

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

**FINANCIAL STATEMENTS
June 30, 2013**

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**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
A Component Unit of the State of New Mexico
OFFICIAL ROSTER
June 30, 2013**

GOVERNING BOARD

The Hon. Susana Martinez, Governor	<i>Ex officio</i> member, Chair
Tom Clifford, 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
Peter Frank, Vice Chair	Public Member, Legislative Council Appointment
Leonard Lee Rawson	Public Member, Legislative Council Appointment
Harold W. Lavender	Public Member, Legislative Council Appointment
Linda Eitzen	Public Member, Governor's Appointment
John Young	Public Member, Governor's Appointment
Tim Jennings	Public Member, Legislative Council Appointment



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Independent Auditors' Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund and each fiduciary fund of the Office as of June 30, 2013, and the respective changes in financial position and, respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

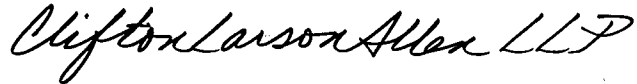
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. The Changes in Land Grant Permanent Trust Fund Held for Beneficiaries, the Detail of Interagency Transfers, the External Investment Trust Funds, and the Schedule of Deposit and Investment Accounts are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Changes in Land Grant Permanent Trust Fund Held for Beneficiaries, the Detail of Interagency Transfers, the External Investment Trust Funds, and the Schedule of Deposit and Investment Accounts are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Changes in Land Grant Permanent Trust Fund Held for Beneficiaries, the Detail of Interagency Transfers, the External Investment Trust Funds, and the Schedule of Deposit and Investment Accounts are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013, or our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Albuquerque, New Mexico
December 4, 2013

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013**

This discussion and analysis of the State of New Mexico Investment Council – Investment Office (the Office) provides a summary of the financial position and results of operations for the year ended June 30, 2013, 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 Position

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 position of the Office.

The assets for the primary agency unit consist of cash and capital assets consisting of furniture and equipment. The unrestricted net position is 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 increase in due to/due from balances and related effect in the General Fund Investment Pool and increase in other funds held, which relate to legal settlements not yet approved by the courts, there have not been significant changes to assets, liabilities and net position as compared to the prior year.

**Table A-1
Statement of Net Position**

	FY2013	FY2012
Assets:		
Interest in State Treasurer		
General Fund Investment Pool	\$ 15,276,703	\$ 13,629,911
Due from clients	-	-
Capital assets, net	<u>25,975</u>	<u>28,871</u>
Total assets	<u>\$ 15,302,678</u>	<u>\$ 13,658,782</u>
Liabilities:		
Due to Land Grant Permanent Fund	\$ 5,932,451	\$ 5,586,717
Due to Severance Tax Permanent Fund	2,194,194	2,071,209
Accounts payable	6,676,428	5,855,661
Accrued payroll	53,630	116,324
Accrued vacation and sick pay	161,262	151,892
Other funds held	<u>420,000</u>	<u>-</u>
Total liabilities	<u>15,437,965</u>	<u>13,781,803</u>
Net position:		
Net investment in capital assets	25,975	28,871
Unrestricted (deficits)	<u>(161,262)</u>	<u>(151,892)</u>
Total net position (deficits)	<u>(135,287)</u>	<u>(123,021)</u>
Total liabilities and net position	<u>\$ 15,302,678</u>	<u>\$ 13,658,782</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013**

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.

Increase in Expenses and Revenues

The primary increase in expenditures for fiscal year 2013 has been in external investment management expenses. Expenses are paid by the permanent funds and clients and, correspondingly, revenues recorded from the funds and clients are also higher.

**Table A-2
Statement of Activities**

	<u>FY2013</u>	<u>FY2012</u>
Expenses:		
General government	\$ 31,643,726	\$ 26,196,447
Revenues:		
Program revenues:		
Fees from external investment trust participants	1,258,675	470,820
Transfers:		
Interfund services provided:		
Land Grant Permanent Fund	22,265,851	18,817,279
Severance Tax Permanent Fund	8,106,934	6,900,510
Total program revenues and transfers	<u>31,631,460</u>	<u>26,188,609</u>
Change in net position	(12,266)	(7,838)
Net position (deficit) at beginning of year	<u>(123,021)</u>	<u>(115,183)</u>
Net position (deficit) at end of year	<u>\$ (135,287)</u>	<u>\$ (123,021)</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013**

Financial Highlights – General Administrative Fund

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

**Table A-3
Total Revenues and Expenditures**

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Revenues from external trust participants	\$ 1,258,675	\$ 470,820	167.3%
Expenditures:			
Personnel services and benefits	\$ 3,233,514	\$ 3,124,216	3.5%
Contractual services and custody fees	27,754,309	21,836,090	27.1%
Other - operating expenses	<u>643,637</u>	<u>1,228,303</u>	<u>-47.6%</u>
Total expenditures	<u>\$ 31,631,460</u>	<u>\$ 26,188,609</u>	<u>20.8%</u>

Revenues from external trust participants increased due to a change in methodology in the prior fiscal year that includes an adjustment for \$280,000 related to an estimate of accruals in fiscal year 2011, which included overhead.

The Office’s expenditures for fiscal year 2013 increased in total, primarily due to increased investment management expenses. Personnel costs increased slightly over fiscal year 2012, as certain positions were more fully staffed in fiscal year 2013, while the other operating expenses decreased due primarily to prior year invoices paid in the prior year. 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 \$9.3 million, with \$4 million related to legal expenses that were restricted by House Bill 2.

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013**

annual distributions for the Severance Tax Permanent Fund, per statute, is 4.7% of the average of the year-end market values of the funds for the immediately preceding five years. The Land Grant Permanent Fund and Tobacco Settlement Permanent Fund distribution formulas are detailed below. Administrative costs are projected and added to the distribution formula to arrive at the total spending policy.

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 Tobacco Settlement Permanent Fund distribution was originally established at 50% of the prior year's contributions from legal settlements 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 the Tobacco Settlement Permanent Fund returned to 50% of prior year's contributions. In 2009, the Legislature, by passing Senate Bill 79, increased the percentage of distribution from the Tobacco Settlement Permanent Fund to the Tobacco Settlement Program Fund for fiscal years 2009 through 2011 to 100% of the prior year's contribution received. In 2011, the Legislature passed House Bill 79, which extended this period of 100% distributions of the prior year's contribution received through fiscal year 2013.

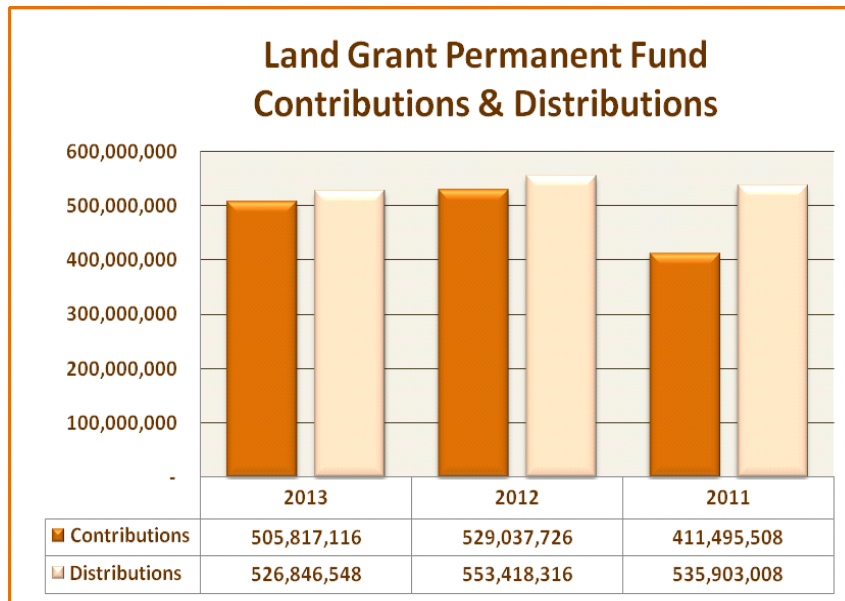
In April 2004, the Governmental Accounting Standards Board issued Technical Bulletin 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues (GASB TB 2004-1), which became effective for financial statements for periods ending after June 15, 2004. GASB TB 2004-1 clarifies recognition guidance for payments received under the Master Settlement Agreement (MSA) with the settling tobacco companies. Since annual tobacco settlement reimbursements are based on cigarette sales from the preceding calendar year, governments should estimate accrued tobacco settlement reimbursements that derive from tobacco sales from January 1 to their respective fiscal year-ends. Accordingly, the Tobacco Settlement Permanent Fund recognized \$10,281,606 and \$19,806,003 for the years ended June 30, 2013 and 2012, respectively. Due to a recent arbitration ruling (September 11, 2013) against New Mexico and five other states, the six month accrual has been reduced by approximately one half of \$18.5 million, the mid range of the New Mexico Attorney General's estimate of a \$12 - \$25 million decrease in annual tobacco settlement reimbursements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013**

The Land Grant Permanent Fund

The Land Grant Permanent Fund contributions from the State Land Office (mineral royalties and income from land grants) for fiscal year 2013 decreased 4.4% from fiscal year 2012. The change is inclusive of a Federal Taylor Grazing Act transfer of \$328,813. Distributions to the beneficiaries of the fund decreased 4.9% from the prior year.

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

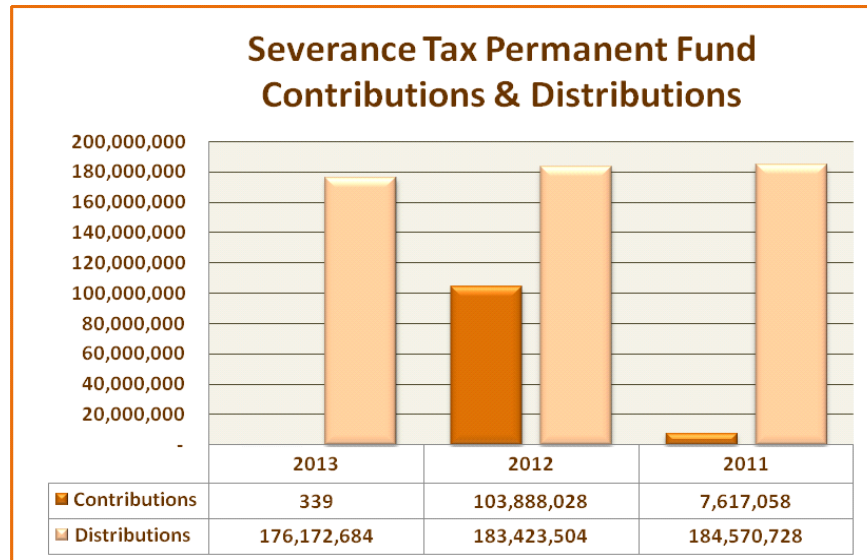


The Severance Tax Permanent Fund

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 decreased from \$103.9 million in fiscal year 2012 to \$339 in fiscal year 2013. While as recently as the 1990s the Severance Tax Permanent Fund received half of the state’s annual severance taxes (for a 50/50 split), a court ruling in 1999 and subsequent legislative actions during the past decade have resulted in changes allowing for up to 95% of severance taxes to be used for New Mexico’s school and infrastructure bonding capacity. Supplemental or “sponge” bonds may also be deployed based on previous year’s revenues, allowing the remaining 5% to be used for bonding as well, which is what resulted in the record low contribution to the Severance Tax Permanent Fund in FY 2013.

