

**STATE OF NEW MEXICO  
EDUCATIONAL RETIREMENT BOARD**

**FINANCIAL STATEMENTS  
As of and for the Years Ended  
June 30, 2016 and 2015,  
and Independent Auditors' Report**

**STATE OF NEW MEXICO  
EDUCATIONAL RETIREMENT BOARD**

**Financial Statements  
and Other Supplementary Information  
June 30, 2016 and 2015**

**(With Independent Auditors' Report Thereon)**

**Prepared by Board Staff**

**AUDITED BY:  
CliftonLarsonAllen, LLP**

## **INTRODUCTORY SECTION**

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**STATE OF NEW MEXICO**  
**EDUCATIONAL RETIREMENT BOARD**

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**STATE OF NEW MEXICO  
EDUCATIONAL RETIREMENT BOARD**

**Official Roster  
As of June 30, 2016**

**BOARD OF DIRECTORS**

<b>NAME</b>	<b>TITLE</b>
Ms. Mary Lou Cameron	Chairman
Mr. H. Russell Goff	Vice-Chairman
Mr. Hipolito J. Aguilar	Secretary, Designate for Ms. Hanna Skandera, Ex-officio Member
Dr. Donald Duszynski	Member
Vacant	Member
Mr. Larry Magid	Member
Ms. Hanna Skandera	Ex-officio Member
Mr. Tim Eichenberg	Ex-officio Member

**ADMINISTRATIVE STAFF**

Ms. Jan Goodwin	Executive Director
Mr. Rick Scroggins	Deputy Director
Mr. Roderick Ventura	General Counsel
Mr. Bob Jacksha	Chief Investment Officer
Ms. Dianne L. Rossbach	Chief Financial Officer
Mr. Lawrence Esquibel	Chief Information Officer
Ms. Monica Lujan	Member Services Director

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

The Members of the State of New Mexico  
Educational Retirement Board and  
Mr. Timothy M. Keller  
New Mexico State Auditor

### **Report on the Financial Statements**

We have audited the financial statements of the New Mexico Educational Retirement Board (ERB), which comprise the Statement of Fiduciary Net Position as of June 30, 2016, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related Notes to the Financial Statements, as listed in the table of contents. We have also audited the Schedule of Revenues and Expenditures - Budget and Actual for the New Mexico Educational Retirement Board presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements for the year ended June 30, 2016, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.



The Members of the State of New Mexico  
Educational Retirement Board and  
Mr. Timothy M. Keller  
New Mexico State Auditor

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the ERB as of June 30, 2016, and the respective changes in its net position and the Schedule of Revenues and Expenditures - Budget and Actual for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements of ERB are intended to present the fiduciary net position and changes in fiduciary net position of only that portion of the State of New Mexico which are attributable to the transactions of the Funds administered by ERB. They do not purport to, and do not present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

*Other Auditors*

The financial statements of ERB which comprise the Statement of Fiduciary Net Position as of June 30, 2015, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related Notes to the Basic Financial Statements, were audited by other auditors whose report dated November 12, 2015, expressed an unmodified opinion on those statements.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Changes in the Employers' Net Pension Liability, Employers' Net Pension Liability, Investment Returns and Employer Contributions, and related Notes, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 for the year ended June 30, 2016 was conducted for the purpose of forming an opinion on the ERB's financial statements. The Schedules of Budgeted Expenditures, Investment and Administrative Expenses and Cash and Short Term Investments, as listed in the table of contents, for the year ended June 30, 2016 are presented for purposes of additional analysis and is not a required part of the financial statements.

The Members of the State of New Mexico  
Educational Retirement Board and  
Mr. Timothy M. Keller  
New Mexico State Auditor

The Schedules of Budgeted Expenditures, Investment and Administrative Expenses and Cash and Short Term Investments, as listed in the table of contents, are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements for the year ended June 30, 2016 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures described above and the report of the other auditors, the information is fairly stated, in all material respects, in relation to the financial statements as a whole for the year ended June 30, 2016. ERB's basic financial statements for the year ended June 30, 2015, were audited by other auditors whose report thereon dated November 12, 2015, expressed unmodified opinions on the respective financial statements. The report of the other auditors dated November 12, 2015, stated that the schedule of cash and short term investments for the year ended June 30, 2015 were subjected to the auditing procedures applied in the audit of the 2015 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, were fairly stated in all material respects in relation to the basic financial statements as whole for the year ended June 30, 2015.

The Introductory section, Accountability in Government Act Performance Measures and Schedule of Vendor Information, required by 2.2.2.10(A)(2)(g) NMAC, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 on our consideration of the ERB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 ERB's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
December 1, 2016

# **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **June 30, 2016 and 2015**

#### **INTRODUCTION**

Management has compiled this narrative overview and analysis of the financial activities of the New Mexico Educational Retirement Board (NMERB) for the years ended June 30, 2016 and 2015. This narrative contains a discussion of financial position, financial highlights, and comparative information. Readers are encouraged to consider the information presented here in conjunction with the financial statements, the notes to the financial statements, and other required supplementary information.

NMERB, an agency of the State of New Mexico, was created to administer the Educational Employees' Retirement Plan (Plan), which was established to provide retirement, disability, and survivor benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs.

NMERB, governed by a seven member Board of Trustees (Board), stands in a fiduciary relationship to the members covered by the Educational Retirement Act (ERA). Administrative management of the fund is vested in the Executive Director who is appointed by the Board to advise the trustees on all matters pertaining to the retirement system, contractual obligations, and employment of the staff needed for operations.

A summary of Plan provisions and the composition of the Board can be found in the Notes to the Financial Statements.

#### **FINANCIAL HIGHLIGHTS**

- In fiscal years ending June 30, 2016 and 2015 the additions to the Plan's fiduciary net position totaled \$1,057,506,076 and \$1,119,428,538, respectively. The components of additions are contributions, net investment income, and other income.
- Total deductions from the Plan's fiduciary net position of \$1,022,391,240 in fiscal year 2016 and \$967,781,247 in fiscal year 2015, resulted in increases of 6% and 5% over each prior fiscal year, respectively. These were primarily due to normal increases in total age and service benefits.
- As of June 30, 2016, NMERB's investment return, net of fees, since July 1, 1983 was 9%.
- The current fiscal year's net pension liability (NPL) of \$7,196,433,561, measured as the total pension liability less the amount of the Plan's fiduciary net position as of June 30, 2016, was calculated based on an expected rate of return on Plan investments of 7.75%. The current NPL increased by 11.1% over the fiscal year 2015 NPL of \$6,477,266,299.
- The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased to 64.2% as of June 30, 2016, from 63.7% in fiscal year 2015. The Plan's funding period as of the valuation date of June 30, 2016 is 45.0 years.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2016 and 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

NMERB's financial statements have been prepared in conformity with standards promulgated by the Governmental Accounting Standards Board (GASB) for pension systems. The basic financial statements presented in this report are the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

The **Statement of Fiduciary Net Position** reports on the pension trust fund's assets, liabilities, and the resulting net position where Assets minus Liabilities equals Net Position restricted for pensions at the end of the fiscal year. It is a snapshot of the pension trust fund at that point in time.

- **Net Position Restricted for Pensions:** In the fiscal year ended June 30, 2016 the net position increased to \$11,532,837,951, from the prior year net position of \$11,497,723,115. Overall the net increase of \$35,114,836 during fiscal year 2016 was the net result of short term changes to cash equivalents and accounts payable, and a modest growth in the investment portfolio.

**Condensed Net Position Analysis (millions)**

	2016	2015	2014
Net position restricted for pensions	\$ 11,533	\$ 11,498	\$ 11,346
Net increase in net position	\$ 35	\$ 152	\$ 1,154

- **Fair Value of Investments:** The primary element of NMERB's fiduciary net position is the fair value of the investment portfolio. Investment assets totaled \$11,517,640,530 as of the fiscal year end 2016, which was \$113,984,349 higher than the prior fiscal year. It is important to note that the net change year over year is not only due to changes in fair value, but is also impacted by the timing of purchases, sales, and redemptions.

**Condensed Investment Portfolio, fair value (millions)**

	2016	2015	2014
Short term investments	\$ 213	\$ 545	\$ 276
Investments, at fair value	11,305	10,859	11,026
Total	\$ 11,518	\$ 11,404	\$ 11,302

- **Annual Return:** The investment fund achieved a positive 2.6% return during the fiscal year, net of fees. Although this one year return falls short of the target return rate of 7.75%, the fund outperformed the policy index by 1.0%, ranking in the top 6<sup>th</sup> percentile of its peers within the Investor Force Public Funds > \$1 Billion Universe. All NMERB asset classes were within target policy ranges at year end. The following table provides a summary of total fund performance (net of fees) as of June 30, 2016.

**Fund Performance Summary at June 30, 2016**

1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
2.6%	6.9%	6.6%	5.7%	5.8%	6.8%	8.3%	8.4%

- **Receivables and Payables** - Total current receivables for fiscal year 2016 decreased \$5,801,618 from the prior year. In fiscal year 2015, receivables had increased by \$92,442,621 over 2014. Total current payables for fiscal year 2016 increased \$78,202,500 from the prior year. In fiscal year 2015, payables had increased by \$48,724,311. Changes in year end balances were primarily caused by changes in year end broker sales and purchase proceeds.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2016 and 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS-CONTINUED**

Changes in broker receivables and payables relate to the volume of investments sold at or near the current fiscal year end as compared to the prior year. Securities sales and purchases in the United States equity markets are based on “trade + 3 days,” meaning the transactions will settle in three business days after initiation. The number of days varies in other U.S. and foreign securities markets.

**Condensed Receivables & Payables Analysis (millions)**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Investment proceeds receivable	\$ 137	\$ 143	\$ 59
Contributions	86	85	76
Other	-	1	1
Total current receivables	<u>\$ 223</u>	<u>\$ 229</u>	<u>\$ 136</u>
Investment broker payables	\$ 209	\$ 138	\$ 88
Accounts payable	10	5	5
Member withdrawals	3	1	3
Accrued payroll & benefits	1	1	-
Total current payables	<u>\$ 223</u>	<u>\$ 145</u>	<u>\$ 96</u>

The **Statement of Changes in Fiduciary Net Position** summarizes the pension trust fund’s financial transactions that occurred during the fiscal year where Additions minus Deductions equals the net increase (decrease) in net position. This statement describes the changes that have occurred during this fiscal year to the prior year’s ending net position.

- **Contributions** - NMERB’s funding objective is to meet long-term benefit obligations through member and employer contributions, as well as through investment earnings. Annual contributions for the current reporting year were \$690,836,527, exclusive of contributions received to purchase prior service. This is an increase of \$2,884,510, or 0.4%, over the prior fiscal year, attributable to the natural cycle of wage growth within the educational system. In fiscal year 2015 contribution income increased \$56,795,489, or 9%, over fiscal year 2014. The increase in 2015 was caused by legislative changes to increase employer contribution rates. The Plan’s five (5) year active educational membership average year over year is 60,852 employees.
- **Investment income** net of external manager and custody banking fees was \$364,571,123 for 2016, a decrease over the prior fiscal year total of \$423,329,794 by \$58,758,671, or 13.9%, due to a difficult market year and a volatile investment environment. The best performing asset classes in 2016 were in the private asset space. Private infrastructure returned a positive gain of 13.4%, private real estate returned 11.8%, and private equity returned 9.2% (all results noted are net of fees).
- **Net age and service benefits** paid in fiscal year 2016, including disability and death benefit payments, totaled \$973,703,652, a 5.8% increase over the prior year’s net benefit payments. The increase in payments is in line with the growth in the retiree population by 4.0% from 44,043 in fiscal year 2015 to 45,797 in fiscal year 2016, and mirrors the consistent, though modest, annual growth in the total retiree population.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2016 and 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS-CONTINUED**

The **Notes to the Financial Statements** are an integral part of the financial statements, which include additional detailed information not readily evident within the financial statements themselves.

- **Net pension liability** – The Plan’s net pension liability for fiscal year 2016 is \$7,196,433,561. This year-end balance increased by \$719,167,262, or 11.1%, over fiscal year 2015. The prior year experienced an increase of \$771,535,486, or 13.5%, over the fiscal year 2014 balance of \$5,705,730,813. The 2016 net pension liability stated as a percentage of covered payroll is 262.59%, up from 237.23% in fiscal year 2015. Changes in the net pension liability arise from changes in the total pension liability and the Plan’s fiduciary net position. The net pension liability increase in fiscal year 2016 was primarily due to slowed growth in NMERB’s investment assets, consistent with results in worldwide markets.

The table below portrays NMERB’s fiduciary net pension liability, calculated using the current discount rate of 7.75%, a discount rate 1% lower (6.75%), and 1% higher (8.75) than the current rate. The sensitivity analysis is shown below for fiscal years 2016, 2015, and 2014.

Fiscal Year	Current Single Rate Assumption		
	1% Decrease 6.75%	7.75%	1% Increase 8.75%
2016	\$ 9,531,509,131	\$ 7,196,433,561	\$ 5,258,980,529
2015	\$ 8,715,594,530	\$ 6,477,266,299	\$ 4,596,837,569
2014	\$ 7,763,304,829	\$ 5,705,730,813	\$ 3,987,098,791

**Schedules included in the Required and Other Supplementary Information** section provide detailed and historical information considered useful in evaluating the financial condition of the Plan administered by NMERB.

- **NM Accountability in Government Act:** In 1999, the Accountability in Government Act (AGA) mandated performance-based budgeting across state agencies per Section 6-3A NMSA 1978 to improve program coordination and increase operational information available to the Governor, the Legislature, and the public. NMERB serves its membership through prudent asset management, efficient administration, membership training, and reliable payment processing. In support of these desirable outcomes, NMERB met all targeted goals for five-year investment performance, training satisfaction, payment processing, and benefit estimate volumes. Detailed AGA performance results are covered within Other Supplementary Information.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**June 30, 2016 and 2015**

**CONDENSED FINANCIAL INFORMATION**

**Condensed Statement of Fiduciary Net Position (millions)**

	2016	2015	2014	\$ Difference		% Difference	
				FY16- FY15	FY15- FY14	FY16- FY15	FY15- FY14
<b>Assets</b>							
Cash & receivables	\$ 449	\$ 782	\$ 414	\$ (333)	\$ 368	-42.6%	89.0%
Investments, fair value	11,305	10,859	11,026	446	(167)	4.1%	-1.5%
Capital assets - net	2	2	2	-	-	0.0%	0.0%
Total assets	<u>11,756</u>	<u>11,643</u>	<u>11,442</u>	<u>113</u>	<u>201</u>	<u>1.0%</u>	<u>1.8%</u>
<b>Total current liabilities</b>	<u>223</u>	<u>145</u>	<u>96</u>	<u>78</u>	<u>49</u>	<u>53.9%</u>	<u>51.0%</u>
<b>Net position restricted for pensions</b>	<u>\$ 11,533</u>	<u>\$ 11,498</u>	<u>\$ 11,346</u>	<u>\$ 35</u>	<u>\$ 152</u>	<u>0.3%</u>	<u>1.3%</u>

**Condensed Statement of Changes in Fiduciary Net Position (millions)**

	2016	2015	2014	\$ Difference		% Difference	
				FY16- FY15	FY15- FY14	FY16- FY15	FY15- FY14
<b>Additions</b>							
Contributions	\$ 691	\$ 688	\$ 631	\$ 3	\$ 57	0.4%	9.0%
Net investment income	365	423	1,444	(58)	(1,021)	-13.8%	-70.7%
Other income (expense)	2	8	3	(6)	5	-73.6%	186.5%
Total additions	<u>1,058</u>	<u>1,119</u>	<u>2,078</u>	<u>(61)</u>	<u>(959)</u>	<u>-5.4%</u>	<u>-46.1%</u>
<b>Deductions</b>							
Benefits & withdrawals	1,013	956	907	57	49	6.0%	5.4%
Administrative expenses	10	11	17	(1)	(6)	-9.4%	-36.1%
Total deductions	<u>1,023</u>	<u>967</u>	<u>924</u>	<u>56</u>	<u>43</u>	<u>5.8%</u>	<u>4.7%</u>
Net increase (decrease)	35	152	1,154	(117)	(1,002)	-76.8%	-86.8%
<b>Net position restricted for pensions</b>							
Beginning of the year	<u>11,498</u>	<u>11,346</u>	<u>10,192</u>	<u>152</u>	<u>1,154</u>	<u>1.3%</u>	<u>11.3%</u>
End of the year	<u>\$ 11,533</u>	<u>\$ 11,498</u>	<u>\$ 11,346</u>	<u>\$ 35</u>	<u>\$ 152</u>	<u>0.3%</u>	<u>1.3%</u>

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2016 and 2015**

**CURRENTLY KNOWN FACTS AND CONDITIONS**

**Rule Changes:** After public meetings with employers, members and other stakeholders, the Board of Trustees adopted Rule changes primarily focused on bringing legal language into conformity with NMERB policy for processing employer wage and contribution reports. Changes to Rule 3 and 4 became effective as of June 30, 2016. Changes to Rule 2 and 9 will become effective on different dates in the first quarter of fiscal year 2017.

