMENT OFFICE
 EXTERNAL INVESTMENT TRUST FUNDS
 Year Ended June 30, 2011

Exhibit 3
 Page 2 of 9

For fiscal year ended June 30, 2011, activity by participating agency was as follows:

Participant	Large Cap. Active Pool	Beginning Balance June 30, 2010	Withdrawals	Contributions	Net Investment Income (loss)	Ending Balance June 30, 2011
Los Alamos County - Cemetery		\$ 113,952	-	-	35,014	148,966
City of Las Cruces		3,814,884	-	-	1,172,289	4,987,173
Los Alamos County - General Fund		2,540,864	-	-	780,791	3,321,655
Los Alamos County - Permanent Fund		4,611,568	-	-	1,417,108	6,028,676
NM Commissioner of Public Lands - Oil and Gas		2,040,513	-	-	627,036	2,667,549
NM Children's, Youth, Family Department Next Generation Fund		133,487	-	-	41,018	174,505
NM Children's, Youth, Family Department Trust Fund		133,487	-	-	41,018	174,505
NM Higher Education Department		4,917,357	-	-	1,511,070	6,428,427
NM Interstate Stream Comm. - Improvements on the Rio Grande		472,353	-	-	145,150	617,503
NM Interstate Stream Comm. - Irrigation Works Construction		7,216,320	-	-	2,217,527	9,433,847
NM Military Institute LFC/VC Maintenance Endowment		257	-	-	79	336
NM Retiree Health Care Authority		29,162,894	(8,941,176)	-	8,992,883	29,214,601
NM School for the Blind and Visually Impaired		-	-	795,832	(13,491)	782,341
		\$ 55,157,936	(8,941,176)	795,832	16,967,492	63,980,084

STATE OF NEW MEXICO INVESTMENT COUNCIL -
 INVESTMENT OFFICE
 EXTERNAL INVESTMENT TRUST FUNDS
 Year Ended June 30, 2011

Exhibit 3
 Page 3 of 9

For fiscal year ended June 30, 2011, activity by participating agency was as follows:

Participant	Large Cap. ETF Pool	Beginning Balance June 30, 2010	Withdrawals	Contributions	Net Investment Income	Ending Balance June 30, 2011
Eastern New Mexico University		\$ 1,311,212	(400,000)	-	395,577	1,306,789
NM Commissioner of Public Lands - Oil and Gas		1,798,126	-	-	529,592	2,327,718
NM Department of Game and Fish		332,788	(25,000)	-	97,300	405,088
NM Institute of Mining and Technology - Employee Benefit Trust		298,839	(175,000)	-	67,549	191,388
NM Institute of Mining and Technology - Endowment Fund		8,633,817	-	-	2,542,867	11,176,684
NM Mortgage Finance Authority		2,778,524	-	-	818,343	3,596,867
NM Public Regulation Commission - Patients' Comp. Fund		4,475,780	-	-	1,318,226	5,794,006
NM Institute of Mining and Technology		8,141,839	-	-	2,397,967	10,539,806
Springer Municipal School District		10,429	-	-	3,070	13,499
NM Highlands University - Endowment Fund		422,037	-	-	124,300	546,337
		\$ 28,203,391	(600,000)	-	8,294,791	35,898,182

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS
Year Ended June 30, 2011**

Exhibit 3
Page 4 of 9

For fiscal year ended June 30, 2011, activity by participating agency was as follows:

Participant	Large Cap. Index Pool	Beginning Balance		Withdrawals	Contributions	Net Investment Income	Ending Balance
		June 30, 2010	June 30, 2011				
		\$	117,733	-	-	37,784	155,517
Los Alamos County - Cemetery			1,858,460	-	-	596,438	2,454,898
City of Las Cruces			2,625,197	-	-	842,507	3,467,704
Los Alamos County - General Fund			4,760,672	-	-	1,527,848	6,288,520
Los Alamos County - Permanent Fund			4,588,879	-	-	1,472,715	6,061,594
NM Higher Education Department			-	-	475,000	19,262	494,262
NM Military Institute Capital Outlay			2,243,061	-	-	947,502	3,190,563
NM Military Institute Legislative Scholarship			1,262,715	-	-	405,245	1,667,960
NM Military Institute - Endowment Fund			1,138,169	(46,777)	-	365,023	1,456,415
NM Military Institute Patterson Account			1,487,845	-	233,176	244,317	1,965,338
NM Military Institute Trust Scholarship			27,910,434	(10,122,178)	-	8,513,392	26,301,648
NM Retiree Health Care Authority			47,993,165	(10,168,955)	708,176	14,972,033	53,504,419
		\$					