Distributions to the State General Fund in fiscal year 2013 decreased 4% from the previous year.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013**



The Tobacco Settlement Permanent Fund

The Tobacco Settlement Permanent Fund distribution was \$39.3 million to the State General Fund in fiscal year 2013, which was 100% of the amount of contributions to the tobacco settlement trust funds received in fiscal year 2013.

The amounts presented below for fiscal year 2013 indicate actual receipts and differ from the total contributions and distributions for fiscal year 2013 shown in the Fiduciary Funds Statement of Net Position because of the presentation requirements of GASB Technical Bulletin 2004-1 as discussed on page 8.

**Table A-4
Tobacco Settlement Permanent Fund**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contributions	<u>\$ 29,778,930</u>	<u>\$ 37,686,626</u>	<u>\$ 37,515,754</u>
Distributions	<u>\$ 29,778,930</u>	<u>\$ 37,686,626</u>	<u>\$ 37,515,754</u>

The Water Trust Fund

The Water Trust Fund (WTF) was created in 2003 but not funded by the Legislature until 2007. On July 1 of each fiscal year, the WTF distributes \$4 million to water projects. When 4.7% of the WTF is greater than \$4 million, annual distributions will be 4.7% of a 5-year rolling average of the WTF. At June 30, 2013, the WTF was \$46.5 million.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013**

The net position of the fiduciary funds managed by the Office increased during the fiscal year by the following percentages:

**Table A-5
Fiduciary Funds Net Position**

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Land Grant Permanent Fund	\$12,197,218,232	\$ 10,795,721,087	13.0%
Severance Tax Permanent Fund	4,166,990,158	3,880,616,288	7.4%
Tobacco Settlement Permanent Fund	170,090,873	149,016,666	14.1%
Water Trust Fund	<u>46,536,204</u>	<u>44,897,957</u>	<u>3.6%</u>
 Total private purpose trust funds	 16,580,835,467	 14,870,251,998	 11.5%
 External client trust funds	 <u>588,108,396</u>	 <u>539,160,733</u>	 <u>9.1%</u>
 Total net fiduciary funds	 <u>\$17,168,943,863</u>	 <u>\$ 15,409,412,731</u>	 <u>11.4%</u>

Asset classes authorized under the investment policy 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 assets, including real estate
- Absolute return funds
- Derivative instruments
- Structured credit instruments
- New Mexico direct equity investments
- Government guaranteed New Mexico home and farm loans
- Certificates of deposit in New Mexico financial institutions

Fund assets are managed using external advisors.

Using the Annual Report

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013**

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 position presents information on all of the Office's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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.

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 \$7.8 million in contractual services that was not expended.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013**

Statutory Changes to the Council and its Powers

No new legislation was passed in fiscal years 2013 and 2012 pertaining to the State Investment Council’s enacting statute.

Economic Outlook

The Land Grant Permanent Fund finished fiscal year 2013 with a return of 13.28%. The Severance Tax Permanent Fund finished at 12.14%.

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, 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.

Financial Contact

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
STATEMENT OF NET POSITION
June 30, 2013**

	<u>Governmental Activities</u>
ASSETS	
Investment in State Treasurer General Fund Investment Pool	\$ 15,276,703
Capital assets, net	<u>25,975</u>
TOTAL ASSETS	<u>\$ 15,302,678</u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Due to Land Grant Permanent Fund	\$ 5,932,451
Due to Severance Tax Permanent Fund	2,194,194
Accounts payable	6,676,428
Accrued payroll	53,630
Accrued vacation and sick pay, current	161,262
Other funds held	<u>420,000</u>
Total liabilities	<u>15,437,965</u>
NET POSITION (DEFICIT)	
Net investment in capital assets	25,975
Unrestricted (deficit)	<u>(161,262)</u>
Total net position (deficit)	<u>(135,287)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 15,302,678</u>

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

	<u>Governmental Activities</u>
EXPENSES	
General government	<u>\$ 31,643,726</u>
REVENUES	
Program revenues:	
Fees from external investment trust participants and other revenue	1,258,675
Transfers:	
Land Grant Permanent Fund	22,265,851
Severance Tax Permanent Fund	<u>8,106,934</u>
Total program revenues and transfers	<u>31,631,460</u>
CHANGE IN NET POSITION	(12,266)
NET POSITION (DEFICIT), BEGINNING OF YEAR	<u>(123,021)</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ (135,287)</u>

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
BALANCE SHEET - GENERAL ADMINISTRATIVE FUND
June 30, 2013**

ASSETS

Investment in State Treasurer General Fund Investment Pool \$ 15,276,703

TOTAL ASSETS \$ 15,276,703

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Land Grant Permanent Fund \$ 5,932,451
Due to Severance Tax Permanent Fund 2,194,194
Accounts payable 6,676,428
Accrued payroll 53,630
Other funds held 420,000

Total liabilities 15,276,703

FUND BALANCE

Unassigned -

TOTAL LIABILITIES AND FUND BALANCE \$ 15,276,703

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
RECONCILIATION OF THE BALANCE SHEET - GENERAL ADMINISTRATIVE
FUND TO THE STATEMENT OF NET POSITION
June 30, 2013**

Total Fund Balance - General Administrative Fund (General Administrative Fund Balance Sheet)	\$	-
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets, net		25,975
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Some liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund.

Accrued vacation and sick pay		<u>(161,262)</u>
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Net position (deficit) of governmental activities (Statement of Net Position)	\$	<u>(135,287)</u>
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The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GENERAL ADMINISTRATIVE FUND
Year Ended June 30, 2013

	Governmental Activities
REVENUES FROM EXTERNAL INVESTMENT	
TRUST PARTICIPANTS AND OTHER REVENUE	\$ 1,258,675
EXPENDITURES	
Current	31,625,484
General government:	
Capital outlay	5,976
Total expenditures	31,631,460
Deficiency of revenues under expenditures	(30,372,785)
OTHER FINANCING SOURCES	
Interfund services provided:	
Land Grant Permanent Fund	22,265,851
Severance Tax Permanent Fund	8,106,934
Net other financing sources	30,372,785
NET CHANGE IN FUND BALANCE	-
FUND BALANCE, BEGINNING OF YEAR	-
FUND BALANCE, END OF YEAR	\$ -

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
STATEMENT OF REVENUES AND EXPENDITURES - GENERAL ADMINISTRATIVE FUND -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES FROM EXTERNAL INVESTMENT TRUST PARTICIPANTS AND OTHER REVENUE	\$ 308,200	\$ 308,200	\$ 1,258,675	\$ 950,475
EXPENDITURES				
Personnel services and benefits	3,677,300	3,677,300	3,233,514	443,786
Contractual services	29,837,300	35,552,710	27,754,309	7,798,401
Other - operating expenses	793,600	793,600	643,637	149,963
Total expenditures	<u>34,308,200</u>	<u>40,023,610</u>	<u>31,631,460</u>	<u>8,392,150</u>
Expenditures in excess of revenues	<u>(34,000,000)</u>	<u>(39,715,410)</u>	<u>(30,372,785)</u>	<u>\$ 9,342,625</u>
TRANSFERS				
Interfund transfers in:				
Land Grant Permanent Fund	24,900,000	29,085,967	22,265,851	
Severance Tax Permanent Fund	<u>9,100,000</u>	<u>10,629,443</u>	<u>8,106,934</u>	
Total transfers	<u>34,000,000</u>	<u>39,715,410</u>	<u>30,372,785</u>	
EXCESS (DEFICIENCY) OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

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

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
June 30, 2013

	Private-Purpose		
	Land Grant Permanent Fund	Severance Tax Permanent Fund	Tobacco Settlement Permanent Fund
ASSETS			
Cash and cash equivalents	\$ 458,678,883	\$ 162,133,518	\$ 8,260,612
Investment in State Treasurer General Fund Investment Pool	47,156,255	13,555	-
Due from brokers	308,628,170	100,192,423	4,934,989
Due from general administrative fund	5,932,451	2,194,194	-
Due from other funds	4,143,907	1,406,575	-
Due from other state agencies	-	85	-
Accrued investment income	26,168,706	8,989,161	340,577
Accrued tobacco settlement income	-	-	10,281,606
	<u>850,708,372</u>	<u>274,929,511</u>	<u>23,817,784</u>
INVESTMENTS			
Government-sponsored enterprise and agency issues (GSE)	-	38,052,656	-
Corporate bonds	-	760,502	-
Investment pools:			
Core bonds	2,271,739,412	723,510,892	38,129,922
Large cap. active	1,455,464,546	474,548,614	409,055
Large cap. index	1,862,081,093	585,126,247	82,225,649
Small/mid cap active	480,756,388	158,866,953	1,054,345
Non-U.S. developed markets index	1,031,514,280	363,241,257	8,090,302
Non-U.S. emerging markets index	628,323,642	211,550,317	3,071,291
Absolute return pool	763,282,827	269,725,967	14,452,632
National Private Equity Pool	1,124,464,307	344,707,531	-
Credit and Structured Finance Pool	545,643,096	146,094,449	-
Real Estate Pool	735,214,061	241,864,253	-
Real Asset Pool	263,762,103	64,433,485	-
Large Cap Enhanced Index Pool	372,090,407	123,355,253	-
Small/Mid Cap Index Pool	33,601,494	11,603,594	14,854,927
Small/Mid Cap Enhanced Index Pool	217,484,210	52,060,453	-
Common stock - public	-	2,736,682	-
Conventional mortgage pass-through certificates	-	10,259	-
Private equity	-	202,647,474	-
New Mexico film investments	-	15,000,000	-
	<u>11,785,421,866</u>	<u>4,029,896,838</u>	<u>162,288,123</u>
Total investments			
Total assets	<u>12,636,130,238</u>	<u>4,304,826,349</u>	<u>186,105,907</u>
LIABILITIES			
Due to brokers	391,092,357	121,876,319	5,706,133
Due to other state agencies	3,915,770	1,278,815	10,308,901
Distributions payable to beneficiaries	43,903,879	14,681,057	-
	<u>438,912,006</u>	<u>137,836,191</u>	<u>16,015,034</u>
Total liabilities			
NET POSITION HELD IN TRUST	<u>\$ 12,197,218,232</u>	<u>\$ 4,166,990,158</u>	<u>\$ 170,090,873</u>