- NMERB Rule 2 – Membership – Where an individual is employed by more than one employer, the aggregate full time equivalency is considered to determine eligible service credit.
- NMERB Rule 3 – Member Contributions – Refund payments will be made pursuant to employer certification of termination and once final remittances are received.
- NMERB Rule 4 – Service Credit – Service credit is awarded based on the quarter of employment for services rendered. Employees are considered to have rendered services for each day the employee is paid salary, regardless of whether the payment is for annual, sick, administrative or other form of leave.
- NMERB Rule 9 – Administrative Unit Reports and Remittances - Employer reports shall encompass all local administrative unit employees (job category, classification, and FTE %), including employees identified as members and those specifically excluded from Plan coverage.
- NMERB Rule 9 – Administrative Unit Reports and Remittances – Late or incomplete reports submitted without showing good cause will be subject to a charge of fifty dollars (\$50). This change creates a specific charge for late reports separately from payments, as well as a provision for a corresponding “good cause” waiver for late reports.

**Investment Risk Exposure:** At the close of fiscal year 2016, investment markets experienced increased volatility based on national and global economic trends. In formulating the Plan’s investment strategy, NMERB takes a long term perspective designed to meet the needs of our beneficiaries for many years to come. NMERB seeks to diversify the risks contained in the investment portfolio among the many categories of assets available to institutional investors. NMERB also manages liquidity to ensure the Plan’s ability to meet continuing pension benefit obligations. NMERB continues to pursue long term institutional strategies for growth at a minimum level of risk per unit of return.

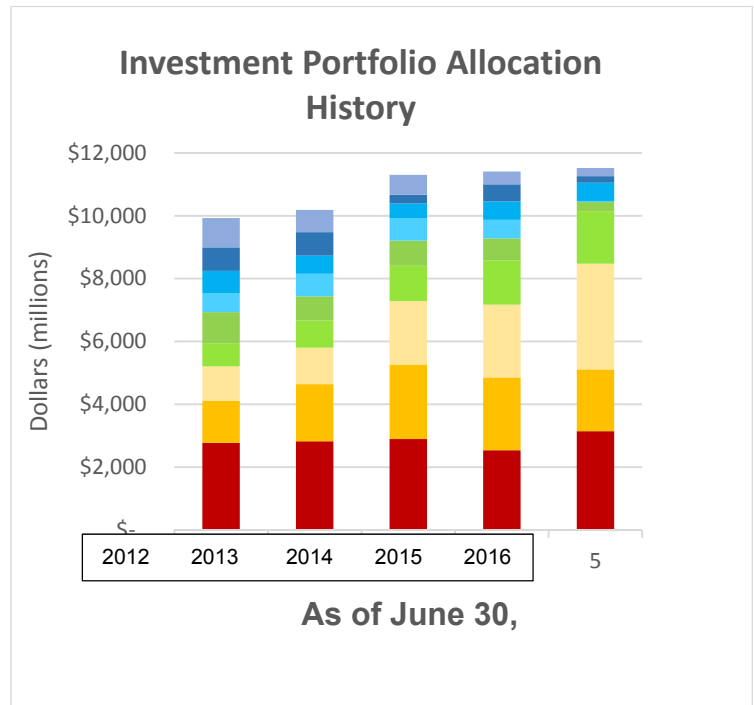
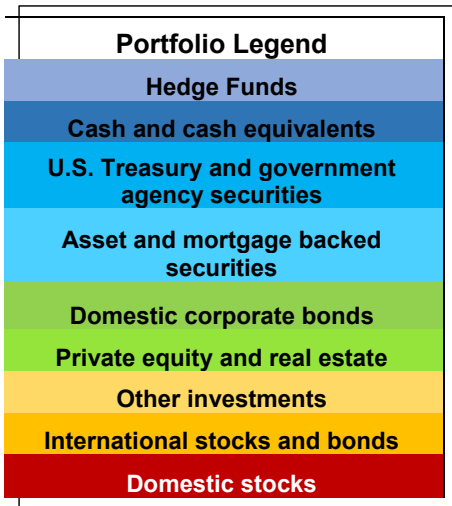
**Pending litigation and claims:** During each business cycle, NMERB may be named as a defendant in administrative appeals arising from the normal course of business. Legal counsel believes resolution of any currently pending matters will not have a material effect on the financial statements.



**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2016 and 2015**

**COMPARATIVE SUMMARY INFORMATION**

The following chart depicts growth and changes in investment allocations by portfolio category as of June 30 from fiscal year 2012 to 2016. Target investment allocations are reviewed at least annually by the Board of Trustees. Additional detail on fiscal year 2016 targets is available in the Notes to the Financial Statements.



**FINANCIAL CONTACT**

Any questions regarding the financial statements of NMERB should be directed to the NMERB Chief Financial Officer at (505) 476-6126 or by mail at 701 Camino de los Marquez, Santa Fe, New Mexico 87505.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash and short term investments	\$ 226,259,296	\$ 553,460,263
Receivables		
Contributions	86,116,588	85,415,894
Investment sales proceeds-brokers	122,251,638	129,165,192
Interest and dividends	14,119,890	13,464,480
Other, net	294,621	538,790
Total receivables	<u>222,782,737</u>	<u>228,584,355</u>
Investments, at fair value		
Equities portfolio	5,510,109,948	4,418,573,519
Alternative investment portfolio	4,738,920,510	4,127,060,293
Fixed income portfolio	1,055,568,768	2,312,860,829
Total investments	<u>11,304,599,226</u>	<u>10,858,494,641</u>
Capital assets, net of accumulated depreciation	<u>2,219,128</u>	<u>2,003,792</u>
Total assets	<u>\$ 11,755,860,387</u>	<u>\$ 11,642,543,051</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 5,298,417	\$ 4,763,578
Accounts payable to state agencies	5,175,245	-
Accrued payroll and employee benefits	745,821	549,362
Refunds payable	2,730,653	1,260,934
Investment purchases payable	209,072,300	138,246,062
Total current liabilities	<u>223,022,436</u>	<u>144,819,936</u>
<b>Net position restricted for pensions</b>	<u>\$ 11,532,837,951</u>	<u>\$ 11,497,723,115</u>

*See Accompanying Notes to Financial Statements*

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Additions</b>		
Contributions		
Employer	\$ 396,988,557	\$ 395,129,621
Member	293,847,970	292,822,396
Total contributions	<u>690,836,527</u>	<u>687,952,017</u>
Investment income		
Net appreciation in fair value of plan investments	326,027,400	366,761,432
Dividend income	87,189,266	95,180,820
Interest income	39,237,943	37,823,427
Total investing activity gain	<u>452,454,609</u>	<u>499,765,679</u>
Investment expenses		
Management fees	(84,725,788)	(72,517,575)
Investment consulting fees	(1,743,502)	(1,486,871)
Custodial fees	(887,176)	(982,600)
Legal fees and other costs	(527,020)	(1,448,839)
Total investment expenses	<u>(87,883,486)</u>	<u>(76,435,885)</u>
Total net investment income	364,571,123	423,329,794
Other income	<u>2,098,426</u>	<u>8,146,725</u>
Total additions	<u>1,057,506,076</u>	<u>1,119,428,536</u>
<b>Deductions</b>		
Age and service benefit payments	973,703,652	920,755,421
Refunds to terminated members	34,988,313	32,313,405
Interest on refunds	4,038,765	4,114,576
Administrative expenses	9,660,510	10,597,846
Total deductions	<u>1,022,391,240</u>	<u>967,781,247</u>
Net increase in net position	35,114,836	151,647,291
<b>Net position restricted for pensions</b>		
Beginning of the year	11,497,723,115	11,346,075,824
End of the year	<u>\$ 11,532,837,951</u>	<u>\$ 11,497,723,115</u>

*See Accompanying Notes to Financial Statements*

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN**

**Background** – The New Mexico Legislature passed the Educational Retirement Act (ERA) in 1957, establishing the NMERB Board of Trustees to administer the Educational Employees Retirement Plan (Plan). The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

**Reporting Entity** – The Plan administered by NMERB is considered a component unit of the State's financial reporting entity. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan which is a pension benefit trust fund of the State of New Mexico. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

The ERA defines the governing Board of Trustees for NMERB per 22-11-3 NMSA, 1978.

- The Secretary of Public Education, or a designee of the secretary who is a resident of New Mexico; is a current employee of the Public Education Department; and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management;
- The State Treasurer, or a designee of the Treasurer who is a resident of New Mexico; is a current employee of the State Treasurer's office; and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management;
- One member to be elected for a term of four years by members of the New Mexico Association of Educational Retirees;
- One member to be elected for a term of four years by the members of the National Education Association of New Mexico;
- One member to be elected for a term of four years by the New Mexico members of the American Association of University Professors; and
- Two members to be appointed by the governor for terms of four years each. Each member appointed shall have a background in investments, finance or pension fund administration.

NMERB applied criteria established by Generally Accepted Accounting Principles (GAAP) to determine whether other state agencies, boards or commissions which benefit the members of NMERB should be included within its financial reporting entity as component units. Those criteria include, but are not limited to, whether the Board exercises oversight responsibility; financial interdependency; selection of governing authority; designation of management; an ability to significantly influence operations and accountability for fiscal matters, scope of public service, and special financing relationships. Based on these criteria, the Board has determined that there are no component units that should be included in its financial reporting entity.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016 and 2015**

**NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN (CONTINUED)**

**Defined Benefit Plan Description** - The Plan administers a single cost-sharing, multiple-employer defined benefit pension plan. All accumulated assets are held in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined Section 22-11-2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

Active, retired, and inactive membership totaled 150,082 and 146,089 as of June 30, 2016 and 2015, respectively. The following schedule shows the number of members by category and year.

<b>Schedule of Plan Membership by Year</b>		
<b>Membership Status</b>	<b>2016</b>	<b>2015</b>
Active working members	60,057	60,998
Retirees and beneficiaries currently receiving benefits	45,797	44,043
Inactive members, vested	10,219	9,513
Inactive members, nonvested	34,009	31,535
Total	150,082	146,089

**Pension Benefit** – A member’s retirement benefit is determined by a formula which includes three component parts: 1) the member’s final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member’s salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

**Summary of Plan Provisions for Retirement Eligibility** – For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member’s age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

- The member’s age and earned service credit add up to the sum of 80 or more,
- The member is at least sixty-seven years of age and has five or more years of earned service credit, or
- The member has service credit totaling 30 years or more.

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN (CONTINUED)**

- The member's minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.
- The member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits
- The member's age is 67, and has earned 5 or more years of service credit.

**Forms of Payment** – The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

**Benefit Options** – The Plan has are three benefit options available.

- **Option A – Straight Life Benefit** – The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.
- **Option B – Joint 100% Survivor Benefit** - The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.
- **Option C – Joint 50% Survivor Benefit** - The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death

**Cost of Living Adjustment (COLA)** – All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

- Tier 1 membership is comprised of employees who became members prior to July 1, 2010
- Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN (CONTINUED)**

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

***Disability Benefit:***

- ***Eligibility*** - A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by the Board.
- ***Monthly Benefit*** - The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times years of service projected to age 60.
- ***Form of Payment*** - The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied.
- ***Disability Retirement*** - A member with five or more years of earned service credit on deferred status may retire when eligible under the Rule of 75 or when the member attains age 65.

***Refund of Contributions*** - Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year.

***Alternative Retirement Plan*** – Effective October, 1991, the New Mexico legislature established an Alternative Retirement Plan (ARP) through the enactment of ERA Sections 22-11-47 through 52 NMSA 1978 to provide eligible employees an election to establish an alternative retirement investment plan. In contrast to the defined benefit plan administered by NMERB, the ARP is a defined contribution plan. NMERB is the trustee of the ARP which is administered by two third party contractors for NMERB. The administrators approved to offer ARP plans to eligible participants are Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF), and Fidelity Investments.

These administrators have the authority to perform record keeping, enrollment education services, and other administrative duties for the ARP. The administrators are delegated any and all powers as may be necessary or advisable to discharge their duties under the ARP, and have certain discretionary authority to decide matters under the ARP. As the ARP trustee NMERB is responsible for selecting investment options that provide a prudent rate of return, and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan Document.

***Eligibility*** – Employees of the University of New Mexico, New Mexico State University, New Mexico Institute of Mining and Technology, New Mexico Highlands University, Eastern New Mexico University, and Western New Mexico University are eligible to make an election to participate within ninety days of employment. Information about the ARP is distributed by the employer. Those who do not elect to participate in the ARP remain members of the regular defined benefit retirement plan.

Section 22-11-47(D) NMSA 1978 allows an ARP participant a one-time option to make an irrevocable switch to the defined benefit retirement plan after seven years of ARP participation.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016 and 2015**

**NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN (CONTINUED)**

**Form of Payment** - Retirement, death, and other benefits are based upon contributions made and earnings accumulated on those contributions, in accordance with the terms of the applicable vendor contracts and Internal Revenue Service Code. Retirement benefits shall, at the option of the employee, be paid:

- in the form of a lifetime income, if held in an annuity contract,
- payments for a term of years, or
- a single-sum cash payment.

ARP retirement, death, and other benefits, including disability benefits, cannot be paid from the funds administered by NMERB.

**ARP Contributions** - For the year ended June 30, 2016, colleges and universities contributed 10.90% of participating employees' gross salary to the ARP vendor on behalf of the participant, and 3% of the employees' gross salary to NMERB. The colleges and universities are responsible for submitting the balance of the employers' contribution, and the employees' contributions directly to the ARP vendors.

Employees participating in the ARP do not accrue rights to benefits in the defined benefit pension plan based on the 3% contributions to the Plan.