STATE OF NEW MEXICO INVESTMENT COUNCIL -
 INVESTMENT OFFICE
 EXTERNAL INVESTMENT TRUST FUNDS
 Year Ended June 30, 2011

Exhibit 3
 Page 5 of 9

For fiscal year ended June 30, 2011, activity by participating agency was as follows:

Participant	Large Cap. Index ETF Pool	Beginning Balance June 30, 2010	Withdrawals	Contributions	Net Investment Income	Ending Balance June 30, 2011
Eastern New Mexico University	\$	2,128,935	(535,000)	-	626,439	2,220,374
NM Institute of Mining and Technology - Employee Benefit Trust		342,633	(175,000)	-	78,592	246,225
NM Public Regulation Commission - Patients' Comp. Fund		1,780,946	-	-	516,773	2,297,719
NM Public Schools Insurance Authority - Benefits		7,314,303	-	-	2,122,371	9,436,674
NM Public Schools Insurance Authority - Risk		4,876,171	-	-	1,414,907	6,291,078
Springer Municipal School District		15,325	-	-	4,445	19,770
NM Highlands University - Endowment Fund		402,554	-	-	116,807	519,361
	\$	16,860,867	(710,000)	-	4,880,334	21,031,201

STATE OF NEW MEXICO INVESTMENT COUNCIL -
 INVESTMENT OFFICE
 EXTERNAL INVESTMENT TRUST FUNDS
 Year Ended June 30, 2011

Exhibit 3
 Page 6 of 9

For fiscal year ended June 30, 2011, activity by participating agency was as follows:

Participant	Mid/Small Cap. Pool	Beginning Balance June 30, 2010	Withdrawals	Contributions	Net Investment Income	Ending Balance June 30, 2011
Los Alamos County - Cemetery		\$ 90,980	-	-	32,103	123,083
Los Alamos County - General Fund		1,795,480	-	-	633,524	2,429,004
Los Alamos County - Permanent Fund		3,676,301	-	-	1,297,159	4,973,460
City of Las Cruces		3,303,457	-	-	1,165,603	4,469,060
NM Higher Education Department		2,550,655	-	-	899,981	3,450,636
NM Military Institute Capital Outlay		-	-	137,500	5,428	142,928
NM Military Institute Legislative Scholarship		668,588	-	1,638	235,830	906,056
NM Military Institute LFC/VC Maintenance Endowment		330,554	-	-	116,633	447,187
NM Military Institute Patterson Account		297,689	-	14,565	105,095	417,349
NM Military Institute Trust Scholarship		444,123	-	-	156,707	600,830
NM Retiree Health Care Authority		6,842,383	-	11,776,215	2,902,000	21,520,598
NM School for the Blind and Visually Impaired		-	-	854,583	(4,834)	849,749
		\$ 20,000,210	-	12,784,501	7,545,229	40,329,940

STATE OF NEW MEXICO INVESTMENT COUNCIL -
 INVESTMENT OFFICE
 EXTERNAL INVESTMENT TRUST FUNDS
 Year Ended June 30, 2011

Exhibit 3
 Page 7 of 9

For fiscal year ended June 30, 2011, activity by participating agency was as follows:

Participant	Mid/Small Cap. ETF Pool	Beginning Balance June 30, 2010	Withdrawals	Contributions	Net Investment Income	Ending Balance June 30, 2011
Eastern New Mexico University		\$ 1,131,194	(403,000)	-	256,140	984,334
NM Department of Game and Fish		98,194	(5,000)	-	17,074	110,268
NM Institute of Mining and Technology - Employee Benefit Trust		74,107	-	-	12,563	86,670
NM Public Regulation Commission - Patients' Comp. Fund		1,972,888	-	-	334,455	2,307,343
NM Public Schools Insurance Authority - Benefits		1,894,257	-	-	321,125	2,215,382
NM Public Schools Insurance Authority - Risk		1,262,827	-	-	214,082	1,476,909
Springer Municipal School District		29,563	-	-	5,013	34,576
NM Highlands University - Endowment Fund		242,809	-	-	41,162	283,971
		\$ 6,705,839	(408,000)	-	1,201,614	7,499,453

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS
Year Ended June 30, 2011

For fiscal year ended June 30, 2011, activity by participating agency was as follows:

Participant	Non-U.S. Developed Markets Pool		Beginning Balance June 30, 2010	Withdrawals	Contributions	Net Investment Income	Ending Balance June 30, 2011
Eastern New Mexico University	\$	842,802		(337,000)	-	270,826	776,628
City of Las Cruces		1,477,098		-	-	468,182	1,945,280
Los Alamos County - Cemetery		66,794		-	-	21,170	87,964
Los Alamos County - General Fund		1,489,433		-	-	472,092	1,961,525
Los Alamos County - Permanent Fund		2,698,206		-	-	855,225	3,553,431
NM Children's, Youth, Family Department Next Generation Fund		35,556		-	-	11,270	46,826
NM Children's, Youth, Family Department Trust Fund		35,556		-	-	11,270	46,826
NM Department of Game and Fish		47,230		-	-	14,966	62,196
NM Institute of Mining and Technology - Employee Benefit Trust		63,363		-	-	20,082	83,445
NM Higher Education Department		1,016,795		-	-	322,286	1,339,081
NM Military Institute Capital Outlay		-		-	150,000	4,343	154,343
NM Military Institute - Legislative Scholarship		692,001		-	108,869	215,146	1,016,016
NM Military Institute LFC/VC Maintenance Endowment		314,696		-	-	99,747	414,443
NM Military Institute Patterson Account		283,612		-	75,932	89,596	449,140
NM Military Institute Trust Scholarship		458,667		-	-	145,381	604,048
NM Public Regulation Commission - Patients' Comp. Fund		850,411		-	-	269,546	1,119,957
NM Public Schools Insurance Authority - Benefits		887,142		-	-	281,187	1,168,329
NM Public Schools Insurance Authority - Risk		591,437		-	-	187,464	778,901
NM Retiree Health Care Authority		24,740,810		-	600,195	7,853,515	33,194,520
NM School for the Blind and Visually Impaired		-		-	738,223	37,677	775,900
Springer Municipal School District		24,118		-	-	7,646	31,764
NM Highlands University - Endowment Fund		138,774		-	-	43,985	182,759
	\$	36,754,501		(337,000)	1,673,219	11,702,602	49,793,322

STATE OF NEW MEXICO INVESTMENT COUNCIL -
 INVESTMENT OFFICE
 EXTERNAL INVESTMENT TRUST FUNDS
 Year Ended June 30, 2011

Exhibit 3
 Page 9 of 9

For fiscal year ended June 30, 2011, activity by participating agency was as follows:

Participant	Non U.S. Emerging Markets Pool		Beginning Balance June 30, 2010	Withdrawals	Contributions	Net Investment Income (loss)	Ending Balance June 30, 2011
Eastern New Mexico University	\$	146,862		(100,000)	-	40,766	87,628
Los Alamos County - Cemetery		24,273		-	-	6,336	30,609
Los Alamos County - General Fund		784,476		-	-	204,818	989,294
Los Alamos County - Permanent Fund		994,441		-	-	259,634	1,254,075
NM Children's, Youth, Family Department Next Generation Fund		10,248		-	-	2,672	12,920
NM Children's, Youth, Family Department Trust Fund		10,248		-	-	2,672	12,920
NM Department of Game and Fish		48,466		-	-	12,654	61,120
NM Higher Education Department		606,756		-	-	158,415	765,171
NM Military Institute Capital Outlay		-		37,500	-	133	37,633
NM Military Institute - Legislative Scholarship		180,363		14,950	-	46,088	241,401
NM Military Institute LFC/VC Maintenance Endowment		91,321		-	-	23,843	115,164
NM Military Institute Patterson Account		82,701		1,480	-	21,599	105,780
NM Military Institute Trust Scholarship		119,213		-	-	31,124	150,337
NM Public Regulation Commission - Patients' Comp. Fund		627,574		-	-	163,851	791,425
NM Public Schools Insurance Authority - Benefits		1,725,045		-	-	450,384	2,175,429
NM Public Schools Insurance Authority - Risk		1,150,003		-	-	300,248	1,450,251
NM Retiree Health Care Authority		7,086,968		20,850,071	-	1,889,778	29,826,817
NM School for the Blind and Visually Impaired		-		1,035,804	-	(40,461)	995,343
Springer Municipal School District		30,371		-	-	7,931	38,302
NM Highlands University - Endowment Fund		102,784		-	-	26,840	129,624
	\$	13,822,113		(100,000)	21,939,805	3,609,325	39,271,243