<u>Trust Funds</u>			
<u>Water Trust Fund</u>	<u>Total Private- Purpose Trust Funds</u>	<u>External Investment Trust Funds</u>	<u>Total</u>
\$ 658,438	\$ 629,731,451	\$ 10,844,178	\$ 640,575,629
-	47,169,810	-	47,169,810
1,484,292	415,239,874	22,413,734	437,653,608
-	8,126,645	-	8,126,645
-	5,550,482	-	5,550,482
-	85	-	85
105,723	35,604,167	2,267,487	37,871,654
-	10,281,606	-	10,281,606
<u>2,248,453</u>	<u>1,151,704,120</u>	<u>35,525,399</u>	<u>1,187,229,519</u>
-	38,052,656	-	38,052,656
-	760,502	-	760,502
11,459,432	3,044,839,658	232,253,667	3,277,093,325
(158,260)	1,930,263,955	74,904,396	2,005,168,351
24,743,873	2,554,176,862	129,228,624	2,683,405,486
1,276,242	641,953,928	57,552,056	699,505,984
3,311,985	1,406,157,824	57,654,389	1,463,812,213
1,134,004	844,079,254	36,579,090	880,658,344
4,251,883	1,051,713,309	-	1,051,713,309
-	1,469,171,838	-	1,469,171,838
-	691,737,545	-	691,737,545
-	977,078,314	-	977,078,314
-	328,195,588	-	328,195,588
-	495,445,660	-	495,445,660
-	60,060,015	-	60,060,015
-	269,544,663	-	269,544,663
-	2,736,682	-	2,736,682
-	10,259	-	10,259
-	202,647,474	-	202,647,474
-	15,000,000	-	15,000,000
<u>46,019,159</u>	<u>16,023,625,986</u>	<u>588,172,222</u>	<u>16,611,798,208</u>
<u>48,267,612</u>	<u>17,175,330,106</u>	<u>623,697,621</u>	<u>17,799,027,727</u>
1,721,614	520,396,423	35,268,068	555,664,491
9,794	15,513,280	321,157	15,834,437
-	58,584,936	-	58,584,936
<u>1,731,408</u>	<u>594,494,639</u>	<u>35,589,225</u>	<u>630,083,864</u>
<u>\$ 46,536,204</u>	<u>\$ 16,580,835,467</u>	<u>\$ 588,108,396</u>	<u>\$ 17,168,943,863</u>

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

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
Year Ended June 30, 2013

	Land Grant Permanent Fund	Severance Tax Permanent Fund	Private-Purpose Tobacco Settlement Permanent Fund
REVENUES			
Investment earnings:			
Interest and dividends	\$ 263,435,781	\$ 95,229,612	\$ 3,007,596
Net increase in fair value of investments	<u>1,180,224,168</u>	<u>374,971,212</u>	<u>18,331,974</u>
Total investment income (loss)	<u>1,443,659,949</u>	<u>470,200,824</u>	<u>21,339,570</u>
OTHER FINANCING SOURCES (USES)			
Interagency transfers in (out):			
State Land Office	505,488,303	-	-
Severance Tax Bonding Fund	-	339	-
Tobacco settlement proceeds	-	-	29,778,930
Distributions to beneficiaries of the Land Grant Permanent Fund	(526,846,548)	-	-
Distributions to State General Fund by the Severance Tax Permanent Fund	-	(176,172,684)	-
Distribution to beneficiary of the Tobacco Settlement Permanent Fund	-	-	(29,778,930)
Distribution to beneficiary of the Water Trust Fund	-	-	-
Contributions to external investment trust funds	-	-	-
Distributions from external investment trust funds	-	-	-
Federal Taylor Grazing Act transfer (Dept. of the Interior)	328,813	-	-
Interfund services used:			
General Administrative Fund	(22,265,851)	(8,106,934)	-
Internal service fees	<u>1,132,479</u>	<u>452,325</u>	<u>(265,363)</u>
Total other financing sources (uses)	<u>(42,162,804)</u>	<u>(183,826,954)</u>	<u>(265,363)</u>
CHANGE IN NET POSITION	1,401,497,145	286,373,870	21,074,207
NET POSITION, BEGINNING OF YEAR	<u>10,795,721,087</u>	<u>3,880,616,288</u>	<u>149,016,666</u>
NET POSITION, END OF YEAR	<u>\$ 12,197,218,232</u>	<u>\$ 4,166,990,158</u>	<u>\$ 170,090,873</u>

Trust Funds

Water Trust Fund	Total Private- Purpose Trust Funds	External Investment Trust Funds	Total
\$ 912,175	\$ 362,585,164	\$ 13,869,156	\$ 376,454,320
4,817,756	1,578,345,110	53,575,064	1,631,920,174
<u>5,729,931</u>	<u>1,940,930,274</u>	<u>67,444,220</u>	<u>2,008,374,494</u>
-	505,488,303	-	505,488,303
-	339	-	339
-	29,778,930	-	29,778,930
-	(526,846,548)	-	(526,846,548)
-	(176,172,684)	-	(176,172,684)
-	(29,778,930)	-	(29,778,930)
(4,000,000)	(4,000,000)	-	(4,000,000)
-	-	18,531,009	18,531,009
-	-	(35,799,809)	(35,799,809)
-	328,813	-	328,813
-	(30,372,785)	-	(30,372,785)
<u>(91,684)</u>	<u>1,227,757</u>	<u>(1,227,757)</u>	<u>-</u>
<u>(4,091,684)</u>	<u>(230,346,805)</u>	<u>(18,496,557)</u>	<u>(248,843,362)</u>
1,638,247	1,710,583,469	48,947,663	1,759,531,132
<u>44,897,957</u>	<u>14,870,251,998</u>	<u>539,160,733</u>	<u>15,409,412,731</u>
<u>\$ 46,536,204</u>	<u>\$ 16,580,835,467</u>	<u>\$ 588,108,396</u>	<u>\$ 17,168,943,863</u>

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 1. ORGANIZATION AND BACKGROUND

The State of New Mexico Investment Council (the 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 of 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 the 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, the Tobacco Settlement Permanent Fund, the Water Trust Fund, and client funds. The following is a brief description of the purpose and sources of these four 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.

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 \$5.8 billion.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 1. ORGANIZATION AND BACKGROUND (CONTINUED)

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 became effective upon certification of the election results by the Secretary of State and became effective 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 2011, House 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 2011 through 2013, 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 2014 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 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, 2013, 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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 1. ORGANIZATION AND BACKGROUND (CONTINUED)

Water Trust Fund (WTF). 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 fund consists of money appropriated, donated, or otherwise accrued to the fund. Money in the Water Trust Fund shall be invested as in the Land Grant Permanent Fund by the state investment officer 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 \$4.0 million 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates in Preparing Financial Statements

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.

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 Office is a component unit of the primary government of the State of New Mexico. The Office does not have any component units.

Government-wide Financial Statements

The statement of net position 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. The government-wide presentation is focused 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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental Fund Financial Statements

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

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 are 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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Fiduciary Funds

Fiduciary funds consist of trust funds as follows:

Private-Purpose Trust Funds. The LGPF, STPF, TSPF, and WTF 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 statement of net position. 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 6-8-71 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 participants.

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 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; 4) Unassigned, which includes all other spendable amounts. As of June 30, 2013, the Office's fund balance was all unassigned.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, any 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.

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 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 reversions 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 position.

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

Budgetary Data

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

STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Office is required to submit a budget report for the General Administrative Fund to the Department of Finance and Administration and the Legislative Finance Committee by September 1 of each year. The report submitted by the Office also details revenues and expenditures or expenses for the preceding year. The budget for the General Administrative Fund is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) that must be paid out of the next year's budget. A reconciliation of budgetary basis to GAAP basis will be necessary if any accounts payable at the end of the fiscal year are not paid by the statutory deadline. The Council has not included such reconciliation for fiscal year 2013 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 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 position 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. Private purpose trust funds are participants in: Large Cap Active Pool, Large Cap Index Pool, Large Cap Enhanced Index Pool, Small/Mid Cap Active Pool, Small/Mid Cap Index Pool, Small/Mid Cap Enhanced Index Pool, Core Bonds Pool, Credit & Structured Finance, Non-U.S. Developed Markets Index Pool, Non-U.S. Emerging Markets Index Pool, Absolute Return Pool, Private Equity Pool, Real Estate Pool, Real Asset Pool, and Private Equity Pool. External investment trust funds are participants in: Core Bonds Pool, Large Cap Active Pool, Large Cap Index Pool, Small/Mid Cap Active Pool, Non-US Developed Markets Index Pool, and Non-US Emerging Markets Index Pool. The pools are detailed as follows:

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Domestic Equity Pools

The Large Cap Active Pool: four actively managed portfolios (2 growth, 1 value, 1 core) benchmarked against the Russell 1000 Index. All four strategies use fundamental, bottom-up analysis.

The Large Cap Index Pool: one passively managed portfolio benchmarked against the Russell 1000 Index.

The Large Cap Enhanced Index Pool: one actively managed core portfolio benchmarked against the Russell 1000 Index. The strategy uses quantitative bottom-up analysis.

The Small/Mid Cap Active Pool: three actively managed portfolios (1 small-cap value, 1 small-cap core, 1 mid-cap core) benchmarked against the Russell 2500 Index. Two strategies use fundamental, bottom-up analysis; one strategy uses quantitative and fundamental bottom-up analysis.

The Small/Mid Cap Index Pool: one passively managed portfolio benchmarked against the Russell 2500 Index.

The Small/Mid Cap Enhanced Index Pool: one actively managed small-cap core portfolio benchmarked against the Russell 2000 Index. The strategy uses quantitative bottom-up analysis.

Fixed Income Pools

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 achieve the rate of return of the Barclay's Capital Universal Bond Index, plus a small premium from active management. The role of this pool in the asset mixes of the SIC's portfolios is to provide preservation of capital and income generation.