Employer contributions reported in the Statement of Changes in Fiduciary Net Position include amounts remitted on behalf of both the ARP defined contribution plan and the defined benefit plan. The 3% contribution remitted for fiscal years ended June 30, 2016 and 2015 were \$5,480,144 and \$5,362,304 respectively.

A breakdown of contributing employers by reporting category for fiscal year 2016 and 2015 follows. The "State agencies" category includes the State of New Mexico as the common paymaster for all state agencies with educational programs, the New Mexico Activities Association, and the nine (9) New Mexico Regional Education Cooperatives.

NMERB served a total of 218 and 216 educational employers in fiscal years 2016 and 2015, respectively.

**Schedule of Contributing Employers by Year**

<b>Employer Category</b>	<b>2016</b>	<b>2015</b>
Charter schools	99	97
Public schools	89	89
Universities and colleges	15	15
State agencies	11	11
Special schools	4	4
<b>Total</b>	<b>218</b>	<b>216</b>

For the fiscal year ended June 30, 2016 and 2015 educational employers contributed to the Plan based on the following rate schedule.

**Schedule of Contribution Rates**

<b>Fiscal Year</b>	<b>Date Range</b>	<b>Wage Category</b>	<b>Member Rate</b>	<b>Employer Rate</b>	<b>Combined Rate</b>	<b>Increase over Prior Year</b>
2016	7-1-15 to 6-30-16	Over \$20K	10.70%	13.90%	24.60%	0.00%
2016	7-1-15 to 6-30-16	\$20K or less	7.90%	13.90%	21.80%	0.00%
2015	7-1-14 to 6-30-15	Over \$20K	10.70%	13.90%	24.60%	1.35%
2015	7-1-14 to 6-30-15	\$20K or less	7.90%	13.90%	21.80%	0.75%



**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

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

***Basis of Accounting and Measurement Focus*** - The Board's financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. The New Mexico General Fund Appropriation Act establishes the modified accrual basis of accounting for governmental funds as the budgetary basis for the State. Prior-year encumbrances are not carried forward for single-year appropriations. Employer and member contributions are recognized as revenue in the period in which the member's services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

***Use of Estimates*** - In preparing financial statements in conformity with governmental accounting principles generally accepted in the United States, NMERB's management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of additions to and deductions from the Plan fiduciary net position during the reported period, and disclosures as of the date of the financial statements. Actual results could differ from those estimates and assumptions. Certain NMERB investment assets, in particular global real assets and global private equity funds, use estimates in reporting fair value in the financial statements. These estimates are subject to uncertainty in the near term, which could result in changes in the values reported for those assets in the Statement of Fiduciary Net Position.

***Reclassifications*** - Certain 2015 amounts have been reclassified in conformity with the 2016 financial presentation. These reclassifications have no impact on the fiscal year end net position or changes therein.

***Cash and Short Term Investments*** - Cash includes demand deposits and all short term instruments with maturities at the time of purchase of less than 90 days. Individual deposit accounts and investment accounts held by NMERB are shown on the Statement of Fiduciary Net Position at fair value as required by Section 12-6-5(A) NMSA 1978. Cash activity is accounted for within the Statewide Human Resources Accounting and Management System (SHARE) fund number 60500. NMERB earns interest on all monies held at the State Treasurer's Office and in NMERB's custodial investment account at State Street Bank. When a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date the cash remains with custodial agent bank. When this occurs, NMERB's money is invested overnight in a Short-Term Investment Fund (STIF).

***Revenue Recognition*** - Pension contributions are recognized as additions in the period they become due based on Plan reporting requirements. Investment income includes net investment appreciation or depreciation in the fair value of investments, interest and dividend income, and foreign currency transaction gains and losses. Investment income is recognized when earned.

***Investments*** - All investment securities are reported at fair value, which is defined as the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Due to the nature of investments, it is reasonable to expect that changes in the value of investment assets will occur in the near future and that changes could materially affect the amounts reported.

NMERB's financial assets are measured and reported at fair value, based on quoted prices in active markets, significant other observable inputs, and significant unobservable inputs. Additional information on the investment securities based on the fair value hierarchy can be found in Note 6 based on GASB Statement 72, *Fair Value Measurement and Application*. There are certain market risks, credit risks, foreign exchange currency risks, or events that may subject the Plan's investment portfolio to economic changes occurring in certain industries, sectors, or geographic markets.

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, and investment expenses which include management and custodial fees, and all other significant investment related costs. Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

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

NMERB's investments in limited partnerships are valued at an estimated fair value based on their proportionate share of the partnership's fair value as recorded in the partnership's financial statements. The limited partnerships allocate gains, losses and expenses to the partners based on the ownership percentage as described in the partnership agreements. As of June 30, 2016, NMERB's additional future contribution commitments to limited partnerships totaled \$2.38 billion.

Other investments, as presented in the Statement of Fiduciary Net Position, include investments in swap agreements, distressed debt, option agreements, real estate investment trusts, and timber partnerships.

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of pension plan investments. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

**Capital Assets** - Capital assets represent the cost of assets, net of accumulated depreciation, used for the administration of the Plan. Capital assets include NMERB's administration building located in Santa Fe, New Mexico. NMERB's capitalization policy, based on the requirements from Section 12-6-10 NMSA 1978, is to include all assets with a useful life of more than one year and a cost basis of at least \$5,000. Assets with an original cost less than \$5,000 but categorized as sensitive, primarily IT equipment, are also capitalized for tracking and control purposes. All additions are capitalized at historical cost as of the date of acquisition; depreciation is calculated on a straight-line basis over the asset's estimated useful life with no salvage value.

Estimated useful asset lives are as follows:

Buildings and building improvements	25 years
Depreciable land improvements	10 years
Furniture and equipment	10 years
Data processing equipment (including software)	5 years

**Budgets and Budgetary Accounting** - Formal budgetary integration is used by the Board of Trustees as a tool for monitoring internal controls and administering the Plan. The budget for NMERB, a New Mexico State agency is adopted on the modified accrual basis of accounting, except for prior year obligations approved for payment by the New Mexico Department of Finance and Administration (DFA) per Section 6-10-4 NMSA 1978.

Each year the New Mexico Legislature approves multi-year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the multi-year budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. Budget presentations in these financial statements are consistent with this budgeting methodology.

Only administrative expenses are budgeted, while significant revenues and non-administrative expenses are not. The budget recognizes encumbrances and capital expenses as current expenses, excludes depreciation expense, and recognizes revenue when cash is received. Budgetary comparisons for the Plan are presented in the schedule of revenues and expenditures, included in Other Supplemental Information.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

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

The Accountability in Government Act, Chapter 15, Laws of 1999, requires implementation of performance-based budgeting over a four-year period. NMERB developed performance measures which were approved by the State Budget Division (SBD), a division of the DFA, and the Legislative Finance Committee (LFC), an interim committee of the New Mexico Legislature, and included in the General Appropriations Act. NMERB is required to report annually to the SBD and the LFC on these performance measures. Performance results are included in Other Supplemental Information.

To establish the annual budget, NMERB has the following procedures:

- (1) NMERB prepares a Budget Appropriation Request for the Board of Trustees' approval, and to present at a Legislative Finance Committee (LFC) hearing. The request includes proposed expenses and the means of financing them.
- (2) The Budget Appropriation Request is submitted to the State Budget Division (SBD) of DFA and the LFC.
- (3) DFA makes recommendations and adjustments to NMERB's Budget Appropriation Request, which becomes the Governor's proposal to the legislature.
- (4) The LFC holds hearings on the Budget Appropriation Request during the legislature's interim period. Recommendations and adjustments are made prior to presenting the Budget Appropriation Request to the legislature.
- (5) Both DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget. The final budget approved by the legislature is then sent to the Governor's office for final approval.
- (6) NMERB submits its annual operating budget to DFA and LFC based on the final appropriation recommendation from the Legislature and approval by the Governor.
- (7) Per Section 9 of the General Appropriation Act of 2012, all agencies, including legislative agencies, may request category transfers among personal services and employee benefits, contractual services, and other costs. The legal level of budgetary control for NMERB's operating budget is the enacted appropriation program.

**Refunds Payable** - Refunds payable represents the total amount due and payable as of June 30 to terminated members who have submitted valid claims for a full refund of contributions. These refunds are processed in early July 2016, as soon as the state's ledgers are available to process the new fiscal year's transactions.

**Due to Other State Agency - Retiree Healthcare Authority** – NMERB's financial statements reflect retiree healthcare insurance premiums due to the Retiree Healthcare Authority (RHCA) in the amount \$5,175,244 as payment of the June annuitant retiree healthcare deductions. This amount was transferred via an Operating Transfer to RHCA on July 1, 2016.

**Accounting Pronouncements** - This year NMERB implemented GASB Statement 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. Changes in financial reporting in compliance with this new statement are included within Note 6. Comparative schedules of investments and short term holdings have been measured at fair value and classified according to the GASB 72 leveling hierarchy.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 3. NET PENSION LIABILITY**

Governmental employers participating in the Plan are required to report their proportionate share of the Plan's net pension liability, pension expense, and deferred outflows and inflows of resources within their financial statements, as well as to disclose financial information about the Plan.

The net pension liability is measured as the total pension liability, less the amount of the Plan's fiduciary net position. In actuarial terms, this is analogous to the accrued liability less the market value of assets (not the smoothed actuarial value of assets used in actuarial valuations based on the Board's adopted assumptions and methods).

A single discount rate of 7.75% was used to measure the total pension liability as of June 30, 2016 and 2015. This single discount rate was based on an expected rate of return on Plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The projection of cash flows used this single rate assuming that Plan contributions will be made at the current statutory levels. Additionally, contributions received through NMERB's Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain a level percentage of Plan payroll, where the percentage of payroll is based on the most recent five-year contribution history.

**Net Pension Liability of Plan Membership** - The components of the net pension liability at June 30, 2016 and 2015, were as follows:

	<b>2016</b>	<b>2015</b>
Total pension liability	\$ 18,729,271,512	\$ 17,974,989,414
Plan fiduciary net position	<u>(11,532,837,951)</u>	<u>(11,497,723,115)</u>
Employer net pension liability	<u>\$ 7,196,433,561</u>	<u>\$ 6,477,266,299</u>
Plan fiduciary net position as a percent of total pension liability	61.58%	63.97%
Employer covered employee payroll	\$ 2,740,526,669	\$ 2,730,320,345
Net pension liability as a percentage of covered employee payroll	262.59%	237.23%

**Actuarial assumptions** - The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The total pension liability was rolled forward from the valuation date to the Plan's year ending June 30, 2016 using generally accepted actuarial principals. The liabilities reflect the impact of Senate Bill 115, signed into law on March 29, 2013, and new assumptions adopted by the Board of Trustees on June 12, 2015. Specifically, the liabilities measured as of June 30, 2016 and 2015 incorporate the following assumptions:

- All members with annual salary of more than \$20,000 will contribute 10.70% during the fiscal year ending June 30, 2015 and thereafter,
- Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67,
- COLAs for most retirees are reduced until NMERB attains a 100% funded status,
- The new assumptions adopted by the Board on June 12, 2015 in conjunction with the six-year experience study period ending June 30, 2014, and

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 3. NET PENSION LIABILITY (CONTINUED)**

- For purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years.

The actuarial assumptions and methods used to determine Total Pension Liability (TPL) included in the measurement methodology are as follows:

***Methods and Assumptions Used to Determine the Total Pension Liability***

<b>Actuarial Cost Method</b>	Entry age normal
<b>Remaining Amortization Period</b>	Amortized over a closed thirty-year period from June 30, 2012 ending June 30, 2042
<b>Asset Valuation Method</b>	Five-year smoothed market
<b>Inflation</b>	3.00%
<b>Salary Increases</b>	Composed of 3.00% inflation, plus .75% productivity increase rate, plus step-rate promotional increases for members with less than ten years of service
<b>Investment Rate of Return</b>	7.75%
<b>Retirement Age</b>	Experience based table of rates based on age and service. Adopted by NMERB on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014
<b>Mortality</b>	Healthy males: RP-2000 Combined Mortality Table with white collar adjustments, generational mortality improvements with scale BB. Healthy females: GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with scale BB from the table's base year of 2012.

The target long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following:

- Rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.)
- Application of key economic projections (inflation, real growth, dividends, etc.)
- Structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class

***Sensitivity of the net pension liability to changes in the discount rate assumption*** - The following table provides the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2016 and 2015. In particular, the table presents the Plan's net pension liability, if it were calculated using a single discount rate that is one-percentage-point lower (6.75%) or one-percentage-point higher (8.75%) than the single discount rate:

<b>Fiscal Year</b>		<b>Current Single Rate</b>				
		<b>1% Decrease 6.75%</b>	<b>Assumption 7.75%</b>	<b>1% Increase 8.75%</b>		
2016	\$	9,531,509,131	\$	7,196,433,561	\$	5,258,980,529
2015	\$	8,715,594,530	\$	6,477,266,299	\$	4,596,837,569

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**NOTE 3. NET PENSION LIABILITY (CONTINUED)**

**Rate of Return** - Disclosure of the annual money-weighted return is a requirement of GASB 67. It incorporates both the size and timing of cash flows to determine an internal rate of return, and expresses investment performance adjusted for the changing amounts actually invested. The requirements of the calculation are listed below.

- The rate is computed net of investment expenses, but not net of administrative expenses.
- External cash flows used as inputs should be determined on at least a monthly basis.
- Cash flows should be determined on an accrual basis of accounting.
- Cash flow weighting should be representative of the Plan's actual external cash flow timing.

For the years ended June 30, 2016 and 2015, the annual money-weighted rates of return on pension plan investments were 2.68% and 4.06%, respectively, net of fees.

Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2016 and 2015 for 30-year return assumptions are summarized net of fees and inflation in the following table by asset class.

**Schedule of Long-Term Rate of Return by Asset Class**

<b>Asset Class</b>	<b>2016 Percentage</b>	<b>2015 Percentage</b>
Cash	-0.25%	0.00%
U.S. Treasuries	0.00%	0.25%
IG Corp Credit	1.75%	1.50%
Mortgage Backed Securities	0.25%	0.50%
Core Bonds*	0.64%	0.73%
Treasury Inflation Protected Securities	0.75%	0.75%
High-Yield Bonds	2.50%	2.50%
Bank Loans	2.75%	2.75%
Global Bonds (Unhedged)	-0.50%	-1.00%
Global Bonds (Hedged)	-0.38%	-0.84%
Emerging Market Debt External	2.75%	2.75%
Emerging Market Debt Local Currency	3.25%	3.50%
Large Cap Equities	4.25%	4.25%
Small/ Mid Cap Equities	4.50%	4.50%
International Equities (Unhedged)	4.75%	4.75%
International Equities (Hedged)	5.14%	5.22%
Emerging International Equities	6.25%	6.00%
Private Equity	6.25%	6.25%
Private Debt	4.75%	4.75%
Private Real Assets	4.50%	4.50%
Real Estate	3.25%	3.25%
Commodities	2.25%	2.50%
Hedge Funds	3.25%	3.50%

**Note**

\* Core Bonds assumption based on market weighted blend of components of Aggregate Index (Treasuries, IG Corp Credit, and Mortgage Backed Securities).