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2011

Exhibit 4
Page 1 of 2

Depository Institution	Account Name	Deposit Type	Balance Per Books	Balance Per Statement
Admin Fund				
<i>Cash and Cash Equivalents</i>				
NM STO	Fund 173 - General Administrative Fund	Interest in SGFIP	\$ 23,087,277	23,087,277
Total Admin Fund			<u>23,087,277</u>	<u>23,087,277</u>
Fiduciary Funds				
<i>Cash and Cash Equivalents</i>				
NM STO	Fund 601 - Land Grant Permanent Fund	Interest in SGFIP	44,708,080	44,708,080
NM STO	Fund 602 - Severance Tax Permanent Fund	Interest in SGFIP	66,294	66,294
JP Morgan	Land Grant Permanent Fund	Money Market	128,806,033	128,806,033
JP Morgan	LG Real Estate	Money Market	101	101
JP Morgan	LG Private Equity	Money Market	105,559	105,559
JP Morgan	LG Permanent Stock	Cash	202,377	202,377
JP Morgan	Severance Tax Permanent Fund	Money Market	9,193,874	9,193,874
JP Morgan	ST NMSU Equity	Money Market	77,611	77,611
JP Morgan	ST UNM Equity	Money Market	10,236	10,236
JP Morgan	ST UNM Fixed Income	Money Market	2,204	2,204
JP Morgan	ST National Private Equity	Money Market	164,024	164,024
JP Morgan	ST Real Estate	Money Market	73	73
JP Morgan	ST Private Equity	Money Market	16	16
JP Morgan	ST Stock	Cash	332,362	332,362
JP Morgan	Tobacco Settlement Permanent Fund	Money Market	45,386,699	45,386,699
JP Morgan	Water Trust Fund	Money Market	3,919,387	3,919,387
JP Morgan	Alliance Bernstein	Money Market	4,951,207	4,951,207
JP Morgan	Alliance Bernstein EM	Money Market	6,938,861	6,938,861
JP Morgan	Beekman	Money Market	1,306,591	1,306,591
JP Morgan	Credit and Structured Finance Cash	Money Market	89,534,802	89,534,802
JP Morgan	Clearbridge Legg Mason	Money Market	48,575,209	48,575,209
JP Morgan	Denali	Money Market	2,262,247	2,262,247
JP Morgan	Earnest Partners (Mid Cap)	Money Market	24,055,552	24,055,552
JP Morgan	Earnest Partners (Small Cap)	Money Market	10,584,656	10,584,656
JP Morgan	First Quadrant	Money Market	884,308	884,308
JP Morgan	Fixed Income Pool	Money Market	3,630,009	3,630,009
JP Morgan	Fox	Money Market	11,012,351	11,012,351
JP Morgan	Global In-House	Money Market	818,549	818,549
JP Morgan	Hedge Fund Pooled Cash Account	Cash	27,446,158	27,446,158
JP Morgan	Hester	Money Market	1,012,443	1,012,443
JP Morgan	Jarislowsky Fraser	Money Market	73,603	73,603
JP Morgan	S&P 500 Active Pool	Money Market	12,875,248	12,875,248
JP Morgan	Large Cap ETF Pool	Money Market	154,644	154,644
JP Morgan	Lombardia	Money Market	6,395,517	6,395,517
JP Morgan	Loomis Sayles	Money Market	11,615,772	11,615,772
JP Morgan	Mid/Small Cap ETF	Money Market	15,672	15,672
JP Morgan	PIMCO	Money Market	(2,801,601)	(2,801,601)
JP Morgan	Prudential	Money Market	87,330,102	87,330,102
JP Morgan	S&P Index 500 Pool	Money Market	4,236,524	4,236,524
JP Morgan	S&P Index ETF Pool	Money Market	406,539	406,539
JP Morgan	Simms	Money Market	7,919,385	7,919,385
JP Morgan	Thornburg	Money Market	17,394,144	17,394,144
Total Fiduciary Funds			<u>611,603,422</u>	<u>611,603,422</u>