The Credit & Structured Finance Pool is managed externally, investing in various classes of fixed income securities oriented toward credit. The role of this pool in the asset mixes of the SIC's portfolios is to provide growth of capital and income generation.

International Equity Pools

The Non-U.S. Developed Markets Index Pool: one passively managed portfolio benchmarked against the MSCI EAFE Index.

The Non-U.S. Emerging Markets Index Pool: one passively managed portfolio benchmarked against the MSCI Emerging Market Free Index

STATE OF NEW MEXICO INVESTMENT COUNCIL –
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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Alternative Asset Pools

The Absolute Return Pool is managed by three fund-of-fund managers with a multitude of underlying hedge fund managers. The objective of the pool is to provide a rate of return of LIBOR plus 200-300 basis points of premium. The role of the pool in the asset mixes of SIC portfolios is to preserve capital and diversify the investment risks of the other investment pools.

The Real Estate Pool contains primarily open- and closed-end comingled real estate funds, dominated by stable, core real estate properties. The objective of the pool is to match the rate of return on the NCREIF-ODCE index, plus a small premium from active management. The role of the pool in the asset mixes of SIC portfolios is to provide modest growth of capital, income generation, and to diversify the investment risk of the equity pools.

The Real Asset Pool contains a diversified mix of assets which have a positive return correlation with inflation and interest rates. The objective of the pool is to match the rate of return of a custom mix of benchmarks representing similar assets. The role of the pool in the asset mixes of SIC portfolios is to provide modest growth of capital, income generation, and to diversify the investment risk of the equity pools.

The Private Equity Pool contains more than 100 private equity funds diversified across the sectors of private equity. The objective of the pool is to provide a higher rate of return than the Venture Economics All Private Equity Index. The role of the pool in SIC portfolios is to provide growth of capital.

Private Equity

Private equity investments are recorded at estimated fair value as reported by the general partner fund managers. Income is recognized when the investees report distributions received in excess of the capital invested.

Other Investments

Investments in mortgage pass-through certificates, 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, and WTF, including the differential (below

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

market) 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 Position – Amounts Held in Trust for Pool Beneficiaries

Amounts reserved for designated beneficiaries are required to be segregated in accordance with State law.

Interfund Receivables and Payables

The Office has numerous transactions between funds and other State agencies, including interfund transfers for services provided and used for all administrative activities of the Office, transfers of investment income and transfers of resources for investment. At June 30, 2013, \$5,932,451 and \$2,194,194 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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2013.

External Trust Fund Accounting Policies

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

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

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

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

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Office did not have any items that qualified for reporting in this category as of June 30, 2013.

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June 30, 2013**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Office did not have any items that were required to be reported in this category as of June 30, 2013.

New Pronouncement

In June 2011, GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63), effective for the Office's fiscal year beginning July 1, 2012. GASB 63 modifies the presentation of deferred inflows and deferred outflows in the financial statements; it also limits the use of the term "deferred." Implementation of GASB 63 had no effect on the Office's net position or changes in net position for the fiscal year ended June 30, 2013.

The government-wide statements utilize a net position presentation categorized as follows:

Net investment in capital assets - This category reflects the portion of net position that are associated with capital assets less outstanding capital asset related debt.

Restricted net position - For the government-wide statement of net position, net position is reported as restricted when constraints placed on net position used are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This category reflects net position of the Office not restricted for any project or other purpose.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASB 20. GASB 20 gave governments the choice to elect to follow only the authoritative literature of the GASB or to follow Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASB 62, all governmental accounting guidance is codified into GASB literature.

The GASB issued Statement No. 68 *Accounting and Financial Reporting for Pensions* (Statement No. 68), which revised and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The Office provides its employees with pension benefits through a multiple employer cost-sharing defined benefit retirement program administered by the Public Employees' Retirement Association of New Mexico (PERA).

Statement No. 68 requires cost-sharing employers participating in the PERA program, such as the Office, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The Office has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefits, or annual required contribution decisions made by

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PERA. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact the Office's future unrestricted net position. Statement No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of this impact. Information regarding PERA's current funding status can be found in its 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.

NOTE 3. CASH AND CASH EQUIVALENTS

State General Fund Investment Pool

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

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NOTE 3. CASH AND CASH EQUIVALENTS (CONTINUED)

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

In FY 2012, Management of DFA recorded a loss contingency of \$101.7 million in the State General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount. Any loss impact to the Office is not expected to be material.

The Department reviews fund level cash activity on a regular basis to mitigate misstatement.

Investment in the State General Fund Investment Pool

State law (Section 8-6-3 NMSA 1978) requires the agency's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the agency consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office. At June 30, 2013, the agency had the following invested in the General Fund Investment Pool:

General Fund Investment Pool:	
General Administrative Fund	\$ 15,276,703
Fiduciary Funds	\$ 47,169,810

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

Credit risk - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2013.

Deposits

Cash and cash equivalents are held by the custodian, J.P. Morgan. The Office's cash held by J.P. Morgan is invested in short-term investment funds which are insured or registered with securities held by the government or its agent in the government's name.

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NOTE 3. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk

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. Unlimited FDIC deposit insurance coverage for noninterest-bearing transaction accounts expired on December 31, 2012. Beginning January 1, 2013, coverage will revert to the FDIC's standard deposit insurance coverage.

Investments in the State Treasurer Investment Pool (STIP) and cash and cash equivalents balances as of June 30, 2013 were as follows:

	SHARE Fund	State Treasurer's Office Funds	J.P. Morgan	Total
General Administration Fund	17300	\$ 15,276,703	\$ -	\$ 15,276,703
Subtotal		<u>15,276,703</u>	<u>-</u>	<u>15,276,703</u>
Land Grant Permanent Fund	60100	47,156,255	77,119,608	124,275,863
Severance Tax Permanent Fund	60200	13,555	49,451,359	49,464,914
Tobacco Settlement Permanent Fund	95200	-	7,086,821	7,086,821
Water Trust Fund	10120	-	269,388	269,388
Large Cap. Active Pool	09400	-	63,444,466	63,444,466
Large Cap. Index Pool	62800	-	385,825	385,825
Core Bonds Pool	77000	-	76,905,979	76,905,979
Small/Mid Cap Active Pool	22000	-	28,302,432	28,302,432
Small/Mid Cap Enhanced Index Pool	30860	-	1,673,147	1,673,147
Non-U.S. Developed Markets Index Pool	21800	-	8,850,227	8,850,227
Non-U.S. Emerging Markets Index Pool	61100	-	7,895,426	7,895,426
Private Equity Pool	11380	-	101,324,230	101,324,230
Real Estate Pool	11390	-	49,050,553	49,050,553
Real Asset Pool	11540	-	155,050,700	155,050,700
Absolute Return Pool	72100	-	9,830,816	9,830,816
Large Cap Enhanced Index Pool	11530	-	1,377,232	1,377,232
Credit and Structured Finance Pool	20140	-	2,557,420	2,557,420
Subtotal		<u>47,169,810</u>	<u>640,575,629</u>	<u>687,745,439</u>
Total		<u>\$ 62,446,513</u>	<u>\$640,575,629</u>	<u>\$703,022,142</u>

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NOTE 4. INVESTMENTS

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 statutorily or policy in origin, define various elements of the investments. Examples include investment size, limitation of percentage ownership of a particular fund or investment, percentage 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 its 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 not have a policy for the Core Bond Fund that restricts purchases of securities to those above a certain rating as rated by one or more national rating agencies.

The Office's investments and their exposure to credit risk at June 30, 2013 are as follows:

Investment	Rating	Fair Value
Investments subject to credit risk		
Commercial Mortgage-Backed Asset-Backed Securities	AAA	\$ 108,314,882
Non-Government-Backed C.M.O.s	AAA	57,298,524
Corporate Bonds	AAA	4,000,846
Municipal Bonds	AAA	1,904,170
Mortgage Backed Securities	AA+	1,885,338
Government Bonds	AA+	387,896,125
Non-Government-Backed C.M.O.s	AA+	80,826,549
Asset-Backed Securities	AA+	49,226,876
Corporate Bonds	AA+	20,078,028
Demand Notes	AA+	15,890,095
Commercial Mortgage-Backed Asset-Backed Securities	AA+	3,904,842
Corporate Bonds	AA	747,781
Government Bonds	AA	16,568,562
Municipal Bonds	AA	9,272,920
Commercial Mortgage-Backed Non-Government-Backed C.M.O.s	AA	8,492,000
	AA	7,015,838
	AA	2,380,697
	AA	160,242

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NOTE 4. INVESTMENTS (CONTINUED)

<u>Investment</u>	<u>Rating</u>	<u>Fair Value</u>
Investments subject to credit risk (continued)		
Corporate Bonds	AA-	9,358,298
Municipal Bonds	AA-	6,731,473
Government Bonds	AA-	1,314,645
Non-Government-Backed C.M.O.s	AA-	322,870
Corporate Bonds	A+	44,295,262
Municipal Bonds	A+	33,142,287
Commercial Mortgage-Backed	A+	9,127,782
Asset-Backed Securities	A+	4,565,388
Government Bonds	A+	2,431,240
Non-Government-Backed C.M.O.s	A+	163,372
Corporate Bonds	A	88,522,288
Commercial Mortgage-Backed	A	21,293,594
Municipal Bonds	A	8,985,176
Asset-Backed Securities	A	8,163,347
Non-Government-Backed C.M.O.s	A	2,850,281
Corporate Bonds	A-	201,706,871
Municipal Bonds	A-	5,622,475
Commercial Mortgage-Backed	A-	1,867,043
Commercial Paper	A-2	4,290,790
Corporate Bonds	BBB+	66,857,382
Asset-Backed Securities	BBB+	17,052,285
Commercial Mortgage-Backed	BBB+	2,924,141
Non-Government-Backed C.M.O.s	BBB+	128,092
Corporate Bonds	BBB	197,396,637
Government Bonds	BBB	11,391,052
Commercial Mortgage-Backed	BBB	2,180,365
Asset-Backed Securities	BBB	1,629,285
Corporate Bonds	BBB-	202,714,257
Government Bonds	BBB-	15,474,504
Commercial Mortgage-Backed	BBB-	15,299,576
Asset-Backed Securities	BBB-	3,970,594
Corporate Bonds	BB+	106,068,963
Government Bonds	BB+	10,633,737
Asset-Backed Securities	BB+	1,563,504
Non-Government-Backed C.M.O.s	BB+	1,002,632