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**NOTE 4. STATE GENERAL FUND INVESTMENT POOL**

The State General Fund Investment Pool (SGFIP) is the State of New Mexico's main cash account. In compliance with Section 6-10-3 NMSA 1978, and to optimize the state's cash management and investment practices, funds of various state agencies are deposited in the SGFIP. This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled at a "business unit by fund" level since the inception of SHARE (the State's centralized accounting system) in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and system configuration changes made during the Cash Management Remediation Project Phase I the Department of Finance and Administration (DFA) began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a *point forward basis* beginning February 1, 2013. In March 2015, the Financial Control Division within DFA implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been successfully applied from that point forward through June 2016. DFA has made the following assertions:

- The difference between statewide agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims has remained within a relatively narrow range over the periods in which the reconciliation process has been used.
- Agency claims on the SGFIP will be honored in their entirety. An adjustment necessary to the claims balance will be applied against the General Operating Reserve. No portion of the adjustment shall be allocated to any specific agency that participates in the SGFIP.

NMERB believes the cash invested in STO's Overnight Pool is represented fairly and with no material misstatements due to reconciliation procedures performed by NMERB. NMERB has established internal control procedures based on the State's Manual of Model Accounting Practices (MAP). These procedures are designed to avert accounting errors and violations of state and federal law and rules related to financial matters.

NMERB uses the State's financial software general ledger system, SHARE, monitoring balances through internal reporting, and performing reconciliation procedures throughout the fiscal year, following DFA's policies and procedures for fiscal safeguards. Cash balances posted in SHARE are correct to the extent that NMERB has control (i.e., collection, depositing, reconciling, and documentation of outstanding items) of the cash, and its receipts and transfers to the SGFIP and other state agencies are made pursuant to DFA's current policies and procedures. Each deposit, payment voucher, investment, and other transactions that affect cash are verified to ensure the amounts are accurate and correctly classified in SHARE.

NMERB does not collect any revenues that contribute to, or revert to, the SGFIP, but does maintain all deposits on account at STO which are identified by NMERB's business unit and fund number. NMERB's cash balances are required to be managed by STO per Section 8-6-3 NMSA 1978. Accordingly, NMERB's investments include an interest in the SGFIP equal to the cash balance on hand that is managed by STO for business unit 35200 and fund 60500.

On June 30, 2016 and 2015, NMERB had \$13,008,495 and \$7,891,352, respectively, invested in the SGFIP.

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**NOTE 4. STATE GENERAL FUND INVESTMENT POOL (CONTINUED)**

**Interest Rate Risk** - STO has an investment policy that limits investment maturities to five years or less on allowable investments. This policy enables STO to manage interest rate risk 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 (SBOF).

**Credit risk** - The STO investment pools are not rated. For additional GASB 40 disclosure information regarding cash held by STO, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal years ended June 30, 2016 and 2015.

**Cash and Short Term Investments** - In addition to the overnight investment of funds deposited to the SGFIP at STO, NMERB invests in the Short-Term Investment Fund (STIF) held by State Street Bank. The STIF is used to facilitate more efficient trade procedures among NMERB's external money managers. Net cash balances in each of the custody bank internal and external investment managers' portfolios are swept into the STIF at the end of each day. STIF investments and cash equivalents of \$213,041,304 and \$545,161,540 as of June 30, 2016 and 2015, respectively, are reported as cash and short term investment balances in NMERB's statement of net position.

**Custodial Credit Risk** - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, NMERB will not be able to recover deposits or will not be able to recover collateral securities held in the possession of an outside party. NMERB's investment securities, including cash invested overnight in a short term investment fund, are held by State Street Bank, a third party custodian, independent of any counterparty. State Street Bank by agreement holds sufficient assets to minimize the risk that NMERB would not be able to recover the value of investments held for NMERB. To minimize risk to operating cash held in the State's depository bank, management utilizes the services of STO for overnight investment in a commingled short term investment fund (STIF).

**NOTE 5. REFUND OVERPAYMENTS**

In June 2010, the Board adopted a revised method for computing interest due on refunds of contributions to members that have terminated employment and elected to withdraw their contributions, and on refunds paid to a beneficiary of a deceased member, with an effective date of July 1, 2010. During implementation, a programming error resulted in 834 individuals receiving overpayments totaling \$1,691,929, and ranging from less than one dollar to \$306,264.

The State Constitution requires every reasonable effort be made to recover these funds and that interest be assessed on the overpayments. As of June 30, 2016, the uncollected balance including interest assessed, net of uncollectible amounts due to settlement, bankruptcy, or death, is \$269,642. The agency continues to take all reasonable actions to collect and settle these outstanding amounts.

**NOTE 6. FAIR VALUE MEASUREMENT**

NMERB investments are measured and reported at fair value, and classified according to the following hierarchy:

- Level 1 – Investments reflect prices quoted in active markets.
- Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 – Investments reflect prices based on unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as an indication of investment risk.



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**NOTE 6. FAIR VALUE MEASUREMENT (CONTINUED)**

Debt, equities, and investment derivatives classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. NMERB uses internal fair values provided by the investment manager for mortgage and asset backed securities classified in Level 3 due to lack of an independent pricing source. Fair value reporting for the fiscal years ending June 30, 2016 and 2015 is provided below.

**Schedule of Investments and Short Term Holdings Measured at Fair Value by Level (000s)**

<b>Investments by fair value level</b>	<b>Fair Value 2016</b>	<b>Quoted Prices-Active Markets for Identical Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
<b>Debt securities</b>				
Foreign obligations	\$ 167,079	\$ -	\$ 164,134	\$ 2,945
Mortgage and asset backed securities	272,937	-	272,937	-
Municipal obligations	1,229	-	1,229	-
U.S agency obligations	26,809	-	26,809	-
U.S. corporate obligations	290,122	-	290,122	-
U.S. government	312,354	-	312,354	-
Total debt securities	<u>1,070,530</u>	<u>-</u>	<u>1,067,585</u>	<u>2,945</u>
<b>Equity securities</b>				
Foreign stocks	370,482	370,482	-	-
U.S. common & preferred stock	2,861,410	2,856,653	4,017	740
Total equity securities	<u>3,231,892</u>	<u>3,227,135</u>	<u>4,017</u>	<u>740</u>
Total investments by fair value level	<u>\$ 4,302,422</u>	<u>\$ 3,227,135</u>	<u>\$ 1,071,602</u>	<u>\$ 3,685</u>
<b>Investments measured at the Net Asset Value (NAV)</b>				
Commingled bond funds	93,062			
Commingled global asset allocation	854,375			
Commingled international equity funds	1,391,523			
Hedge funds	1,743			
Opportunistic credit funds	2,419,206			
Private equity funds	1,236,930			
Private real estate funds	1,005,338			
Investments measured at the NAV	<u>7,002,177</u>			
Total investments	<u>\$ 11,304,599</u>			
<b>Short term investments by fair value level</b>				
Short term investment fund	\$ 213,147	\$ -	\$ 213,147	\$ -
<b>Investment derivative instruments</b>				
U.S. equity derivatives	\$ 16,054	\$ 16,054	-	-
Foreign currency spot contracts	(55)	(55)	-	-
Total derivative instruments	<u>\$ 15,999</u>	<u>\$ 15,999</u>	<u>-</u>	<u>-</u>

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**NOTE 6. FAIR VALUE MEASUREMENT (CONTINUED)**

**Schedule of Investments and Short Term Holdings Measured at Fair Value by Level (000s)**

	Fair Value 2015	Quoted Prices-Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Investments by fair value level</b>				
Debt securities				
Foreign obligations	\$ 178,764	\$ -	\$ 177,856	\$ 908
Mortgage and asset backed securities	274,356	-	273,324	1,032
Municipal obligations	7,596	-	7,596	-
U.S agency obligations	23,454	-	23,454	-
U.S. corporate obligations	295,714	-	295,714	-
U.S. government	336,182	-	336,182	-
Total debt securities	<u>1,116,067</u>	<u>-</u>	<u>1,114,127</u>	<u>1,940</u>
Equity securities				
Foreign stocks	314,983	314,983	-	-
U.S. common & preferred stock	2,665,411	2,664,671	-	740
Total equity securities	<u>2,980,394</u>	<u>2,979,655</u>	<u>-</u>	<u>740</u>
Total investments by fair value level	<u>4,096,461</u>	<u>\$ 2,979,655</u>	<u>\$ 1,114,127</u>	<u>\$ 2,680</u>
Investments measured at the Net Asset Value (NAV)				
Commingled bond funds	81,305			
Commingled global asset allocation	859,983			
Commingled international equity funds	1,466,178			
Hedge funds	127,993			
Opportunistic credit funds	2,459,526			
Private equity funds	1,024,731			
Private real estate funds	742,319			
Investments measured at the NAV	<u>6,762,034</u>			
Total investments	<u>\$ 10,858,495</u>			
<b>Short term investments by fair value level</b>				
Short term investment fund	<u>\$ 550,885</u>	<u>\$ -</u>	<u>\$ 550,885</u>	<u>\$ -</u>
<b>Investment derivative instruments</b>				
U.S. equity derivatives	\$ (260)	\$ (260)	\$ -	\$ -
Foreign currency spot contracts	(3,634)	(3,634)	-	-
Foreign fixed derivatives	(66)	-	-	(66)
Total derivative instruments	<u>\$ (3,960)</u>	<u>\$ (3,894)</u>	<u>\$ -</u>	<u>\$ (66)</u>

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
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**NOTE 6. FAIR VALUE MEASUREMENT (CONTINUED)**

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the tables below by fiscal year.

Investments Measured at Net Asset Value (000's)				
	2016	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled bond funds	\$ 93,062	\$ -	Monthly	2 Months
Commingled global asset allocation	854,375	-	Monthly, Quarterly, Semi- annual, Annual	30-120 Days
Commingled international equity funds	1,391,523	-	Daily, Monthly	5-15 Days
Hedge funds	1,743	-	In liquidation process	N/A
Opportunistic credit funds	2,419,206	519,436	Daily, Monthly, Quarterly, Semi-Annual	30-180 Days
Private equity funds	1,236,930	1,087,630	N/A	N/A
Private real estate funds	1,005,338	776,100	N/A	N/A
	<u>\$ 7,002,177</u>	<u>\$ 2,383,166</u>		

**Commingled Bond Funds and Equity Funds:** One (1) bond fund and five (5) international equity funds are considered to be commingled in nature. Each are valued at the NAV of units held at the end of the period based on the fair value of the underlying investments.

**Commingled Global Asset Allocation/ Risk Parity Funds:** Consisting of four (4) funds, this strategy invests across multiple asset sectors based upon outcomes of economic and technical analysis and may allocate risk across the portfolio in order to achieve optimal portfolio diversification. These investments are valued at the NAV per share.

**Opportunistic Credit Funds:** Consisting of twenty (20) funds, this strategy's main focus is to invest in a variety of credit securities to enhance investment risk-adjusted returns and increase total portfolio diversification. These investments are valued at NAV per share. While many of these funds are currently eligible for redemption, some of the fund distributions received as underlying investments are liquidated, which may be up to ten (10) years from the commencement of the fund.

**Hedge Funds-Absolute Return:** Consisting of four (4) funds, these investments are valued at NAV per share. A majority of these investments have been wound down, and due to contractual lock up restrictions, the remaining redeemable balance of these investments is difficult to determine.

**Private Equity:** Consisting of sixty-five (65) funds, investing primarily in buyout, distress, growth equity, and secondaries, with some exposure to mezzanine and venture, the fair value of these funds has been determined using the most recent financial information. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds liquidated, which on average can occur over the duration of five (5) to ten (10) years.

**Real Assets:** Consisting of forty-seven (47) funds, investing primarily in real estate, natural resources, and infrastructure, the fair values of these funds have been determined using the most recent financial information. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds when liquidated, which on average can occur over the duration of five (5) to ten (10) years.

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**NOTE 6. FAIR VALUE MEASUREMENT (CONTINUED)**

**Investments Measured at Net Asset Value (000's)**

	<b>2015</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (If Currently Eligible)</b>	<b>Redemption Notice Period</b>
Comingled bond funds	\$ 81,305	\$ -	Monthly	2 Months
Comingled global asset allocation	859,983	-	Monthly, Quarterly, Semi-annual, Annual	30-120 Days
Commingled international equity funds	1,466,178	-	Daily, Monthly	5-15 Days
Hedge funds	127,993	-	In liquidation process	N/A
Opportunistic credit funds	2,459,526	454,827	Daily, Monthly, Quarterly, Semi-Annual	30-180 Days
Private equity funds	1,024,731	882,027	N/A	N/A
Private real estate funds	742,319	935,271	N/A	N/A
	<u>\$ 6,762,034</u>	<u>\$ 2,272,125</u>		

**Commingled Bond Funds and Equity Funds:** One (1) bond fund and five (5) international equity funds are considered to be commingled in nature. Each are valued at the NAV of units held at the end of the period based on the fair value of the underlying investments.

**Commingled Global Asset Allocation/ Risk Parity Funds:** Consisting of six (6) funds, this strategy invests across multiple asset sectors based upon outcomes of economic and technical analysis and may allocate risk across the portfolio in order to achieve optimal portfolio diversification. These investments are valued at the NAV per share.

**Opportunistic Credit Funds:** Consisting of twenty (20) funds, this strategy's main focus is to invest in a variety of credit securities to enhance investment risk-adjusted returns and increase total portfolio diversification. These investments are valued at NAV per share. While many of these funds are currently eligible for redemption, some of the fund distributions received as underlying investments are liquidated, which may be up to ten (10) years from the commencement of the fund.

**Hedge Funds-Absolute Return:** Consisting of four (4) funds, these investments are valued at NAV per share. A majority of these investments have been wound down, and due to contractual lock up restrictions, the remaining redeemable balance of these investments is difficult to determine.

**Private Equity:** Consisting of sixty-five (65) funds, investing primarily in buyout, distress, growth equity, and secondaries, with some exposure to mezzanine and venture, the fair value of these funds has been determined using the most recent valuation information. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds liquidated, which on average can occur over the duration of five (5) to ten (10) years.

**Real Assets:** Consisting of forty-seven (47) funds, investing primarily in real estate, natural resources, and infrastructure, the fair values of these funds have been determined using the most recent financial information. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds when liquidated, which on average can occur over the duration of five (5) to ten (10) years.

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**NOTE 7. INVESTMENTS**

NMERB is authorized to invest or reinvest the fund in accordance with the Uniform Prudent Investor Act Section 45-7-601 NMSA 1978. Key provisions per the Uniform Prudent Investor Act are summarized below. Provisions of the Act:

- Set a higher standard of care and prudence for investments, above and beyond the previous standard and guiding principles of law,
- Apply to the trust as a whole, rather than individual investments,
- Require investment strategy to be based on suitable risk and reward strategies, and
- Require diversification unless the trustees reasonably determine it is not in the best interest of the fund.

**Asset Allocation Policy** – NMERB has adopted a strategic Asset Allocation Plan, containing weights, ranges, and benchmarks for each asset class. Over time this strategy is expected to achieve NMERB's assumed overall rate of return on Plan assets of 7.75%. Achieving the target weights is a long-term goal. In the short term, a particular asset position may represent an intermediate point in the process of attaining its target weight.

NMERB's investment allocation policy was reviewed and amended by the Board of Trustees on August 26, 2016. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following schedule shows the asset allocation policy adopted on August 26, 2016 as well as the prior allocation policy targets.