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS (CONTINUED)
June 30, 2011

Exhibit 4
Page 2 of 2

Depository Institution	Account Name	Deposit Type	Balance Per Books	Balance Per Statement
<i>Investments on Deposit</i>				
JP Morgan	Alliance Bernstein	Equity	\$ 1,251,207,228	\$ 1,251,207,228
JP Morgan	Alliance Bernstein EM	Equity	731,900,057	731,900,057
JP Morgan	Clearbridge Legg Mason	Equity	997,741,909	997,741,909
JP Morgan	Earnest Partners (Mid Cap)	Equity	482,837,333	482,837,333
JP Morgan	Earnest Partners (Small Cap)	Equity	179,475,297	179,475,297
JP Morgan	Fox	Equity	130,272,922	130,272,922
JP Morgan	Jarislowsky Fraser	Equity	50	50
JP Morgan	S&P 500 Active Pool	Equity	2,027,683,819	2,027,683,819
JP Morgan	Large Cap Active ETF Pool	Equity	39,512,751	39,512,751
JP Morgan	Lombardia	Equity	496,782,025	496,782,025
JP Morgan	Loomis Sayles	Core Bonds	699,924,645	699,924,645
JP Morgan	Mid/Small Cap ETF	Equity	11,109,525	11,109,525
JP Morgan	NATIONAL Private Equity	Equity	36,289,523	36,289,523
JP Morgan	PIMCO	Core Bonds	1,453,876,571	1,453,876,571
JP Morgan	Prudential	Core Bonds	696,374,182	696,374,182
JP Morgan	S&P Index 500 Pool	Equity	1,102,416,786	1,102,416,786
JP Morgan	S&P Index 500 ETF Pool	Equity	23,180,531	23,180,531
JP Morgan	Simms	Equity	167,790,600	167,790,600
JP Morgan	Thornburg	Equity	532,880,103	532,880,103
JP Morgan	Fixed Income Pool	Core Bonds	194	194
	<i>Total Investments on Deposit</i>		<u>11,061,256,051</u>	<u>11,061,256,051</u>
<i>Other Investments</i>				
JP Morgan	Structured Credit Finance	Structured Credit	\$ 487,889,948	\$ 487,889,948
JP Morgan	AAM High Desert	Hedge Investments	192,250,034	192,250,034
JP Morgan	Altair Stars	Hedge Investments	2,899,918	2,899,918
JP Morgan	Austin	Hedge Investments	19,307,757	19,307,757
JP Morgan	Crestline Enchantment	Hedge Investments	268,442,917	268,442,917
JP Morgan	Crestline Offshore	Hedge Investments	21,680,592	21,680,592
JP Morgan	CT Preferred Investors	Hedge Investments	9,893,407	9,893,407
JP Morgan	EIM Fund of Fund	Hedge Investments	28,551,516	28,551,516
JP Morgan	Explorer	Hedge Investments	479,149	479,149
JP Morgan	Guggenheim	Hedge Investments	103,287	103,287
JP Morgan	K2 Advisors	Hedge Investments	5,583,951	5,583,951
JP Morgan	K2 Alternative	Hedge Investments	3,665,835	3,665,835
JP Morgan	Mariner Select	Hedge Investments	190,283,505	190,283,505
JP Morgan	Tag Relative Value Offshore	Hedge Investments	10,858,399	10,858,399
N/A	Various	UNM Fixed Income	1,981,351	1,981,351
N/A	Various	UNM Equity	2,500,926	2,500,926
N/A	Various	Securities on Loan	320,158,857	320,158,857
N/A	Various	NMSU Equity	3,947,944	3,947,944
N/A	Various	Government Sponsored Entities	41,567,045	41,567,045
N/A	Various	Direct Equity Investment	147,610,985	147,610,985
N/A	Various	Mortgages and Mortgage Certificates	74,367	74,367
N/A	Various	Private Equity Investments	1,685,183,880	1,685,183,880
N/A	Various	Real Estate Holding	561,249,246	561,249,246
N/A	Various	Film Loans	60,000,000	60,000,000
	<i>Total Other Investments</i>		<u>4,066,164,816</u>	<u>4,066,164,816</u>
	<i>Total Fiduciary Fund Investments</i>		<u>15,127,420,867</u>	<u>15,127,420,867</u>
	<i>Total Fiduciary Fund Cash and Investments</i>		<u>\$ 15,739,024,289</u>	<u>\$ 15,739,024,289</u>

**Report of Independent Auditors 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 Susana Martinez, Chair
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, 2011, and have issued our report thereon dated December 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Office is responsible for establishing and maintaining effective 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2007-1 and 2011-1 to be material weaknesses.

The Honorable Susana Martinez, Chair
and Members of the State Investment Council
and Mr. Hector H. Balderas, State Auditor

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the entity's internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as finding 2011-2.

The Office's response to the findings 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.