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NOTE 4. INVESTMENTS (CONTINUED)

<u>Investment</u>	<u>Rating</u>	<u>Fair Value</u>
Investments subject to credit risk (continued)		
Corporate Bonds	BB	94,615,147
Government Bonds	BB	9,702,728
Corporate Bonds	BB-	82,905,606
Non-Government-Backed C.M.O.s	BB-	991,107
Corporate Bonds	B+	44,858,160
Non-Government-Backed C.M.O.s	B+	1,952,866
Corporate Bonds	B	47,628,174
Non-Government-Backed C.M.O.s	B	978,342
Corporate Bonds	B-	24,624,587
Asset-Backed Securities	B-	3,283,270
Corporate Bonds	CCC+	14,347,288
Asset-Backed Securities	CCC	33,704,660
Non-Government-Backed C.M.O.s	CCC	9,945,708
Corporate Bonds	CCC	3,974,875
Non-Government-Backed C.M.O.s	CC	9,691,582
Non-Government-Backed C.M.O.s	D	24,809,395
Investments subject to credit risk - S&P Ratings		<u>2,294,919,298</u>
Investments subject to credit risk - not rated		
Money Markets	not rated	496,963,768
Corporate Bonds	not rated	151,690,202
Asset-Backed Securities	not rated	56,823,371
Non-Government-Backed C.M.O.s	not rated	53,057,781
Commercial Mortgage-Backed	not rated	42,046,788
Government Bonds	not rated	14,475,555
Investments subject to credit risk - not rated		<u>815,057,465</u>
Investments "NOT" subject to credit risk		
Private Equity, Equity Securities and Real Estate		13,448,768,789
NM Film Investments		15,000,000
Government Agencies		38,052,656
Investments "NOT" subject to credit risk		<u>13,501,821,445</u>
TOTAL INVESTMENTS		<u>\$ 16,611,798,208</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
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June 30, 2013**

NOTE 4. INVESTMENTS (CONTINUED)

Interest Rate Risk - Debt Investments

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

A summary of the investments at June 30, 2013 and their exposure to interest rate risk is as follows:

Investment	Fair Value	Life not Available	Less than 1 Year	1-5 Years	6-10 Years	Greater than 10 Years
Investments subject to interest rate risk						
Asset-Backed Securities	\$ 228,959,743	\$ -	\$ 146,641,696	\$ 59,752,654	\$ 16,562,918	\$ 6,002,475
Commercial Mortgage-Backed	206,182,648	-	131,460,254	-	5,244,146	69,478,248
Commercial Paper	4,290,790	-	4,290,790	-	-	-
Corporate Bonds	1,479,001,204	-	181,059,609	483,694,577	608,179,756	206,067,262
Demand Notes	3,904,842	-	3,904,842	-	-	-
Derivatives/Interest Rate SWAP	192,897	-	(6,424,801)	(2,389,553)	407,954	8,599,297
Government Bonds	815,995,373	-	183,564,740	230,219,731	317,641,596	84,569,306
Money Market	6,428,000	6,428,000	-	-	-	-
Mortgage Backed Securities	448,817,823	-	16,817,722	154,416	15,048,890	416,796,795
Municipal/Provincial Bonds	63,382,586	-	-	478,947	-	62,903,639
Non-Government Backed C.M.O.s	164,280,430	-	87,272,786	3,949,441	6,395,263	66,662,940
U.S. Treasury Bonds/Bills/Notes	469,986	-	469,986	-	-	-
Subtotal	<u>\$ 3,421,906,322</u>	<u>\$ 6,428,000</u>	<u>\$ 749,057,624</u>	<u>\$ 775,860,213</u>	<u>\$ 969,480,523</u>	<u>\$ 921,079,962</u>
Investments not subject to interest rate risk						
Securities, Equity, Real Estate, and NM Film Investments	<u>13,189,891,886</u>					
TOTAL INVESTMENTS	<u>\$ 16,611,798,208</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, 2013, the Office was not exposed to concentration of credit risk as no single issuer represented 5% of total investments.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 4. INVESTMENTS (CONTINUED)

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 pool by adhering to the Office's 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.

A summary of the investments and cash and cash equivalents at June 30, 2013 and their exposure to foreign currency risk are as follows:

<u>Investment</u>	<u>Foreign Currency</u>	<u>Amount</u>	<u>% of Total Investments</u>
Common Stock	Australian dollar	\$ 116,842,134	0.67%
Common Stock	Brazilian real	49,933,505	0.29%
Common Stock	British pound sterling	314,350,842	1.82%
Common Stock	Chilean peso	15,656,663	0.09%
Common Stock	Chinese yuan (renminbi)	388,069	0.00%
Common Stock	Czech koruna	2,077,567	0.01%
Common Stock	Danish krone	16,252,199	0.09%
Common Stock	Egyptian pound	2,047,064	0.01%
Common Stock	Euro	381,902,468	2.21%
Common Stock	Hong Kong dollar	202,169,181	1.17%
Common Stock	Hungarian forint	2,082,783	0.01%
Common Stock	Indonesian rupiah	28,218,119	0.16%
Common Stock	Israeli shekel	7,278,091	0.04%
Common Stock	Japanese yen	325,398,031	1.88%
Common Stock	Malaysian ringgit	35,257,943	0.20%
Common Stock	Mexican peso	37,493,884	0.22%
Common Stock	New Taiwan dollar	105,303,348	0.61%
Common Stock	New Turkish lira	17,251,442	0.10%
Common Stock	New Zealand dollar	1,724,728	0.01%
Common Stock	Norwegian krone	11,980,516	0.07%
Common Stock	Philippine peso	9,239,663	0.05%
Common Stock	Polish zloty	13,785,902	0.08%
Common Stock	Singapore dollar	22,528,406	0.13%
Common Stock	South African rand	63,423,423	0.37%
Common Stock	South Korean won	123,714,278	0.71%
Common Stock	Swedish krona	45,243,564	0.26%
Common Stock	Swiss franc	134,122,559	0.77%
Common Stock	Thai baht	25,203,379	0.15%
Cash	Australian dollar	12,643	0.00%

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
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NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 4. INVESTMENTS (CONTINUED)

<u>Investment</u>	<u>Foreign Currency</u>	<u>Amount</u>	<u>% of Total Investments</u>
Cash	Brazilian real	66,504	0.00%
Cash	Chilean peso	35,842	0.00%
Cash	British pound sterling	737,178	0.00%
Cash	Czech koruna	2,610	0.00%
Cash	Danish krone	26,953	0.00%
Cash	Egyptian pound	336,411	0.00%
Cash	Euro	10,016,765	0.06%
Cash	Hong Kong dollar	1,074,006	0.01%
Cash	Hungarian forint	68,941	0.00%
Cash	Israeli shekel	347,894	0.00%
Cash	Japanese yen	2,227,303	0.01%
Cash	Malaysian ringgit	(11,041)	(0.00)%
Cash	Mexican peso	12,853	0.00%
Cash	New Taiwan dollar	1,181,305	0.01%
Cash	New Turkish lira	29,487	0.00%
Cash	New Zealand dollar	715	0.00%
Cash	Norwegian krone	285,438	0.00%
Cash	Polish zloty	13,439	0.00%
Cash	Singapore dollar	358,379	0.00%
Cash	South African rand	57,423	0.00%
Cash	South Korean won	3,940	0.00%
Cash	Swedish krona	24,203	0.00%
Cash	Swiss franc	36,446	0.00%
Derivatives	Brazilian real	(316)	(0.00)%
Derivatives	British pound sterling	1,989	0.00%
Derivatives	Euro	270	0.00%
Derivatives	Hong Kong dollar	(42)	(0.00)%
Derivatives	Israeli shekel	208	0.00%
Derivatives	Japanese yen	504	0.00%
Derivatives	Malaysian ringgit	(20)	(0.00)%
Derivatives	Norwegian krone	119	0.00%
Derivatives	Singapore dollar	(85)	(0.00)%
Global Depositary Receipt	Euro	13,903,448	0.08%
Partnerships	Euro	187,040,690	1.08%
Preferred Stock	Brazilian real	35,378,753	0.20%
Preferred Stock	British pound sterling	165,459	0.00%
Preferred Stock	Chilean peso	1,365,963	0.01%
Preferred Stock	Euro	9,485,135	0.05%
Preferred Stock	South Korean won	5,511,370	0.03%

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 4. INVESTMENTS (CONTINUED)

<u>Investment</u>	<u>Foreign Currency</u>	<u>Amount</u>	<u>% of Total Investments</u>
Rights/Warrants	Australian dollar	6,747	0.00%
Rights/Warrants	Euro	25,458	0.00%
Real Estate Investment Trust	Euro	4,558,779	0.03%
Real Estate Investment Trust	Japanese yen	3,342,355	0.02%
Real Estate Investment Trust	British pound sterling	1,718,329	0.01%
Real Estate Investment Trust	Hong Kong dollar	1,452,546	0.01%
Real Estate Investment Trust	Singapore dollar	1,251,440	0.01%
Foreign Currency Investments and Cash and Cash Equivalents		<u>2,393,024,487</u>	<u>13.82%</u>
Non-Foreign Currency Investments and Cash and Cash Equivalents		<u>14,921,795,863</u>	<u>86.18%</u>
Total Investments and Cash and Cash Equivalents		<u>\$ 17,314,820,350</u>	<u>100.00%</u>

Securities Lending

In fiscal year 2012, the Office made the determination to terminate its securities lending program and accordingly, began and completed the liquidation process.

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.

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The Office is required to contribute 15.09% 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 years ended June 30, 2013, 2012 and 2011 were \$366,313, \$316,464 and \$371,435, respectively, equal to the amount of the required contributions for each fiscal year.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
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June 30, 2013**

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

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. 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 post-employment 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 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 post-employment 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, 2013**

**NOTE 6. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Office's contributions to the RHCA for the years ended June 30, 2013, 2012 and 2011 were \$48,582, \$43,288 and \$40,658, respectively, which equal the required contributions for each year.

NOTE 7. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Furniture and equipment	\$ 324,933	\$ 5,976	\$ (16,209)	\$ 314,700
Accumulated depreciation	<u>(296,062)</u>	<u>(8,872)</u>	<u>16,209</u>	<u>(288,725)</u>
Total capital assets	<u>\$ 28,871</u>	<u>\$ (2,896)</u>	<u>\$ -</u>	<u>\$ 25,975</u>

Depreciation expense recorded by the Office in fiscal year 2013 was \$8,872. This amount was recognized as an expense in the general fund statement of activities.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 8. CHANGES IN ACCRUED VACATION AND SICK PAY

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

Balance at June 30, 2012	\$ 151,413
Additions	234,559
Deletions	<u>(224,710)</u>
Balance at June 30, 2013	<u>\$ 161,262</u>

Of the balance outstanding at June 30, 2013, \$161,262 is estimated to be due within one year of the statement date.