**Schedule of Target Investment Allocations**

<b>Asset Class</b>	<b>After 8/26/2016</b>	<b>Prior to 8/26/2016</b>
<b>Equities</b>		
<i>Domestic Equities</i>		
Large cap equities	16%	18%
Small-mid cap equities	3%	2%
<b>Total equities</b>	<b>19%</b>	<b>20%</b>
<i>International Equities</i>		
Developed	5%	5%
Emerging markets	9%	10%
<b>Total equities</b>	<b>14%</b>	<b>15%</b>
<b>Fixed Income</b>		
Opportunistic credit	18%	20%
Core bonds	6%	6%
Emerging market debt	2%	2%
<b>Total fixed income</b>	<b>26%</b>	<b>28%</b>
<b>Alternatives</b>		
Real estate - REITS	7%	7%
Real assets	8%	8%
Private equity	13%	11%
Global asset allocation	4%	5%
Risk parity	3%	5%
Other	5%	0%
<b>Total Alternatives</b>	<b>40%</b>	<b>36%</b>
<b>Cash</b>		
<b>Total</b>	<b>100%</b>	<b>100%</b>

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**NOTE 7. INVESTMENTS (CONTINUED)**

Investments held by NMERB's custody agent in the name of NMERB (excluding cash and cash equivalents) as of June 30, are described below by year end.

<b>Investments, at fair value</b>	<b>2016</b>	<b>2015</b>
Other investments	\$ 3,362,868,898	\$ 2,309,072,716
Domestic stocks	3,145,341,943	2,542,692,435
International stocks	1,797,696,501	1,875,881,084
Private equity	1,200,163,791	1,028,279,120
U.S. government and agency securities	577,345,485	585,177,300
Private real estate	469,007,216	380,197,078
Domestic corporate bonds	291,669,042	701,482,119
Hedge fund funds	255,831,752	409,511,379
Non-U.S. government bonds	90,054,353	109,849,871
Non-U.S. corporate bonds	77,919,515	328,554,498
Domestic asset and mortgage-backed securities	36,700,730	587,797,041
Total	<u>\$ 11,304,599,226</u>	<u>\$ 10,858,494,641</u>

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**NOTE 7. INVESTMENTS (CONTINUED)**

**Foreign Currency Risk** - Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the underlying securities. NMERB's exposure to foreign currency risk is derived from positions held in foreign currency and currency-denominated investments. Managers are given discretion to hedge this risk. NMERB's foreign currency exposure as of June 30, 2016 and 2015, was \$378,266,294 and \$668,437,274, respectively. Detail schedules reflecting foreign currency exposure are shown next.

**Schedule of Foreign Currency Risk Exposure as of June 30, 2016**

<b>Currency</b>	<b>Equity Securities</b>	<b>Cash (overdraft)</b>	<b>Net Foreign Currency Risk</b>
Australian Dollar	\$ -	\$ -	\$ -
Argentine Peso	255,162	1	255,164
Bahraini Dinar	-	(24,443)	(24,443)
Brazilian Real	10,170,224	(91,058)	10,079,166
British Pound Sterling	15,598,700	734,280	16,332,980
Canadian Dollar	1,779,510	(4,037)	1,775,473
Chilean Peso	-	-	-
Chinese Yuan	-	8,557	8,557
Colombian Peso	2,371,997	122,145	2,494,142
Czech Koruna	-	44	44
Danish Krone	-	-	-
Euro	99,482,627	9,147,638	108,630,265
Hong Kong Dollar	45,936,321	283,753	46,220,074
Hungarian Forint	1,720,673	32,043	1,752,717
Indian Rupee	28,488,947	-	28,488,947
Indonesian Rupiah	17,168,898	137,744	17,306,642
Israeli Shekel	-	-	-
Japanese Yen	-	109,818	109,818
Malaysian Ringgit	4,067,532	13,168	4,080,700
New Mexican Peso	11,837,959	(72,504)	11,765,455
New Romanian Leu	-	-	-
New Russian Ruble	2,892,688	205,538	3,098,226
New Taiwan Dollar	28,789,009	672,504	29,461,513
New Zealand Dollar	-	-	-
Nigerian Naira	-	-	-
Norwegian Krone	(1,316,503)	1,399,091	82,588
Omani Rial	-	(7,371)	(7,371)
Peruvian Nuevo Sol	527,597	-	527,597
Philippine Peso	429,099	-	429,099
Polish Zloty	5,042,933	(20,310)	5,022,623
Qatari Rial	-	160	160
Romanian Lue	935,568	-	935,568
Saudi Riyal	46,616	95,819	142,436
Singapore Dollar	2,600,498	739	2,601,237
South African Rand	22,363,214	278,277	22,641,491
South Korean Won	48,914,963	(43,150)	48,871,812
Swedish Krona	-	1	1
Swiss Franc	-	-	-
Thai Baht	6,178,385	32,737	6,211,122
Turkish Lira	8,972,404	85	8,972,489
Total subject to risk	365,255,022	13,011,271	378,266,294
Investments not subject to risk	11,090,922,885	200,030,033	11,290,952,917
Total investments	\$ 11,304,599,226	\$ 213,041,304	\$ 11,517,640,530

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**NOTE 7. INVESTMENTS (CONTINUED)**

**Schedule of Foreign Currency Risk Exposure as of June 30, 2015**

<b>Currency</b>	<b>Equity Securities</b>	<b>Cash (overdraft)</b>	<b>Net Foreign Currency Risk</b>
Australian Dollar	\$ 3,192,557	12,462	3,205,019
Brazilian Real	10,226,578	27,664	10,254,242
British Pound Sterling	79,615,791	1,093,873	80,709,664
Canadian Dollar	3,707,300	95,491	3,802,791
Chilean Peso	191,915	-	191,915
Chinese Yuan	120,536	-	120,536
Colombian Peso	7,070,679	477	7,071,156
Danish Krone	510,500	-	510,500
Euro	179,126,368	2,134,291	181,260,659
Hong Kong Dollar	66,259,495	187,313	66,446,808
Hungarian Forint	4,628,337	-	4,628,337
Indian Rupee	24,533,003	61,256	24,594,259
Indonesian Rupiah	13,807,058	64,787	13,871,845
Israeli Shekel	2,824,959	-	2,824,959
Japanese Yen	60,289,710	-	60,289,710
Malaysian Ringgit	9,577,936	26,920	9,604,856
New Mexican Peso	11,630,791	38,601	11,669,392
New Romanian Leu	2,249,931	-	2,249,931
New Russian Ruble	4,159,527	28,273	4,187,800
New Taiwan Dollar	28,797,229	-	28,797,229
New Zealand Dollar	-	1,099	1,099
Nigerian Naira	330,237	-	330,237
Norwegian Krone	3,567,850	59	3,567,909
Peruvian Nuevo Sol	1,748,200	-	1,748,200
Philippine Peso	455,090	-	455,090
Polish Zloty	9,242,965	1,989	9,244,954
Qatari Rial	1,589,289	862	1,590,151
Saudi Riyal	63,773	-	63,773
Singapore Dollar	5,605,741	74	5,605,815
South African Rand	32,584,330	(125,718)	32,458,612
South Korean Won	40,686,749	126	40,686,875
Swedish Krona	10,159,387	-	10,159,387
Swiss Franc	24,094,333	3,250	24,097,583
Thai Baht	8,086,954	1,990	8,088,944
Turkish Lira	13,864,884	182,153	14,047,037
Total foreign currency subject to risk	664,599,982	3,837,292	668,437,274
Investments not subject to risk	10,193,894,659	541,324,248	10,735,218,907
Total investments	\$ 10,858,494,641	545,161,540	11,403,656,181

**Custodial Credit Risk** - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, NMERB will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

All investment securities were held in a custodial position by State Street Bank (Boston, Massachusetts) during fiscal years 2016 and 2015 in the name of NMERB. Deposits and securities held by the custody bank are collateralized with securities held by State Street Bank's trust department, as described in our custody agreement.



**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
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**June 30, 2016 and 2015**

**NOTE 7. INVESTMENTS (CONTINUED)**

**Interest Rate Risk** - Interest rate risk relates to changes in interest rates that will adversely affect the fair value of an investment. NMERB's investing activities may lead earnings and capital to be exposed to movements in interest rates. Interest rate risk management is handled is managed through duration, and by operating within defined risk parameters. NMERB uses a weighted average method to determine the duration of its investments.

**Schedule of Interest Rate Risk**

Investment Type			Duration (Years)	
	2016	2015	2016	2015
U.S. treasury securities	\$ 312,354,236	\$ 336,182,244	6.14	6.11
U.S. government and government related obligations	276,078,670	246,231,807	4.01	4.25
International government obligations	146,276,285	230,542,041	6.73	7.89
Corporate obligations	811,227,498	903,877,940	4.98	3.77
Asset and mortgage backed securities	191,330,357	202,893,562	2.61	2.63
Total	<u>\$ 1,937,405,458</u>	<u>\$ 2,295,112,393</u>	<u>4.09</u>	<u>4.21</u>

**Concentration of Credit Risk** - Concentration risk is identified by the amount of investment in any one issuer that represents 5% or more of the fiduciary net position. As of June 30, 2016 and 2015, with the exception of U.S. Government and Agency securities, NMERB was not exposed to any concentration risk greater than 5%.

**Credit Risk** - Credit risk for investments is the risk that an issuer or other counterparty to an investment agreement will not fulfill its obligations. Credit risk is managed through diversification and by operating within NMERB defined parameters instead of using a benchmark index. Excluding those investments issued by, or explicitly guaranteed by, the U.S. government, which are not considered to have credit risk, NMERB's credit quality distribution for investments with credit risk exposure at June 30, 2016 and 2015, is presented in the Summary of Investments by Rating schedule. NMERB's investments were rated and categorized according to Standard & Poor's rating standards. The schedule below summarizes the investments subject to credit risk by category as of June 30, 2016 and 2015. Detail schedules of investments by category and credit risk follow.

**Summary of Investments Subject to Credit Risk, at Fair Value**

	2016	2015
Asset & mortgage backed securities	\$ 294,196,344	\$ 283,762,353
Collateralized debt obligations	16,408,696	27,037,901
Corporate securities	662,392,417	685,421,361
Bank loans, bonds & treasury bills	588,511,908	336,115,428
Other fixed income	33,626,612	156,419,763
Subtotal assets subject to credit risk	<u>1,595,135,977</u>	<u>1,488,756,805</u>
Investment not subject to credit risk	<u>9,709,463,249</u>	<u>9,369,737,836</u>
Total investments	<u>\$ 11,304,599,226</u>	<u>\$ 10,858,494,641</u>

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**NOTE 7. INVESTMENTS (CONTINUED)**

Detail comparative schedules of investments by category, credit risk, and fiscal year follow.

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year					
Investment Type	Rating	2016	Rating	2015	
<b>Asset and mortgagebacked securities</b>					
<b>Asset backed securities</b>	A	\$ 1,024,466	A	\$ 1,099,316	
	AA+	-	AA+	-	
	AAA	2,348,575	AAA	3,241,584	
	B	-	B	691,149	
	BB+	-	BB+	-	
	BBB	360,543	BBB	494,094	
	BBB-	-	BBB-	-	
	BBB+	637,304	BBB+	-	
	CC	-	CC	1,153,757	
	CCC	-	CCC	-	
	CCC-	-	CCC-	322,826	
	D	154,281	D	164,786	
NR	2,838,601	NR	2,986,418		
<b>Subtotal assetbacked securities</b>		<b>7,363,770</b>		<b>10,153,930</b>	
<b>Commercial mortgage backed securities</b>	A	1,087,291	A	2,826,195	
	A-	1,613,111	A-	367,461	
	A+	211,334	A+	875,115	
	AA	2,316,272	AA	3,046,656	
	AA-	673,834	AA-	-	
	AA+	2,484,292	AA+	3,381,924	
	AAA	3,016,388	AAA	4,867,260	
	B	308,825	B	1,114,049	
	B-	827,684	B-	500,560	
	B+	329,063	B+	654,660	
	BB	-	BB	52,541	
	BB+	86,294	BB+	165,788	
	BBB	50,263	BBB	-	
	BBB-	1,013,954	BBB-	1,050,608	
	BBB+	1,954,449	BBB+	4,960,198	
	CCC	318,350	CCC	-	
CCC+	-	CCC+	-		
D	-	D	-		
NR	7,883,953	NR	8,260,028		
<b>Subtotal commercial mortgage backed</b>		<b>24,175,357</b>		<b>32,123,043</b>	
<b>Non commercial mortgage backed securities</b>	AA-	9,606,100	AA-	1,105,129	
	AA+	239,980,217	AA+	232,695,452	
	NR	10,485,267	NR	4,735,165	
<b>Subtotal non commercial mortgage backed</b>		<b>260,071,584</b>		<b>238,535,746</b>	
<b>Residential mortgage-backed security</b>	CCC	2,585,633	CCC	2,949,634	
<b>Total asset and mortgage backed securities</b>		<b>\$ 294,196,344</b>		<b>\$ 283,762,353</b>	

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June 30, 2016 and 2015

NOTE 7. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year				
Investment Type	Rating	2016	Rating	2015
<b>Collateralized debt obligations</b>				
Collateralized debt-loan obligations	A-	1,342,580	A-	\$ -
	A+	294,032	A+	\$ -
	AA-	-	AA-	83,773
	AA+	-	AA+	2,832,141
	B	-	B	-
	B-	-	B-	649,766
	B+	673,163	B+	1,818,900
	BB	972,293	BB	531,576
	BB-	599,612	BB-	-
	BB+	410,523	BB+	1,054,040
	BBB	110,953	BBB	-
	BBB-	153,849	BBB-	-
	BBB+	200,152	BBB+	-
	CCC	-	CCC	373,307
	CCC-	351,125	CCC-	-
CCC+	-	CCC+	635,976	
NR	1,403,724	NR	1,638,913	
<b>Subtotal collateralized debt loan</b>		<b>6,512,006</b>		<b>9,618,393</b>
Collateralized mortgage obligation/Real Estate Mortgage Investment Conduit	A-	346,743		869,879
	A+	614,804	A+	757,939
	AA	1,791,964	AA	2,226,577
	AA-	360,379	AA-	352,351
	AA+	-	AA+	-
	AAA	1,002,029	AAA	2,034,580
	B	-	B	-
	BBB	-	BBB	-
	BBB-	374,308	BBB-	1,695,616
	BBB+	367,597	BBB+	466,384
	CC	-	CC	761,247
CCC	-	CCC	-	
D	452,038	D	555,888	
NR	4,586,828	NR	7,699,047	
<b>Subtotal collateralized mortgage obligation</b>		<b>9,896,690</b>		<b>17,419,508</b>
<b>Total collateralized debt obligations</b>		<b>\$ 16,408,696</b>		<b>\$ 27,037,901</b>

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
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**NOTE 7. INVESTMENTS (CONTINUED)**