Mess Adams LLP

Albuquerque, New Mexico
December 22, 2011

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
STATUS OF PRIOR YEAR AUDIT FINDINGS
June 30, 2011**

Description	Status
07-1 Use of General Ledger Software	Repeated
10-1 Payroll files	Cleared
10-2 Budget Overage	Cleared

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
CURRENT YEAR FINDINGS AND RESPONSES
June 30, 2011**

07-1 Use of General Ledger Software

CONDITION

As noted in the previous years, the Council records, reconciles, and reports investment balances using Microsoft Excel. Software is utilized to maintain inventories of investment 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 roll forwards of accounts, which increases the risk of misstatement. During the current year audit, two material audit adjustments were identified and recorded.

CAUSE

The nature of operations of the Investment Office is not conducive to the use of standard off-the-shelf accounting software packages. At June 30, 2011, the Council had not yet identified a custom package that would be suitable for their needs.

RECOMMENDATION

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

MANAGEMENT RESPONSE

Management is in the process of implementing an investment subsidiary ledger with a software development company. Currently, the investment subsidiary ledger is in the testing phase. The timeline for the complete implementation is scheduled for the first quarter of 2012.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
CURRENT YEAR FINDINGS AND RESPONSES (CONTINUED)
June 30, 2011**

11-1 Financial Close and Reporting (Material Weakness)

CONDITION

During the course of our audit, we noted the Pools Worksheet (Excel spreadsheet utilized as a trial balance) was not updated or completed in a timely manner which resulted in a significant delay in the Office's ability to provide working trial balances necessary to complete the audit in a timely manner.

CRITERIA

Good accounting practices call for accurate and timely records and NMSA 1978 6-5-2 specifies that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

EFFECT

The risk that errors or irregularities occurring and going undetected is significantly increased. The entity's books and records are at risk for containing material misstatements (intentional or unintentional) that are not detected timely. In addition, the lack of working trial balances caused significant delays in the timing of and additional effort to complete the external audit.

CAUSE

The reconciliation and review process for financial reporting was not performed by the accounting department on a timely basis.

AUDITOR'S RECOMMENDATION

We recommend the office implement a formal financial close and reporting policy and procedure whereby accounts are reconciled, properly reviewed and reflected in the trial balance on a monthly basis.

MANAGEMENT'S RESPONSE

Management has retained a professional recruiter to conduct a nationwide search for the vacant Chief Financial Officer (CFO) position. Once hired, the CFO and management will implement formal monthly financial close and reporting policies and procedures. The CFO position should be filled by the second quarter of 2012.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
CURRENT YEAR FINDINGS AND RESPONSES (CONTINUED)
June 30, 2011**

11-2 Late Audit Report (State Compliance)

CONDITION

The audit report as of and for the year ended June 30, 2011 was not submitted by the deadline of December 15, 2011. The audit report was submitted to the State Auditor's Office on December 22, 2011.

CRITERIA

Per the 2011 State Auditor Rule 2.2.2.12 A (1), Section 12-6-3(C), NMSA 1978 stipulates that the Office's reports are due no later than December 15. Further, Section 2.2.2.9 A (2) requires that submission of a late audit report shall be reported as a current year audit finding in the audit report.

EFFECT

The Office is not in compliance with Section 2.2.2.12 A (1) of the NMAC, Audit Rule 2011.

CAUSE

The accounting records were not completed in time to ensure the submission of a timely audit report.

RECOMMENDATION

The Office should continue to work towards providing timely accounting records.

MANAGEMENT RESPONSE

Management agrees with the finding and will better plan for the audit and provide the required information on a timely basis to the external auditors. This should result in meeting the mandated report submission deadline in FY 2012.

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
EXIT CONFERENCE
June 30, 2011**

An exit conference was held on December 21, 2011, and attended by the following:

New Mexico State Investment Council

Steven Moise, State Investment Officer
Evan Land, In House Counsel
Peter Frank, Public Member
Leonard Lee Rawson, Public Member
Greg Anesi, Public Member
Jim Goodwin, Audit Committee
Paul Orzeck, Audit Committee
Thomas Clifford, Department of Finance and Administration Secretary
Ricky A. Bejarano, State Controller
Javier Machuca, REDW Accounting Consultant
Steve Cogan, REDW Accounting Consultant

Moss Adams LLP

Brandon Valentini, Partner
Wayne Brown, Partner
Javier Moreno, Senior Manager

Financial Statement Preparation

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