NOTE 9. COMMITMENTS

The Office has commitments for capital contributions to the various private equity partnerships and real estate / real asset investments. As of June 30, 2013, the Office was an investor in approximately 191 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, 2013, unfunded commitments to private equity partnerships were approximately \$822,016,000, and unfunded commitments to real estate and real asset investments were approximately \$1,500,868,000. Due to the nature of these investments, the Office cannot predict when these capital contributions will be called. Subsequent to June 30, 2013, the Office approved an additional \$100,045,000 of commitments to real estate partnerships, and an additional \$100,000,000 of commitments to real asset partnerships.

In addition to the above investment commitments, the Office leases office space under a non-cancelable operating lease. Total rent expense for the year ended June 30, 2013 was \$277,159. Minimum annual lease payments under these leases for the years ended June 30 are as follows:

2014	\$ 288,494
2015	292,715
2016	297,061
2017	301,535
2018	<u>24,667</u>
Total	<u>\$ 1,204,472</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 10. 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 position.

NOTE 11. JOINT POWERS AGREEMENTS

The Office manages investments for several governmental entities 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 position in their individual financial statements. At June 30, 2013, the Office had joint powers agreements with the following entities:

- (a) 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, 2013, the NMRHCA had total net assets held in trust of \$272,562,555.
- (b) 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, 2013, the NMIMT had total net assets held in trust of \$55,081,697.
- (c) 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, 2013, the NMSBVI had total net assets held in trust of \$8,068,780.
- (d) 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, 2013, the Commissioner had total net assets held in trust of \$11,605,313.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 11. JOINT POWERS AGREEMENTS (CONTINUED)

- (e) 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, 2013, the Commission had total net assets held in trust of \$19,981,913.
- (f) 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, 2013, the NMMI had total net assets held in trust of \$24,760,985.
- (g) 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, 2013, the NMDGF had total net assets held in trust of \$939,954.
- (h) 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, 2013, the ENMU had total net assets held in trust of \$8,668,326.
- (i) 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, 2013, the SMSD had total net assets held in trust of \$169,188.
- (j) 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, 2013, the Agency had total net assets held in trust of \$40,636,634.
- (k) 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, 2013, the County had total net assets held in trust of \$41,294,187.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 11. JOINT POWERS AGREEMENTS (CONTINUED)

- (l) 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, 2013, the NMPSIA had total net assets held in trust of \$25,474,427.
- (m) 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, 2013, the NMHU had total net assets held in trust of \$2,949,429.
- (n) 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, 2013, the CYFD had total net assets held in trust of \$2,696,766.
- (o) 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, 2013, the NMMFA had total net assets held in trust of \$32,928,424.
- (p) 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, 2013, the NMHED had total net assets held in trust of \$23,910,065.
- (q) 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, 2013, the Client had total net assets held in trust of \$16,379,753.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

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.

At June 30, 2013, 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 any outstanding balances 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 to the state legislature; therefore, the legislature annually appropriates funds for the SIC operating budget from the sources specified in this statute. Unexpended/unencumbered funds at fiscal year-end subsequently revert back to their original funding source.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
CHANGES IN LAND GRANT PERMANENT TRUST FUND HELD FOR BENEFICIARIES
Year Ended June 30, 2013**

Exhibit 1

Beneficiary	Balance June 30, 2012	State Land Office Transfers	Distributions to Beneficiaries	Other Increases in Capital Accounts, net	Balance June 30, 2013	Participation Percentage June 30, 2013
Carrie Tingley Hospital	\$ 179,076	\$ -	\$ (8,603)	\$ 23,032	\$ 193,505	0.001594%
Charitable, penal and reform	94,309,406	2,907,626	(4,591,843)	12,266,754	104,891,943	0.864260%
Public schools	8,985,483,688	452,915,499	(440,876,338)	1,176,173,072	10,173,695,921	83.826405%
Eastern New Mexico University	9,144,123	261,674	(444,441)	1,187,425	10,148,781	0.083621%
Improvements to the Rio Grande	27,644,603	338,641	(1,335,020)	3,571,417	30,219,641	0.248995%
Miners' Colfax Medical Center	106,277,372	2,353,785	(5,154,868)	13,779,489	117,255,778	0.966132%
New Mexico Boys School	680,663	3,075	(32,768)	87,709	738,679	0.006086%
New Mexico Highlands University	2,936,654	74,106	(142,699)	381,476	3,249,537	0.026775%
New Mexico Institute of Mining and Technology	21,965,088	656,644	(1,069,736)	2,858,753	24,410,749	0.201133%
New Mexico Military Institute	360,877,437	12,193,256	(17,599,474)	47,013,904	402,485,123	3.316286%
New Mexico School for the Deaf	218,762,025	7,209,528	(10,664,978)	28,491,021	243,797,596	2.008776%
New Mexico School for the Blind and Visually Impaired	218,246,141	7,209,559	(10,640,195)	28,424,671	243,240,176	2.004183%
New Mexico State Hospital	24,438,695	1,360,882	(1,183,423)	3,161,379	27,777,533	0.228874%
New Mexico State University	52,000,365	985,508	(2,518,994)	6,734,929	57,201,808	0.471316%
Northern New Mexico Community College	2,329,215	74,328	(113,522)	303,360	2,593,381	0.021368%
Penitentiary of New Mexico	216,723,247	7,994,861	(10,584,851)	28,269,517	242,402,774	1.997283%
Public Buildings - Capitol	121,072,091	2,562,255	(5,872,867)	15,701,445	133,462,924	1.099671%
The University of New Mexico	163,209,973	2,444,717	(7,891,846)	21,106,810	178,869,654	1.473801%
The University of New Mexico Saline Lands	2,678,120	1,297,151	(149,478)	385,421	4,211,214	0.034698%
Water reservoirs	120,189,346	2,571,102	(5,827,107)	15,576,890	132,510,231	1.091821%
Western New Mexico University	2,953,268	74,106	(143,497)	383,612	3,267,489	0.026923%
Alternative asset fair market value adjustments Due from pools	43,620,491 -	- -	- -	12,829,397 4,143,907	56,449,888 4,143,907	
TOTAL	<u>\$ 10,795,721,087</u>	<u>\$ 505,488,303</u>	<u>\$ (526,846,548)</u>	<u>\$ 1,422,855,390</u>	<u>\$ 12,197,218,232</u>	<u>100.00%</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
DETAIL OF INTERAGENCY TRANSFERS
Year Ended June 30, 2013**

Exhibit 2

Agency Initiating Transfer/Fund	Transferring Cash Account	Agency Receiving Transfer/Fund	Receiving Cash Account
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State Land Office		State Investment Office/ Land Grant Permanent Fund	60100
	53900/26400/7770		

A total of \$505,488,303 was received from the State Land Office for fiscal year 2013. Funds transferred are from royalties and principal from land sales generated by the State Land Office (see Note 1).

State Treasurer's Office/ Severance Tax Bonding Fund		State Investment Office/ Severance Tax Permanent Fund	60200
	39400/41000		

A total of \$339 was transferred from the Severance Tax Bonding Fund during 2013. \$85 has been recorded as a receivable at June 30, 2013. Funds transferred are remaining severance tax revenues after paying Severance Tax Bonding debt service (see Note 1).

Department of Finance and Administration/ Tobacco Settlement Proceeds		State Investment Office/ Tobacco Settlement Permanent Fund	95200
	39401		

A total of \$39,303,327 was received in fiscal year 2013 for the Tobacco Settlement Permanent Fund's portion of the Tobacco Settlement Proceeds (see Note 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, 2013.

State Investment Office/ Land Grant Permanent Fund		Land Grant Permanent Fund beneficiaries	Various
	60100		

A total of \$526,846,548 was distributed for fiscal year 2013 to the various beneficiaries of the Land Grant Permanent Fund (see Note 1).

State Investment Office/ Severance Tax Permanent Fund		Department of Finance and Administration/ State General Fund	85300
	60200		

A total of \$176,172,684 was distributed for fiscal year 2013 to the various beneficiaries of the Severance Tax Permanent Fund (see Note 1).

State Investment Office/ Tobacco Settlement Permanent Fund		Department of Finance and Administration/ Tobacco Settlement Program Fund	69700
	95200		

A total of \$39,303,327 was distributed for fiscal year 2013 to the Tobacco Settlement Program Fund (see Note 1). The difference between what was paid and what was recorded in the statement of changes in net assets is due to accrued amounts recorded as due to other state agencies at June 30, 2013.

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS
Year Ended June 30, 2013

Exhibit 3
Page 1 of 6

For fiscal year ended June 30, 2013, activity by participating agency was as follows:

Core Bonds Pool	Beginning Balance June 30, 2012	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2013
Participant						
Eastern New Mexico University	\$ 1,996,461	\$ -	\$ -	\$ -	\$ 53,072	\$ 2,049,533
Los Alamos County - Cemetery	151,776	-	-	(37,000)	5,186	119,962
Los Alamos County - General Fund	4,056,743	(2,099,999)	-	-	185,071	2,141,815
Los Alamos County - Permanent Fund	5,458,063	(1,700,000)	-	-	198,765	3,956,828
NM Children's, Youth & Family Department Next Generation Fund	1,059,266	-	-	-	28,158	1,087,424
NM Children's, Youth & Family Department Trust Fund	1,059,266	-	-	-	28,158	1,087,424
NM Commissioner of Public Lands - Oil and Gas	5,462,265	-	-	-	145,202	5,607,467
NM Department of Game and Fish	409,535	(74,000)	-	-	12,298	347,833
NM Highlands University - Endowment Fund	912,655	-	-	-	24,260	936,915
NM Higher Education Department	4,682,396	(411,572)	-	-	133,311	4,404,135
NM Institute of Mining and Technology - Employee Benefit Trust	265,547	-	-	-	7,059	272,606
NM Institute of Mining and Technology - Endowment Fund	10,856,701	-	-	-	288,602	11,145,303
NM Institute of Mining and Technology - Plant Debt Allocated Funds	13,008,673	-	-	-	345,806	13,354,479
NM Institute of Mining and Technology - Research Fund	3,523,959	(1,200,000)	-	-	124,792	2,448,751
NM Interstate Stream Comm. - Improvements on the Rio Grande	707,774	-	-	-	18,814	726,588
NM Interstate Stream Comm. - Irrigation Works Construction	7,407,749	-	-	-	196,918	7,604,667
NM Military Institute - Capital Outlay	488,751	(180,000)	-	(10,478)	16,312	314,585
NM Military Institute - Legislative Scholarship	3,193,278	(180,000)	-	(66,525)	89,162	3,035,915
NM Military Institute - LFC/VC Maintenance Endowment	1,634,150	-	-	(30,344)	43,967	1,647,773
NM Military Institute - Patterson Account	1,423,413	-	-	(30,860)	38,378	1,430,931
NM Military Institute - Trust Scholarship	1,736,267	(97,200)	-	21,998	47,473	1,708,538
NM Mortgage Finance Authority	18,611,940	-	-	-	494,755	19,106,695
NM Mortgage Finance Authority - IFT Housing Trust Fund	9,240,879	(3,352,060)	3,207,410	-	235,277	9,331,506
NM Public Regulation Commission - Patients' Comp. Fund	24,983,866	-	-	-	664,132	25,647,998
NM Public Schools Insurance Authority - Benefits	8,070,261	(4,443,000)	-	-	329,676	3,956,937
NM Public Schools Insurance Authority - Risk	5,380,270	(1,580,000)	-	-	183,968	3,984,238
NM Retiree Health Care Authority	86,755,621	-	5,360,249	-	2,154,946	94,270,816
NM School for the Blind and Visually Impaired	4,659,027	-	-	-	123,837	4,782,864
Springer Municipal School District	21,749	-	1,720	-	615	24,084
TOTAL	\$ 227,218,301	\$ (15,317,831)	\$ 8,569,379	\$ (153,209)	\$ 6,217,970	\$ 226,534,610

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
Year Ended June 30, 2013

Exhibit 3
Page 2 of 6

Large Cap. Active Pool	Beginning Balance June 30, 2012	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2013
Participant						
Los Alamos County - Cemetery	\$ 153,326	\$ -	\$ -	\$ 5,500	\$ 28,345	\$ 187,171
Los Alamos County - General Fund	4,084,704	(1,700,000)	-	-	732,188	3,116,892
Los Alamos County - Permanent Fund	5,527,642	(400,000)	-	-	1,007,028	6,134,670
City of Las Cruces	4,882,257	-	-	-	898,444	5,780,701
NM Commissioner of Public Lands - Oil and Gas	2,611,432	-	-	-	480,561	3,091,993
NM Children's, Youth & Family Department Next Generation Fund	170,834	-	-	-	31,438	202,272
NM Children's, Youth & Family Department Trust Fund	170,834	-	-	-	31,438	202,272
NM Higher Education Department	6,293,192	(564,583)	-	-	1,086,612	6,815,221
NM Interstate Stream Comm. - Improvements on the Rio Grande	604,513	-	-	-	111,243	715,756
NM Interstate Stream Comm. - Irrigation Works Construction	9,235,386	-	-	-	1,699,516	10,934,902
NM Military Institute - LFC/VC Maintenance Endowment	29	-	-	-	(29)	-
NM Retiree Health Care Authority	31,331,009	-	1,914,375	-	5,918,436	39,163,820
NM School for the Blind and Visually Impaired	698,433	-	-	-	128,541	826,974
TOTAL	\$ 65,763,591	\$ (2,664,583)	\$ 1,914,375	\$ 5,500	\$ 12,153,761	\$ 77,172,644

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
Year Ended June 30, 2013

Exhibit 3
Page 3 of 6

Large Cap. Index Pool	Beginning Balance June 30, 2012	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2013
Participant						
Los Alamos County - Cemetery	\$ 156,062	\$ -	\$ -	\$ 5,500	\$ 33,294	\$ 194,856
City of Las Cruces	2,543,562	-	-	-	539,975	3,083,537
Los Alamos County - General Fund	4,157,585	(1,700,000)	-	-	862,069	3,319,654
Los Alamos County - Permanent Fund	5,626,025	(400,000)	-	-	1,183,706	6,409,731
Eastern New Mexico University	3,622,736	-	-	-	769,078	4,391,814
NM Higher Education Department	6,280,522	(565,157)	-	-	1,248,070	6,963,435
NM Commissioner of Public Lands - Oil and Gas	2,396,992	-	-	-	508,861	2,905,853
NM Department of Game and Fish	354,277	(60,000)	-	-	66,829	361,106
NM Highlands University - Endowment Fund	1,095,216	-	-	-	232,511	1,327,727
NM Institute of Mining and Technology - Employee Benefit Trust	449,595	-	-	-	95,440	545,035
NM Institute of Mining and Technology - Endowment Fund	11,509,307	-	-	-	2,443,321	13,952,628
NM Institute of Mining and Technology	10,853,475	-	-	-	2,304,099	13,157,574
NM Military Institute - Capital Outlay	515,888	(190,000)	-	(23,765)	75,332	377,455
NM Military Institute - Legislative Scholarship	3,373,428	(190,000)	-	(156,314)	660,798	3,687,912
NM Military Institute - LFC/VC Maintenance Endowment	1,724,615	-	-	(74,239)	354,251	2,004,627
NM Military Institute - Patterson Account	1,501,261	-	-	(68,312)	307,778	1,740,727
NM Military Institute - Trust Scholarship	1,894,388	(102,600)	-	(87,534)	371,759	2,076,013
NM Mortgage Finance Authority	3,703,910	-	-	-	786,313	4,490,223
NM Public Regulation Commission - Patients' Comp. Fund	6,650,099	-	-	-	1,411,759	8,061,858
NM Public Schools Insurance Authority - Benefits	9,677,579	(5,935,000)	-	-	2,135,259	5,877,838
NM Public Schools Insurance Authority - Risk	6,451,680	(2,110,000)	-	-	1,398,365	5,740,045
NM Retiree Health Care Authority	30,037,998	-	1,914,375	-	6,553,307	38,505,680
Springer Municipal School District	34,177	-	1,720	-	7,622	43,519
TOTAL	\$ 114,610,377	\$ (11,252,757)	\$ 1,916,095	\$ (404,664)	\$ 24,349,796	\$ 129,218,847

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
Year Ended June 30, 2013

Exhibit 3
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Small/Mid Cap. Active Pool	Beginning Balance June 30, 2012	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2013
Participant						
Los Alamos County - Cemetery	\$ 111,940	\$ -	\$ -	\$ 14,000	\$ 34,491	\$ 160,431
Los Alamos County - General Fund	2,970,299	(1,000,000)	-	-	829,794	2,800,093
Los Alamos County - Permanent Fund	4,032,573	-	-	-	1,209,962	5,242,535
City of Las Cruces	4,241,221	-	-	-	1,272,572	5,513,793
Eastern New Mexico University	1,043,502	-	-	-	313,094	1,356,596
NM Department of Game and Fish	113,412	(18,000)	-	-	30,461	125,873
NM Higher Education Department	3,274,717	(297,708)	-	-	916,338	3,893,347
NM Highlands University - Endowment Fund	301,041	-	-	-	90,331	391,372
NM Institute of Mining and Technology - Employee Benefit Trust	91,879	-	-	-	27,575	119,454
NM Military Institute - Capital Outlay	137,089	(55,000)	-	4,646	29,649	116,384
NM Military Institute - Legislative Scholarship	897,877	(55,000)	-	28,530	263,382	1,134,789
NM Military Institute - LFC/VC Maintenance Endowment	460,891	-	-	14,234	141,530	616,655
NM Military Institute - Patterson Account	399,146	-	-	13,515	122,853	535,514
NM Military Institute - Trust Scholarship	511,868	(8,100)	-	7,857	153,543	665,168
NM Retiree Health Care Authority	22,532,407	-	1,531,500	-	6,997,241	31,061,148
NM Public Regulation Commission - Patients' Comp. Fund	1,774,040	-	-	-	532,303	2,306,343
NM Public Schools Insurance Authority - Benefits	2,348,550	(1,490,000)	-	-	697,322	1,555,872
NM Public Schools Insurance Authority - Risk	1,565,687	(530,000)	-	-	467,157	1,502,844
NM School for the Blind and Visually Impaired	735,708	-	-	-	220,737	956,445
Springer Municipal School District	30,789	(7,750)	1,720	-	9,266	34,025
TOTAL	\$ 47,574,636	\$ (3,461,558)	\$ 1,533,220	\$ 82,782	\$ 14,359,601	\$ 60,088,681

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
Year Ended June 30, 2013

Exhibit 3
Page 5 of 6

Non-U.S. Developed Markets Index Pool	Beginning Balance June 30, 2012	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2013
Participant						
Eastern New Mexico University	\$ 673,917	\$ -	\$ -	\$ -	\$ 125,244	\$ 799,161
City of Las Cruces	1,688,013	-	-	-	313,709	2,001,722
Los Alamos County - Cemetery	78,739	-	-	8,000	14,557	101,296
Los Alamos County - General Fund	2,103,087	(200,000)	-	-	402,579	2,305,666
Los Alamos County - Permanent Fund	2,832,905	-	-	-	526,478	3,359,383
NM Children's, Youth & Family Department Next Generation Fund	40,633	-	-	-	7,552	48,185
NM Children's, Youth & Family Department Trust Fund	40,633	-	-	-	7,552	48,185
NM Department of Game and Fish	57,476	(9,000)	-	-	10,032	58,508
NM Institute of Mining and Technology - Employee Benefit Trust	72,410	-	-	-	13,457	85,867
NM Higher Education Department	1,161,984	(105,152)	-	-	208,029	1,264,861
NM Military Institute - Capital Outlay	135,397	(60,000)	-	20,927	21,246	117,570
NM Military Institute - Legislative Scholarship	884,071	(60,000)	-	137,973	172,128	1,134,172
NM Military Institute - LFC/VC Maintenance Endowment	461,537	-	-	62,094	92,007	615,638
NM Military Institute - Patterson Account	394,335	-	-	60,830	79,394	534,559
NM Military Institute - Trust Scholarship	530,099	(32,400)	-	41,594	99,441	638,734
NM Public Regulation Commission - Patients' Comp. Fund	2,157,743	-	-	-	401,012	2,558,755
NM Public Schools Insurance Authority - Benefits	1,013,816	(630,000)	-	-	210,843	594,659
NM Public Schools Insurance Authority - Risk	675,889	(224,000)	-	-	133,581	585,470
NM Retiree Health Care Authority	31,909,562	-	2,297,250	-	6,009,246	40,216,058
NM School for the Blind and Visually Impaired	610,978	-	-	-	113,539	724,517
Springer Municipal School District	27,563	-	1,720	-	5,437	34,720
NM Highlands University - Endowment Fund	158,589	-	-	-	29,473	188,062
TOTAL	\$ 47,709,376	\$ (1,320,552)	\$ 2,298,970	\$ 331,418	\$ 8,996,536	\$ 58,015,748