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year					
Investment Type	Rating	2016	Rating		2015
<b>Corporate securities</b>					
Corporate bonds	A	23,977,008	A	\$	32,536,377
	A-	56,241,692	A-		60,868,317
	A+	16,888,265	A+		15,750,496
	AA	3,196,515	AA		4,493,496
	AA-	14,120,005	AA-		13,561,582
	AA+	8,388,483	AA+		5,502,444
	AAA	6,070,002	AAA		3,859,182
	B	19,845,586	B		30,340,803
	B-	70,207,795	B-		45,442,098
	B+	16,736,409	B+		11,501,904
	BB	9,539,243	BB		3,986,095
	BB-	14,944,434	BB-		787,193
	BB+	(381,519)	BB+		17,909,299
	BBB	64,834,353	BBB		71,922,281
	BBB-	58,871,858	BBB-		58,040,638
	BBB+	96,660,831	BBB+		83,256,376
	C	-	C		2,569,968
	CC	7,329,783	CC		13,050
	CCC	24,483,736	CCC		9,779,349
	CCC-	15,891,562	CCC-		7,842,654
CCC+	24,255,294	CCC+		64,233,090	
D	8,842,536	D		10,959,855	
NR	27,899,843	NR		38,098,600	
<b>Subtotal corporate bonds</b>		<b>588,843,714</b>			<b>593,255,149</b>
Corporate convertible bonds	CCC	-			1,899,333
	NR	12,311	NR		11,125,350
<b>Subtotal convertible bonds</b>		<b>12,311</b>			<b>13,024,684</b>
Common stock	N/A	70,226,411	N/A		75,492,827
Preferred stock	D	591,229	D		683,692
Preferred stock	NR	2,718,752	NR		2,965,010
<b>Subtotal stock</b>		<b>73,536,392</b>			<b>79,141,529</b>
<b>Total corporate securities</b>		<b>\$ 662,392,417</b>		<b>\$</b>	<b>685,421,361</b>

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
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**NOTE 7. INVESTMENTS (CONTINUED)**

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year					
Investment Type	Rating	2016	Rating	2015	
<b>Bank Loans, Bonds, and Treasury Bills</b>					
<b>Bank loans</b>	B	\$ 15,113,533	B	\$ 2,278,929	
	B-	20,303,544	B-	29,826,271	
	B+	7,089,604	B+	5,213,763	
	BB	-		230,234	
	BB-	409,218	BB-	2,402,156	
	BB+	-		2,424,224	
	CCC	6,497,154	CCC	6,751,736	
	CCC-	2,197,041	CCC-	2,938,487	
	CCC+	24,459,545	CCC+	21,743,380	
	D	3,593,669	D	10,713,862	
	NR	84,481,588	NR	105,565,399	
<b>Subtotal bank loans</b>		<b>164,144,896</b>		<b>190,088,441</b>	
<b>Municipal and provincial bonds</b>	A	199,067	A	-	
	A-	-	A-	7,411,718	
	AA-	-	AA-	184,322	
	AA+	1,559,091	AA+	1,483,605	
	BBB+	1,029,597		-	
	CC	7,584,878	CC	-	
	CCC-	-	CCC-	2,623,656	
NR	1,543,848	NR	1,379,664		
<b>Subtotal municipal and provincial bonds</b>		<b>11,916,481</b>		<b>13,082,965</b>	
<b>Foreign government bonds</b>	A	5,820,747	A	18,630,179	
	A-	3,760,329	A-	7,291,537	
	A+	1,208,977			
	AA-	-	AA-	1,396,745	
	AA+	1,957,093	AA+	1,824,238	
	AAA	-	AAA	3,005,640	
	B	2,563,568			
	B-	7,230,031	B-	-	
	B+	3,389,000	B+	486,983	
	BB	10,917,888	BB	-	
	BB-	5,373,131	BB-	-	
	BB+	9,479,403	BB+	5,302,387	
	BBB	4,624,656	BBB	2,287,012	
	BBB-	3,642,667	BBB-	7,262,045	
	BBB+	7,822,700	BBB+	24,821,102	
CCC	460,245	CCC	161,175		
CCC-	-	CCC-	691,538		
NR	31,845,859	NR	35,218,942		
<b>Subtotal foreign government bonds</b>		<b>100,096,294</b>		<b>108,379,521</b>	
<b>Treasury bills</b>	AA+	312,354,237	AA+	24,564,500	
<b>Subtotal treasury bills</b>		<b>312,354,237</b>	NR	<b>24,564,500</b>	
<b>Total bank loans, bonds, and treasury bills</b>		<b>\$ 588,511,908</b>		<b>\$ 336,115,428</b>	

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**NOTE 7. INVESTMENTS (CONTINUED)**

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year					
Investment Type	Rating	2016	Rating	2015	
<b>Other Investments</b>					
<b>Other fixed income</b>	AAA	\$ (1,831,001)	AAA	\$ (10,254,111)	
	B	5,249,718	B	1,312,405	
	B/B-	-	B/B-	139,159,637	
	B-	-	B-	5,110,316	
	B+	-	B+	3,612,788	
	BB	6,000,242	BB	3,019,170	
	BB-	5,246,733	BB-	-	
	BB+		BB+	204,496	
	BBB	732,248	BBB	-	
	BBB-	751,088	BBB-	821,496	
	C		C	139,394	
	CC	56,151	CC	91,378	
	CCC-	-	CCC-	70,351	
	CCC+	601,518	CCC+	637,328	
	D	-	D	142,924	
NR	16,819,915	NR	12,352,191		
<b>Total other fixed income</b>		<b>33,626,612</b>		<b>156,419,763</b>	
<b>Other investments not subject to credit risk</b>		<b>9,709,463,249</b>		<b>9,369,737,836</b>	
<b>Grand total investments, fair value</b>		<b>\$ 11,304,599,226</b>		<b>\$ 10,858,494,641</b>	

**Cash Balances** - NMERB earns interest on all monies held in the Agency's custodial agent bank. When a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date, the cash remains with custodial agent bank. When this occurs, NMERB's money is invested overnight in a Short-Term Investment Fund (STIF). As of June 30, 2016 and 2015 NMERB had \$200,138,412 and \$442,993,507, respectively, on deposit with State Street Bank (SSB).

State law requires (Section 8-6-3 NMSA, 1978) the agency's operating cash to be managed by the New Mexico State Treasurer's Office (STO), which invests monies held overnight. STO ensures adequate protection of State monies for agency deposit accounts by requiring all qualified financial institutions to pledge collateral to secure public deposits. As of June 30, 2016 and 2015 NMERB had \$13,008,495 and \$7,891,352, respectively, on deposit with STO.

**NOTE 8. DERIVATIVE INSTRUMENTS**

Derivatives are generally defined as contracts or securities whose value depend on, or derive from, the value of an underlying asset, reference rate, or index.

The Board has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of derivative instruments. This note describes the Board's investment derivative instruments measured at fair value in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

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**NOTE 8. DERIVATIVE INSTRUMENTS (CONTINUED)**

NMERB's investment policies do allow portfolio managers to trade in certain derivatives for hedging purposes.

The notional or contractual amounts of derivatives indicate the extent of the Board's involvement in the various types and uses of derivative financial instruments and do not measure the Board's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts related to NMERB's derivative financial instruments as of June 30, 2016 and 2015.

<b>Notional amounts, fair value (000's)</b>			
		<b>2016</b>	<b>2015</b>
Foreign exchange forward contracts	\$	109,408	\$ 107,160
Swaps - interest rate swap	\$	-	\$ 32,023

The fair values of derivative instruments outstanding as of June 30, 2016 and 2015 are classified by type and by the changes in fair value of the derivative instrument in the following table.

<b>Unrealized Gain/(Loss), as of June 30, 2016 (000's)</b>				
<b>Derivative Type</b>	<b>Classification</b>	<b>Gain/(Loss)</b>	<b>Classification</b>	<b>Amount</b>
Swaps - interest rate swaps	Investment Income	\$ 110	Investment	\$ -
Swaps - currency	Investment Income	\$ (1)	Investment	\$ -

<b>Unrealized Gain/(Loss), as of June 30, 2015 (000's)</b>				
<b>Derivative Type</b>	<b>Classification</b>	<b>Gain/(Loss)</b>	<b>Classification</b>	<b>Amount</b>
Futures	Investment Income	\$ (1,579)	Investment	\$ -
Options - purchased	Investment Income	\$ (116)	Investment	\$ -
Options - sold	Investment Income	\$ 309	Investment	\$ -
Swaps - credit default swaps	Investment Income	\$ (30)	Investment	\$ -
Swaps - index swaps	Investment Income	\$ -	Investment	\$ -
Swaps - interest rate swaps	Investment Income	\$ 359	Investment	\$ (66)

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**NOTE 8. DERIVATIVE INSTRUMENTS (CONTINUED)**

**Derivative Risks** - NMERB is exposed to credit risk in the event of non-performance by counterparties to financial instruments. Portfolio managers authorized to invest in derivatives manage the contractual obligation within established policy parameters for both the types of derivatives and the counterparty ratings, ensuring these contracts are made with high quality institutions. NMERB can be exposed to market risk in the event that changes in market conditions cause investments to decline in value. This exposure is managed within guidelines related to the types of instruments bought or sold and parameters for offsetting positions. Foreign currency risk is the risk that changes in exchange rates will adversely affect the investments. Managers of these assets are given discretion to hedge this risk.

**Foreign Currency Exchange Contracts** - NMERB may enter into forward contracts to purchase and sell foreign currencies in the normal course of investing activities to manage currency exposure associated with NMERB's foreign equity and fixed income investments. The terms of these contracts generally do not exceed one year. The credit risk associated with these contracts is minimal as they are limited to a small number of highly rated counterparties. NMERB's foreign exchange contracts by currency type are summarized below.

**Summary of Foreign Exchange Contracts by Currency at June 30, 2016**

<b>Currency</b>	<b>Buys</b>	<b>Unrealized Gain/(Loss)</b>	<b>Sells</b>	<b>Unrealized Gain/(Loss)</b>
Australian Dollar	\$ 2,070	\$ (66)	-	\$ 23
Brazilian Real	5,265	(44)	3,131	15
Canadian Dollar	-	3	-	-
Chilean Peso	3,296	4	119	(71)
Chinese Renminbi Yuan	-	31	1,255	(16)
Colombian Peso	296	44	1,369	(63)
Czech Koruna	-	(6)	618	11
Euro Currency	4,136	(25)	10,936	93
Hungarian Forint	1,708	(7)	377	7
Indian Rupee	455	(40)	1,625	(3)
Indonesian Rupiah	1,079	2	1,533	(43)
Japanese Yen	3,940	122	3,143	(75)
Malaysian Ringgit	8,142	199	4,002	(275)
Mexican Peso (new)	1,537	42	2,940	(59)
New Israeli Sheqel	-	0	652	35
New Russian Ruble	3,082	305	1,129	169
New Taiwan Dollar	1,768	0	3,088	(31)
New Zealand Dollar	534	33	1,021	(37)
Philippine Peso	1,268	(6)	2,318	12
Polish Zloty	1,060	(86)	602	(0)
Pound Sterling	357	(142)	1,517	94
Romanian Leu	363	(10)	164	0
Singapore Dollar	2,625	25	3,539	(42)
Sol	5,077	15	157	(3)
South African Rand	3,072	(44)	2,568	(56)
South Korean Won	1,835	1	893	(9)
Swiss Franc	837	(0)	-	-
Thailand Baht	2,390	(7)	1,290	(13)
Turkish Lira	3,193	49	37	80
	<u>\$ 59,386</u>	<u>\$ 391</u>	<u>\$ 50,022</u>	<u>\$ (255)</u>



**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 8. DERIVATIVE INSTRUMENTS (CONTINUED)**

**Summary of Foreign Exchange Contracts by Currency at June 30, 2015**

<b>Currency</b>	<b>Buys</b>	<b>Unrealized Gain/(Loss)</b>	<b>Sells</b>	<b>Unrealized Gain/(Loss)</b>
Australian Dollar	\$ 2,267,538	\$ (8,887)	\$ 2,235,755	\$ (22,896)
Brazilian Real	5,766,241	(2,912)	6,157,832	56,108
Chilean Peso	1,292,022	(38,408)	1,416,667	86,258
Chinese Renminbi Yuan	5,890,146	73,686	8,529,670	13,805
Chinese Renminbi Yuan (Offshore)		(4,572)	-	-
Colombian Peso	737,220	(120,380)	1,076,250	49,230
Euro	3,333,914	(33,166)	4,935,427	19,637
Hungarian Forint	211,638	(4,333)	194,898	(4,740)
Indian Rupee	-	35,608	-	616
Indonesian Rupiah	-	19,086	485,562	(40,406)
Japanese Yen	1,300,722	15,342	1,852,238	(27,782)
Malaysian Ringgit	4,143,177	(31,588)	356,615	(666)
Mexican Peso	5,455,165	(119,667)	4,637,909	94,410
New Israeli Sheqel	1,304,772	20,652	1,293,823	(31,602)
New Russian Ruble	4,278,194	(191,107)	2,759,804	(88,947)
New Taiwan Dollar	640,695	4,294	648,420	3,430
Peruvian Nuevo Sol	-	1,865	-	-
Philippine Peso	82,505	(8,282)	41,098	8,339
Polish Zloty	1,432,185	8,015	480,479	16,617
Romanian Leu	255,793	4,570	-	3,821
Singapore Dollar	527,361	(269)	1,356,109	20,983
South African Rand	5,155,931	105,963	9,517,915	(53,413)
South Korean Won	-	-	-	-
Swiss Franc	-	-	-	12,539
Thai Baht	2,023,809	(2,201)	-	2,087
Turkish Lira	6,634,531	43,785	6,449,531	(51,122)
Total	<u>\$ 52,733,559</u>	<u>\$ (232,906)</u>	<u>\$ 54,426,002</u>	<u>\$ 66,306</u>

**Futures Contracts** – NMERB enters into futures contracts in the normal course of its investing activities to manage market risk associated with the Plan's equity and fixed income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the Statement of Fiduciary Net Position. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 8. DERIVATIVE INSTRUMENTS (CONTINUED)**

During 2016 and 2015, NMERB was a party to futures contracts held for trading purposes for U.S. Treasury bonds and 90-day Euro dollar fixed income futures. Upon entering into a futures contract, the Board is required to deposit either in cash or securities an amount (“initial margin”) equal to a certain percentage of the nominal value of the contract.

Subsequent payments are then made or received by NMERB, depending on the daily fluctuation in the value of the underlying contracts. No U.S. Treasury securities owned and included within NMERB’s investments, were held by the Plan’s broker as performance security on futures contracts as of June 30, 2016.

**Options** – An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (“call option”), or sell to (“put option”), the writer of a designated instrument at a specified price within a specified period of time. When NMERB purchases or writes an option, an amount equal to the premium paid or received by the Plan is recorded as an asset or liability and is subsequently adjusted to the current market value of the option purchased or written. Gain or loss is recognized when the option contract expires or is closed. There were no open written or purchased options as of June 30, 2016 or 2015.

**Swap Contracts** - Swap contracts are executed on a number of different bases. NMERB employed both interest rate swap contracts and credit default swap contracts on June 30, 2016 and 2015. An interest rate swap contract is an agreement between two parties to exchange periodic interest payments. One party agrees to make payments to the other based on a fixed rate of interest in exchange for payments based on a variable rate. NMERB employs interest rate swap contracts to adjust fixed income portfolio durations. A credit default swap contract is similar to an insurance policy, with the credit risk of an individual issuer or a basket of issuers (the “reference asset”) the insured factor. Under such a contract, two parties enter into an agreement whereby the first party pays the second party a fixed periodic payment for the specified life of the contract (analogous to an insurance premium). The other party makes no payment unless a credit event related to the reference asset occurs. If such an event takes place, the second party is obligated to make a payment to the first party. The size of the payment is linked to the decline in the reference asset’s market value following determination of the occurrence of a credit event.

**Hedge Funds** - The use of derivatives is allowed under the Hedge Fund Investment Policy. These investments are under the management of the external Hedge Fund managers who are employed in the “Hedge Fund”, “Emerging Market Debt,” and “Opportunistic Credit” classifications.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 8. DERIVATIVE INSTRUMENTS (CONTINUED)**

**Asset -Backed Securities** - In accordance with investment policy and fiduciary principles, the Plan invests in various forms of asset-backed securities that fit the previous definition of derivative securities. These securities are held by NMERB for investment purposes. The assets presented by investment category, at fair value, are as follows:

<b>Schedule of Asset-backed Securities by Fiscal Year</b>				
<b>Security Type</b>	<b>2016</b>		<b>2015</b>	
Asset-backed securities	\$	25,939,862	\$	31,418,787
Collateralized debt/loan obligations		16,727,289		9,618,393
Non-Agency mortgage-backed securities		37,807,316		51,000,651
<b>Total</b>	<b>\$</b>	<b>80,474,467</b>	<b>\$</b>	<b>92,037,831</b>

**NOTE 9. CAPITAL ASSETS**

Capital assets are used in operations and have useful lives extending beyond a single reporting period. Assets costing \$5,000 or more per Section 12-1-10, NMSA 1978 are recorded at historical cost and depreciated over their useful lives. Furniture, fixtures, and equipment are depreciated over five to ten years; building and improvements are depreciated over twenty-five years. A schedules of capital asset activity for the year ended June 30, 2016 and 2015 are shown below.

Depreciation expense reported as part of administrative expenses is \$228,869 and \$157,733 for fiscal year 2016 and 2015, respectively. NMERB disposed of \$174,204 and \$274,909 in capital assets during fiscal year 2016 and 2015, respectively, consisting primarily of obsolete computer equipment.

<b>Schedule of Capital Asset Activity 2016</b>					
	Balance -			Balance -	
	June 30, 2015	Additions	Deletions	June 30, 2016	
Capital assets, at cost:					
Land & land improvements	\$ 248,172	\$ -	\$ -	\$ 248,172	
Depreciable land improvements	19,361	-	-	19,361	
Building & building improvements	3,365,714	19,452	-	3,385,166	
Retirement information system	9,156,963	-	-	9,156,963	
Furniture, fixtures, & equipment	882,886	424,753	(174,204)	1,133,435	
Other assets	30,500	-	-	30,500	
<b>Total</b>	<b>13,703,596</b>	<b>444,205</b>	<b>(174,204)</b>	<b>13,973,597</b>	
Accumulated depreciation					
Land improvements	(7,742)	(77)	-	(7,819)	
Building & improvements	(1,818,671)	(103,660)	-	(1,922,331)	
Retirement information system	(9,150,531)	(6,432)	-	(9,156,963)	
Furniture, fixtures, & equipment	(722,860)	(118,699)	174,204	(667,355)	
<b>Total</b>	<b>(11,699,804)</b>	<b>(228,868)</b>	<b>174,204</b>	<b>(11,754,468)</b>	
Capital assets, net of accumulated depreciation	\$ 2,003,792	\$ 215,337	\$ -	\$ 2,219,128	

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 9. CAPITAL ASSETS (CONTINUED)**

**Schedule of Capital Asset Activity 2015**

	Balance -			Balance -
	June 30, 2014	Additions	Deletions	June 30, 2015
Capital assets, at cost:				
Land & land improvements	\$ 248,172	\$ -	\$ -	\$ 248,172
Depreciable land improvements	19,361	-	-	19,361
Building & building improvements	3,365,714	-	-	3,365,714
Retirement information system	9,156,963	-	-	9,156,963
Furniture, fixtures, & equipment	1,018,095	139,700	(274,909)	882,886
Other assets	30,500	-	-	30,500
Total	<u>13,838,805</u>	<u>139,700</u>	<u>(274,909)</u>	<u>13,703,596</u>
Accumulated depreciation				
Land improvements	(7,043)	(699)	-	(7,742)
Building & improvements	(1,717,236)	(101,435)	-	(1,818,671)
Retirement information system	(9,363,038)	(55,599)	268,106	(9,150,531)
Furniture, fixtures, & equipment	(722,860)	-	-	(722,860)
Total	<u>(11,810,177)</u>	<u>(157,733)</u>	<u>268,106</u>	<u>(11,699,804)</u>
Capital assets, net of accumulated depreciation	\$ <u>2,028,628</u>	\$ <u>(18,033)</u>	\$ <u>(6,803)</u>	\$ <u>2,003,792</u>

**NOTE 10. ACCRUED COMPENSATED ABSENCES**

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon the length of service and the employee's hire date. A maximum of 30 working days (equivalent to 240 hours) of such accumulated vacation leave can be carried forward into the beginning of the next calendar year. Any excess accumulated vacation leave is forfeited on a calendar year basis.

When employees terminate employment with the State, they are compensated for accumulated vacation leave as of the termination date, up to a maximum of 240 hours. All balances for each employee have been recorded at their current pay rate as of June 30, 2016 and 2015.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave an employee can accumulate. Once per fiscal year, in either January or July, employees may elect to be paid for accrued sick leave in excess of 600 hours but less than 720 hours at 50% of their current hourly rate.

In the case of retiring employees, they may be paid for accrued sick leave in excess of 600 hours but less than 1,000 hours at 50% of their current hourly rate. All sick leave balances in excess of 600 hours but less than 720 hours for each employee have been recorded as a liability at 50% of their current hourly rate.

**NOTE 11. RETIREMENT PLANS**

NMERB employees who do not possess a teaching or administrative certificate have the option of participating in the Educational Employees Retirement Plan or the Public Employees Retirement Plan. Some NMERB employees have elected to participate in the Educational Employees Retirement Plan, while most participate in the Public Employees Retirement Plan.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**NOTE 11. RETIREMENT PLANS (CONTINUED)**

**Public Employees Retirement Association (PERA)** – The Public Employee Retirement Plan is a qualified governmental plan under Section 401(a) of the Internal Revenue Code (IRC) administered by the Public Employees Retirement Association (PERA), which provides retirement, disability, and survivor benefits pursuant to the Public Employees Retirement Act. PERA is a cost-sharing, multiple employer defined benefit plan. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report is available at [www.pera.state.nm.us](http://www.pera.state.nm.us).

**PERA Funding Policy** - Plan members are required to contribute 8.92% of their gross salary. NMERB is required to contribute 16.99% of the gross covered salary. The contribution requirements for Plan members and NMERB are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. Total contributions from NMERB and Plan members to PERA for fiscal years ended June 30, 2016 and 2015, were \$596,656 and \$568,105, respectively.

**Educational Retirement Board** – The Educational Retirement administers a cost sharing multiple employer Plan authorized by the Educational Retirement Act established in Chapter 10, Article 22, NMSA 1978. NMERB administers the Plan which is a cost-sharing, multiple employer defined benefit plan providing retirement, disability, and survivor benefits to plan members (certified teachers and other employees of state public schools, colleges and universities, public charter schools). NMERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report is available at [www.nmerb.org](http://www.nmerb.org).

**NMERB Funding Policy**

**2016 and 2015 Member Contributions** – Plan members whose annual salary is \$20,000 or less are required to contribute 7.9% of their gross salary. Plan members whose annual salary exceeded \$20,000 are required to contribute 10.7% of their gross salary.

**2016 and 2015 Employer Contributions** – Employers contribute 13.9% of the gross covered salary for employees whose annual salary was \$20,000 or less, and 13.9% of the gross covered salary for employees whose salary exceeded \$20,000.

Contribution requirements of the Plan are established under Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. Total contributions from NMERB and Plan members to the Plan for fiscal years ended June 30, 2016 and 2015, were \$9,221 and \$2,623, respectively.

**GASB 68 – Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pension Plans by Employers**

According to the Department of Finance and Administration (DFA), compliant with the requirements of GASB No. 68, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015. ERB, as part of the primary government (fiduciary fund) of the State of New Mexico, is a contributing employer to the cost-sharing multiple employer PERA fund. Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR, and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico 87501.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 12. POST-EMPLOYMENT BENEFITS - RETIREE HEALTH CARE PLAN**

**RHCA Plan Description:** NMERB 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). 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 in Chapter 10, Article 7C NMSA 1978. RHCA 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 employee's effective date, and the date of retirement; (2) retirees as 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.

RHCA issues a publicly available financial report that includes financial statements and required supplementary information for the post-employment healthcare plan. The report and further at <https://www.nmrhca.state.nm.us>.

**RHCA Funding Policy.** The Retiree Health Care Act under Section 10-7C-13, NMSA 1978, authorizes the RHCA Board of Trustees 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 a governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium rate to cover their claims and the administrative expenses of the RHCA plan. The monthly premium rate schedule can be viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to RHCA on a monthly basis. The statutory requirements for employer and employee contributions can be changed by the New Mexico 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. For employees that were members of an enhanced retirement plan during the fiscal year ended June 30, 2016, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; participating employees were 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, 2016, the statute required each participating employer to contribute 2% of each participating employee's annual salary; participating employees were required to contribute 1% of their salary.

Total employer NMERB's employer contributions to RHCA for the years ending June 30, 2016 and 2015 were \$70,247 and \$63,497, respectively.

**NOTE 13. RISK MANAGEMENT**

NMERB is exposed to various risks of loss for which it carries insurance (auto, employee bond, general liability, civil rights and foreign jurisdiction, money and securities, property, and workers' compensation) with the Risk Management Division (RMD) insurance program of the New Mexico General Services Department (GSD). The Plan's coverages are designed to satisfy the requirements of State tort claims. All claims are processed through RMD.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 14. STATUTORY DISCLOSURES**

Section 2.2.2.10P(2) of the Audit Rule 2011, 2.2.2 NMAC entitled, "Requirements for Contracting and Conducting Audits of Agencies" requires that state agencies disclose all special, deficiency, and specific appropriations. NMERB had no open appropriations as of fiscal year end 2016.

**NOTE 15. PENDING LITIGATION AND CLAIMS**

During each business cycle, NMERB may be named as a defendant in administrative appeals arising from the normal course of business. Legal counsel believes resolution of any currently pending matters will not have a material effect on the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**



**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS**  
**June 30**

	2016	2015	2014	2013
<b>Total Pension Liability</b>				
Service cost	\$ 356,873,760	\$ 346,956,028	\$ 350,247,724	\$ 348,266,697
Interest	1,367,647,222	1,321,047,780	1,254,730,237	1,202,676,449
Benefit changes		-	-	10,093,494
Difference between actual & expected experience	42,491,846	(86,722,485)	(114,507,809)	-
Assumption changes	-	299,084,856	-	(5,035,689,829)
Benefit payments and refunds	(1,012,730,730)	(957,183,402)	(907,214,467)	(853,329,267)
<b>Net Change in Total Pension Liability</b>	<u>754,282,098</u>	<u>923,182,777</u>	<u>583,255,685</u>	<u>(4,327,982,456)</u>
<b>Total Pension Liability - Beginning</b>	17,974,989,414	17,051,806,637	16,468,550,952	20,796,533,408
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 18,729,271,512</u>	<u>\$ 17,974,989,414</u>	<u>\$ 17,051,806,637</u>	<u>\$ 16,468,550,952</u>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ 396,988,557	\$ 395,129,621	\$ 362,462,537	\$ 299,657,530
Member contributions and other	295,946,396	294,560,840	271,513,574	250,529,546
Pension plan net investment income	364,571,123	429,738,078	1,444,233,347	1,016,865,792
Benefit payments and refunds	(1,012,730,730)	(957,183,402)	(907,214,467)	(853,329,267)
Pension plan administrative expense	(9,660,510)	(10,597,846)	(16,617,970)	(10,985,967)
<b>Net change in plan fiduciary net position</b>	<u>35,114,836</u>	<u>151,647,291</u>	<u>1,154,377,021</u>	<u>702,737,634</u>
<b>Plan fiduciary net position - beginning</b>	<u>11,497,723,115</u>	<u>11,346,075,824</u>	<u>10,191,698,803</u>	<u>9,488,961,169</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 11,532,837,951</u>	<u>\$ 11,497,723,115</u>	<u>\$ 11,346,075,824</u>	<u>\$ 10,191,698,803</u>
<b>Net pension liability (a-b)</b>	<u>\$ 7,196,433,561</u>	<u>\$ 6,477,266,299</u>	<u>\$ 5,705,730,813</u>	<u>\$ 6,276,852,149</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	61.58%	63.97%	66.54%	61.89%
<b>Covered employee payroll</b>	\$ 2,740,526,669	\$ 2,730,320,345	\$ 2,718,100,677	\$ 2,706,170,349
<b>Net pension liability as a percentage of covered employee payroll</b>	262.59%	237.23%	209.92%	231.95%

**Notes to schedule:**

The change in total pension liability due to assumption changes for the fiscal year ending June 30, 2016 includes the impact of the new assumptions adopted by the Board of Trustees on June 12, 2015.

The covered employee payroll is the actual payroll, imputed from the total employer contribution for active members, for the fiscal years ending June 30, 2016 and 2015.

Complete data for this schedule is not available prior to fiscal year 2013.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF INVESTMENT RETURNS**

<b>Fiscal Year Ending</b>	<b>Annual Money - Weighted Rate of Return</b>
2016	2.68%
2015	4.06%
2014	14.71%
2013	11.12%
2012	1.87%
2011	19.30%
2010	****
2009	****
2008	****
2007	****

**Note**

Governmental Accounting Standards Board (GASB) Statement 67 requires pension plans to disclose the annual money-weighted rate of return (MWRR). The MWRR incorporates both the size and the timing of cash flows to determine an internal rate of return. The MWRR considers the changing amounts actually invested during a period, and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. This rate of return is computed net of investment expenses but not net of administrative investment expenses.

Complete data for this schedule is not available prior to fiscal year 2011.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Fiscal Year Ending</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contribution as a % of Covered Payroll</b>
2016	\$ 465,340,519	\$ 396,988,557	\$ 68,351,962	\$ 2,740,526,669	14.49%
2015	\$ 450,950,584	\$ 395,129,621	\$ 55,820,963	\$ 2,730,320,345	14.47%
2014	\$ 479,884,486	\$ 362,462,537	\$ 117,421,949	\$ 2,718,100,677	13.34%
2013	\$ 480,700,326	\$ 299,657,530	\$ 181,042,796	\$ 2,706,170,349	11.07%
2012	\$ 400,461,343	\$ 253,845,277	\$ 146,616,066	\$ 2,495,300,000	10.17%
2011	\$ 377,884,749	\$ 308,367,952	\$ 69,516,797	\$ 2,523,800,000	12.22%
2010	\$ 357,220,043	\$ 313,281,978	\$ 43,938,065	\$ 2,575,800,000	12.16%
2009	\$ 375,430,722	\$ 323,621,282	\$ 51,809,440	\$ 2,585,700,000	12.52%
2008	\$ 368,196,682	\$ 290,875,379	\$ 77,321,303	\$ 2,491,700,000	11.67%
2007	\$ 364,128,448	\$ 255,982,299	\$ 108,146,149	\$ 2,341,100,000	10.93%

**Note**

The valuation date for fiscal year 2016 is June 30, 2015. Actuarially determined contribution rates are calculated as of June 30. Employers and members contribute based on statutorily fixed rates.