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
Year Ended June 30, 2013

Exhibit 3
Page 6 of 6

Non U.S. Emerging Markets Index Pool	Beginning Balance June 30, 2012	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2013
Participant						
Eastern New Mexico University	\$ 70,885	\$ -	\$ -	\$ -	\$ 337	\$ 71,222
Los Alamos County - Cemetery	31,075	-	-	4,000	(193)	34,882
Los Alamos County - General Fund	848,071	(300,000)	-	-	31,038	579,109
Los Alamos County - Permanent Fund	1,123,863	-	-	-	5,350	1,129,213
NM Children's, Youth & Family Department Next Generation Fund	10,452	-	-	-	50	10,502
NM Children's, Youth & Family Department Trust Fund	10,452	-	-	-	50	10,502
NM Department of Game and Fish	54,656	(9,000)	-	-	978	46,634
NM Higher Education Department	618,970	(55,828)	-	-	5,924	569,066
NM Military Institute - Capital Outlay	30,738	(15,000)	-	8,670	388	24,796
NM Military Institute - Legislative Scholarship	201,269	(15,000)	-	56,336	(768)	241,837
NM Military Institute - LFC/VC Maintenance Endowment	103,822	-	-	28,255	(677)	131,400
NM Military Institute - Patterson Account	89,872	-	-	24,827	(594)	114,105
NM Military Institute - Trust Scholarship	127,616	(29,700)	-	16,085	1,187	115,188
NM Public Regulation Commission - Patients' Comp. Fund	2,051,935	-	-	-	9,745	2,061,680
NM Public Schools Insurance Authority - Benefits	1,759,771	(1,002,000)	-	-	73,052	830,823
NM Public Schools Insurance Authority - Risk	1,173,153	(356,000)	-	-	28,548	845,701
NM Retiree Health Care Authority	27,067,726	-	2,297,250	-	(19,943)	29,345,033
NM School for the Blind and Visually Impaired	774,287	-	-	-	3,693	777,980
Springer Municipal School District	30,984	-	1,720	-	136	32,840
NM Highlands University - Endowment Fund	104,855	-	-	-	498	105,353
TOTAL	\$ 36,284,452	\$ (1,782,528)	\$ 2,298,970	\$ 138,173	\$ 138,799	\$ 37,077,866

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2013

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 State Treasurer's Office	Fund 173 - General Administrative Fund	Interest in SGFIP	\$ 15,276,703	\$ 15,276,703
	Total Admin Fund		\$ 15,276,703	\$ 15,276,703
Fiduciary Funds				
<i>Cash and Cash Equivalents</i>				
NM State Treasurer's Office	Fund 601 - Land Grant Permanent Fund	Interest in SGFIP	\$ 47,156,255	\$ 47,156,255
NM State Treasurer's Office	Fund 602 - Severance Tax Permanent Fund	Interest in SGFIP	13,555	13,555
JP Morgan	Land Grant Permanent Fund	Money Market	77,119,609	77,119,609
JP Morgan	Severance Tax Permanent Fund	Money Market	49,451,359	49,451,359
JP Morgan	Tobacco Settlement Permanent Fund	Money Market	7,086,820	7,086,820
JP Morgan	Water Trust Fund	Money Market	269,388	269,388
JP Morgan	Alliance Bernstein	Money Market	8,775,013	8,775,013
JP Morgan	Alliance Bernstein EM	Money Market	7,895,426	7,895,426
JP Morgan	Blackrock	Money Market	1,673,147	1,673,147
JP Morgan	Brown Brothers Harriman	Money Market	34,661,472	34,661,472
JP Morgan	Cortina Asset Management	Money Market	6,192,741	6,192,741
JP Morgan	Credit and Structured Finance Cash	Money Market	2,557,420	2,557,420
JP Morgan	Donald Smith Co.	Money Market	12,605,951	12,605,951
JP Morgan	Fixed Income Pool	Money Market	873,095	873,095
JP Morgan	Hedge Fund Pooled Cash Account	Cash	9,830,816	9,830,816
JP Morgan	ING	Money Market	35,600,413	35,600,413
JP Morgan	JP Morgan Asset Management	Money Market	20,062,214	20,062,214
JP Morgan	S&P 500 Active Pool	Money Market	119	119
JP Morgan	Loomis Sayles	Money Market	19,508,686	19,508,686
JP Morgan	Northern Trust	Money Market	310	310
JP Morgan	PanAgora	Money Market	1,377,232	1,377,232
JP Morgan	PIMCO	Money Market	41,591,020	41,591,020
JP Morgan	National Private Equity Pool	Cash	101,324,230	101,324,230
JP Morgan	Prudential	Money Market	14,933,178	14,933,178
JP Morgan	Real Asset Pool	Money Market	119,450,287	119,450,287
JP Morgan	Real Estate Pool	Money Market	49,050,553	49,050,553
JP Morgan	S&P Index 500 Pool	Money Market	385,515	385,515
JP Morgan	Seizert Capital	Money Market	9,503,740	9,503,740
JP Morgan	SIC Tax Reclaims	Money Market	75,214	75,214
JP Morgan	T. Rowe Price	Money Market	1,077,545	1,077,545
JP Morgan	Wellington	Money Market	7,643,116	7,643,116
	Total Fiduciary Funds		\$ 687,745,439	\$ 687,745,439

STATE OF NEW MEXICO INVESTMENT COUNCIL -
INVESTMENT OFFICE
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS (CONTINUED)
June 30, 2013

Exhibit 4
Page 2 of 2

Depository Institution	Account Name	Deposit Type	Balance per Books	Balance per Statement
Fiduciary Funds				
<i>Investments on Deposit</i>				
JP Morgan	Alliance Bernstein	Equity	1,463,812,212	1,463,812,212
JP Morgan	Alliance Bernstein EM	Equity	880,658,343	880,658,343
JP Morgan	Brown Brothers Harriman	Equity	493,509,884	493,509,884
JP Morgan	Cortina Asset Management	Equity	275,738,684	275,738,684
JP Morgan	Donald Smith Co.	Equity	205,481,963	205,481,963
JP Morgan	ING	Fixed Income	98,709,066	98,709,066
JP Morgan	JP Morgan Asset Management	Equity	602,175,246	602,175,246
JP Morgan	Loomis Sayles	Core Bonds	785,437,226	785,437,226
JP Morgan	Northern Trust	Equity	2,742,995,580	2,742,995,580
JP Morgan	PIMCO	Core Bonds	1,705,698,612	1,705,698,612
JP Morgan	Prudential	Core Bonds	785,957,488	785,957,488
JP Morgan	S&P Index 500 Pool	Equity	469,921	469,921
JP Morgan	Seizert Capital	Equity	218,285,339	218,285,339
JP Morgan	T. Rowe Price	Equity	262,813,474	262,813,474
JP Morgan	Wellington	Equity	646,669,745	646,669,745
	<i>Total Investments on Deposit</i>		<u>11,168,412,783</u>	<u>11,168,412,783</u>
<i>Other Investments</i>				
JP Morgan	Credit and Structured Finance	Structured Credit	691,737,545	691,737,545
JP Morgan	Blackrock	Enhanced Index	269,544,663	269,544,663
JP Morgan	PanAgora	Enhanced Index	495,445,660	495,445,660
JP Morgan	AAM High Desert	Hedge Investments	326,588,179	326,588,179
JP Morgan	Altair Stars	Hedge Investments	201,095	201,095
JP Morgan	Austin	Hedge Investments	10,563,110	10,563,110
JP Morgan	Crestline Enchantment	Hedge Investments	350,833,231	350,833,231
JP Morgan	Crestline Offshore	Hedge Investments	12,002,770	12,002,770
JP Morgan	CT Preferred Investors	Hedge Investments	5,105,973	5,105,973
JP Morgan	Mariner Matador	Hedge Investments	346,418,952	346,418,952
N/A	Various	Govt. Sponsored Entities	38,052,656	38,052,656
N/A	Various	Direct Equity and Bond Investments	3,497,184	3,497,184
N/A	Various	Mortgages and Mort. Certifs.	10,259	10,259
N/A	Various	Private Equity Investments	1,671,819,312	1,671,819,312
N/A	Various	Real Estate Investments	977,078,314	977,078,314
N/A	Various	Real Aset Investments	229,486,522	229,486,522
N/A	Various	Film Loans	15,000,000	15,000,000
	<i>Total Other Investments</i>		<u>5,443,385,425</u>	<u>5,443,385,425</u>
	Total Fiduciary Fund Investments		<u>16,611,798,208</u>	<u>16,611,798,208</u>
	Total Fiduciary Fund Cash and Investments		<u>\$17,299,543,647</u>	<u>\$17,299,543,647</u>

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the general fund, each fiduciary fund, and the budgetary comparison for the general fund of the State of New Mexico Investment Council – Investment Office (the Office) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated December 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free from 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 statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 4, 2013

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2013**

Section II - Financial Statement Findings

There were no findings for the year ended June 30, 2013.

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2013**

Section I – Financial Statement Findings

Finding 2012-01 Recording of Management Fees (Significant Deficiency) – Cleared

**Finding 2012-02 Failure to Perform Annual Fixed Asset Inventory Count (Compliance) –
Cleared**

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
EXIT CONFERENCE
June 30, 2013**

An exit conference was held with the Office on November 25, 2013 in a closed meeting. In attendance were:

NEW MEXICO STATE INVESTMENT COUNCIL

Peter Frank, Audit Committee Chairman
Jim Goodwin, Audit Committee Member
Tom Clifford, DFA Secretary and Audit Committee Member (by phone)
Leonard Lee Rawson, Audit Committee Member (by phone)
Steven K. Moise, State Investment Officer
Vince Smith, Deputy State Investment Officer
Evan Land, General Counsel
Brent Shipp, CFO
Charles Wollmann, Director of Communications
Kerri Segell, Executive Assistant

CLIFTONLARSONALLEN LLP

Bill Petri, CPA, Partner
Joel Blackman, CPA, Manager

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been jointly prepared by the independent auditors and the accounting staff. The responsibility of the financial statements is the management's, as addressed in the Independent Auditors' Report.