**Methods and Assumptions for Actuarially Determined Contribution Rate for Fiscal Year 2016**

**Methods and Assumptions Used to Determine Contribution Rates**

<b>Actuarial Cost Method</b>	Entry age normal
<b>Amortization Method</b>	Level percentage of payroll
<b>Remaining Amortization Period</b>	Amortized over a closed thirty-year period from June 30, 2012 ending June 30, 2042.
<b>Asset Valuation Method</b>	Five-year smoothed market
<b>Inflation</b>	3.00%
<b>Salary Increases</b>	Composed of 3.00% inflation, plus .75% productivity increase rate, plus step-rate promotional increases for members with less than ten years of service.
<b>Investment Rate of Return</b>	7.75%
<b>Retirement Age</b>	Experience-based table of rates based on age and service. Adopted by NMERB on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.
<b>Mortality</b>	Healthy males: RP-2000 Combined Mortality Table with white collar adjustments, with no setback. Generational mortality improvements with scale BB from the table's base year of 2000.  Healthy females: GRS Southwest Region Teacher Mortality Table, set back one year. Generational mortality improvements in accordance with scale BB from the table's base year of 2012.

**OTHER SUPPLEMENTAL INFORMATION**

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF REVENUES AND EXPENDITURES –  
BUDGET AND ACTUAL (Non GAAP Basis)  
JUNE 30, 2016**

	<b>Appropriation Budget</b>	<b>Final Budget</b>	<b>Budgetary Basis Actual</b>	<b>Variance - Final Budget Favorable (Unfavorable)</b>
Revenues and appropriations:				
Other state funds				
Interest and dividend income	\$ 30,452,800	\$ 30,452,800	\$ 126,427,210	95,974,410
Total revenues	<u>\$ 30,452,800</u>	<u>\$ 30,452,800</u>	<u>126,427,210</u>	<u>95,974,410</u>
Expenditures:				
Operating expenditures				
Personal services/ employee benefit:	\$ 6,198,600	\$ 6,198,600	5,914,755	283,845
Contractual services	22,827,600	22,827,600	20,041,708	2,785,892
Other costs	1,426,600	1,426,600	1,340,164	86,436
Total expenditures	<u>\$ 30,452,800</u>	<u>\$ 30,452,800</u>	<u>27,296,627</u>	<u>\$ 3,156,173</u>
Change in net assets - budgetary basis			<u>99,130,583</u>	
Revenues				
Contributions			690,836,527	
Investment earnings and changes in fair value			326,027,400	
Other Income (Other accruals)			2,098,426	
Total revenues			<u>1,018,962,353</u>	
Expenses				
Age and service benefits			(973,703,652)	
Refunds to terminated members			(39,027,078)	
Depreciation expense			(228,869)	
Other expense accruals			(70,018,502)	
Total expenses			<u>(1,082,978,101)</u>	
Change in net assets - GAAP basis			<u>35,114,836</u>	
Increase (decrease) in fiduciary net position			35,114,835	
Net position held in trust for pension benefits-beginning of Year			<u>11,497,723,115</u>	
Net position held in trust for pension benefits-end of Year			<u>\$ 11,532,837,951</u>	

**Note:**

The New Mexico Educational Retirement Board annual budget is prepared on the modified accrual basis.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF BUDGETED EXPENDITURES  
JUNE 30, 2016**

	<u>2016</u>
<b>Personal services and benefits</b>	
Salaries	\$ 3,633,885
Benefits	2,280,870
<b>Total personal services and benefits</b>	<u>5,914,755</u>
 <b>Consultant services</b>	
Medical Review board fees	10,833
Audit Fees	130,718
Legal Fees	664,369
Information technology fees	1,676,772
Other consultant service fees	20,714
<b>Total consultant services expenses</b>	<u>2,503,406</u>
 <b>Investment expenses</b>	
Custodial expenses	887,176
Investment manager expenses	
Non-U.S. fixed income	257,003
Domestic fixed income	1,176,339
Domestic equity	1,354,877
Non-U.S. equity	11,556,739
Investment consulting expenses	1,743,502
Other investment expenses	527,020
<b>Total budgeted investment expenses</b>	<u>17,502,656</u>
 <b>Other administrative expenses</b>	
Building and maintenance	148,728
Dues and subscriptions	48,115
Employee and board travel	106,953
Inventory and supplies	145,083
IT equipment	415,063
Training and education	76,541
Telecommunication services	128,835
Utilities	26,919
Other miscellaneous expenditures	279,573
<b>Total other administrative expenses</b>	<u>1,375,810</u>
 <b>Total budgeted expenditures</b>	<u>\$ 27,296,627</u>

**Note**

The agency's budget is prepared on the modified accrual basis of accounting.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF INVESTMENT AND ADMINISTRATIVE EXPENSES  
June 30, 2016**

**Schedule of Investing Activity and Administrative Investment Expenses**

	<b>2016</b>		
	<b>Investing Activity</b>	<b>Administrative Operations</b>	<b>Total</b>
<b>Personal services and employee benefits</b>			
Salaries	\$ 1,392,664	\$ 2,529,578	\$ 3,922,242
Fringe benefits	98,053	2,036,782	2,134,835
Subtotal	<u>1,490,717</u>	<u>4,566,360</u>	<u>6,057,077</u>
<b>Professional contractual services</b>			
Investment management fees	84,725,788	-	84,725,788
Investment consulting fees	1,743,502	-	1,743,502
Custodial fees	887,176	-	887,176
Attorney fees	527,020	137,349	664,369
Actuarial fees	-	85,653	85,653
Auditing fees	-	130,718	130,718
Other contractual services	-	1,731,658	1,731,658
Subtotal	<u>87,883,486</u>	<u>2,085,378</u>	<u>89,968,864</u>
<b>Communication expenses</b>			
Telephone and network fees	28,790	100,045	128,835
Printing, postage, and mailing expenses	-	119,684	119,684
Subtotal	<u>28,790</u>	<u>219,729</u>	<u>248,519</u>
<b>Facility expenses</b>			
Lease	85,008	28,336	113,344
Depreciation	41,196	187,673	228,869
Maintenance	6,156	47,804	53,960
Utilities	-	26,919	26,919
Subtotal	<u>132,360</u>	<u>290,732</u>	<u>423,092</u>
<b>Software expenses</b>			
Licensing and maintenance	196,728	515	197,243
Subtotal	<u>196,728</u>	<u>515</u>	<u>197,243</u>
<b>Travel expenses</b>			
Professional development and administrative travel cost	20,432	107,739	128,171
Due diligence travel cost	30,336	-	30,336
Subtotal	<u>50,768</u>	<u>107,739</u>	<u>158,507</u>
<b>General administrative expenses</b>			
Research and information services	261,856	-	261,856
Board travel and training expense	8,056	16,931	24,987
Other overhead expense	28,032	127,704	155,736
Memberships and subscriptions	28,000	20,115	48,115
Subtotal	<u>325,944</u>	<u>164,750</u>	<u>490,694</u>
Total investing activities	<u>\$ 90,108,793</u>	<u>\$ 7,435,203</u>	<u>\$ 97,543,996</u>
<b>Schedule of Investing Activity Expense per Statement of Changes in Fiduciary Net Position</b>			
Total investing activity expenses	\$ 87,883,486	\$ -	\$ 87,883,486
Total administrative expenses, net of \$9,660,510.	2,225,307	7,435,203	9,660,510
Total expenses	<u>\$ 90,108,793</u>	<u>\$ 7,435,203</u>	<u>\$ 97,543,996</u>

**Notes**

- Personal services and employee benefits represent actual wages, adjusted for year end accruals.
- Professional investment services represent the cost of investment manager and consulting contracts.
- Communication expenses are allocated based on the number of staff in the workgroup.
- Investment facility expenses represent leased office space in Santa Fe and Albuquerque, New Mexico.
- Software expenses represent the costs of software licensing and maintenance for investment software.
- Travel expenses include the cost of employee in-state and out of state business travel.
- General administrative investment expenses represent costs for information feeds, subscriptions, memberships, and other overhead allocated based on the number of staff in the workgroup.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF CASH AND SHORT TERM INVESTMENTS  
JUNE 30, 2016 and 2015**

**Educational Employees' Retirement Fund  
Pension Trust Account  
Fund 60500**

	<b>2016</b>	<b>2015</b>
Petty Cash	\$ 100	\$ 100
Demand deposits in Wells Fargo Bank - NM Educational Retirement Board		
Qualified Excess Benefit Arrangement Trust Account	209,396	407,271
State Street Bank cash balances held by investment fund managers	12,902,893	2,168,033
Short term investment accounts:		
State Treasurer's General Fund Investment Pool	13,008,495	7,891,352
State Treasurer's Local Government Investment Pool	-	100,000,000
State Street Bank - Short term investments at fair value	200,138,412	442,993,507
	<u>\$ 226,259,296</u>	<u>\$ 553,460,263</u>
 Insured Wells Fargo demand deposit account:		
Total amount on deposit at June 30, 2016	\$ 209,496	\$ 407,371
Less: Federal Deposit Insurance Corporation coverage	(209,496)	(250,000)
Total uninsured public funds	<u>\$ -</u>	<u>\$ 157,371</u>

**Notes**

Individual deposit accounts and investment accounts held in the name of the New Mexico Educational Retirement Board are shown above as required by Section 12-6-5(A) NMSA 1978. All cash activity is accounted for within the Statewide Human Resources Accounting and Management System (SHARE) fund number 60500.

Additional information on credit risk related to state agency investments held in State Treasurer's General Fund Investment Pool can be found in the State Treasurer's separately issued financial statements which disclose the collateral pledged to secure cash and investments.

State Street Bank balances for cash held by foreign currency and other portfolio managers is securitized by State Street Bank. See Note 7 for additional information on custodial and credit risk with respect to funds held by State Street Bank (SSB).

With respect to credit risk for the Local Government Investment Pool (LGIP) in fiscal year 2015, the cash balance maintained by the State Treasurer's Office (STO) was rated AAAM by Standard & Poor's. As a Public Fund, STO is not required to disclose custodial risk for this fund.

STO used the Weighted Average Maturity (WAM) method to report interest rate risk. As of June 30, 2015 the LGIP WAM (R) was 54.6 days and the WAM (F) was 77.7 days where WAM (R) indicates the number of days until the floating interest rate Resets, and WAM (F) indicates the number of days to Final maturity. Additional information can be found on STO's website at [www.nmsto.gov](http://www.nmsto.gov).



**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACCOUNTABILITY IN GOVERNMENT ACT PERFORMANCE MEASURES  
JUNE 30, 2016**

Type	Description	FY16	
		Target	Actual
Outcome	Average rate of return over a cumulative five-year period	7.75%	6.60%
Outcome	Member seminar and training satisfaction ratings	95%	95%
Output	Number of member workshops conducted*	30	40
Outcome	Average number of days to process refund requests **	12	15
Output	Number of benefit estimates and purchase service requests computed annually ***	6,000	N/A
Outcome	Funding period of unfunded actuarial accrued liability in years ****	<30	45

NMERB reports annual performance measure results (outputs and outcomes) through the state's budget process in pursuit of cost-effective and responsive government services in conformance with the Accountability in Government Act (Sections 6-3A-1 to 6-3A-9 NMSA 1978). Agency performance measures are included in the General Appropriations Act. NMERB selected the measures shown above based on our primary services of prudent asset management, pension benefit administration, and outreach and training services for both our membership and educational employers.

**Notes:**

\* NMERB created more opportunities for members and employers to attend training workshops in regional settings or at their own sites. These sessions are in high demand and helpful for educating our current membership and future retirees.

\*\* Member withdrawals of NMERB plan contributions are governed by the Internal Revenue Code (IRC) for pensions which imposes a 30-day waiting period. This time period can be waived in part by written application, bringing the waiting period to the shorter of 20 working days or as soon as is administratively possible.

\*\*\* NMERB has increased the ease of access to website forms, demographic information, and a retirement benefit calculator. In response to an improved web experience, the average number of unique visitors to NMERB's site continues to increase. Based on the number of manual benefit estimates for members considering service purchases prior to retirement, members requesting a benefit review prior to retirement, and those now able to estimate their own benefits online we believe we have met the target set for this year. However, we are unable at this time to separately measure the benefit calculator usage for those tracking their progress toward early retirement goals.

\*\*\*\* NMERB's contribution rate structure is intended to be sufficient to pay NMERB's normal cost and to amortize the unfunded actuarial accrued liability (UAAL) in payments which are level as a percentage of payroll. Except for short-term fluctuations, the amortization period should not extend beyond June 30, 2042 (30 years from June 30, 2012) in accordance with the funding policy set by the Board of Trustees. The amortization period, or funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that NMERB's experience is consistent with all of the actuarial assumptions.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF VENDOR INFORMATION  
JUNE 30, 2016**

(Unaudited)

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	CliftonLarsonAllen, LLP 500 Marquette NW, Ste. 800 Albuquerque, NM 87102	Winner	\$130,769.00		Albuquerque, NM	Yes	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	Eide Bailley, LLP	Loser	\$0.00		Boise, ID	No	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	Ricci and Company	Loser	\$0.00		Albuquerque, NM	Yes	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	Carr, Riggs & Ingram, LLC	Loser	\$0.00		Enterprise, AL	No	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	Hinkle + Landers, PC	Loser	\$0.00		Albuquerque, NM	Yes	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	KPMG, LLP	Loser	\$0.00		Albuquerque, NM	No	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2015-10-02	Competitive (RFP or RFB)	Managed Medical Review Organization	Winner	\$640,000.00		Novi, MI	No	No	Perform all tasks necessary to provide the agency's Board of Trustees with recommended actions on applications for disability-related retirement benefits, including: reviewing such applications, job descriptions and supporting medical, psychological and other examination reports, requiring individual applicants to submit periodically and when appropriate the necessary examination reports for determining disability benefits, including cost of living adjustments. Provide recommendations regarding the applicant's disability and that disability's effect on maintaining current employment, or gaining other employment commensurate to the applicant's employment or their background, education and experience.	

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF VENDOR INFORMATION  
JUNE 30, 2016**

(Unaudited)

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	PGIM, Inc.	Winner	\$470,000 (approx.) per year for 4 years		Newark, NJ	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Aberdeen Asset Management PLC	Loser			Philadelphia, PA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Ashmore Group plc	Loser			London, UK	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	BlueBay Asset Management LLP	Loser			London, UK	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Capital Group	Loser			Los Angeles, CA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Doubleline	Loser			Los Angeles, CA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	DuPont Capital Management Corporation	Loser			Wilmington, DE	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Franklin Resources, Inc.	Loser			San Mateo, CA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Goldman Sachs Asset Management	Loser			Los Angeles, CA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Gramercy	Loser			Greenwich, CT			Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	HSBC Global Asset Management	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Investec Asset Management	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Lazard Asset Management LLC	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Lazard Asset Management LLC	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Logan Circle Partners, LP	Loser			Philadelphia, PA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Manulife Asset Management	Loser			Toronto, Ontario Canada	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	MFS Investment Management	Loser			Boston, MA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Pictet Asset Management Ltd.	Loser			Montreal, Quebec, Canada	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	PIMCO	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Schroder Investment Management	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Stone Harbor Investment Partners LP	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	TCW Group, Inc.	Loser			Los Angeles, CA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	TIAA-CREF Asset Management, LLC	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Western Asset Management Company	Loser			Pasadena, CA	No	No	Manage investment portfolio.	

## **ADDITIONAL INFORMATION**

**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 Members of the State of New Mexico  
Educational Retirement Board and  
Honorable Timothy Keller, State Auditor  
New Mexico Educational Retirement Board  
Santa Fe, New Mexico

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 New Mexico Educational Retirement Board (ERB) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise ERB's basic financial statements, and the Schedule of Revenues and Expenditures -Budget and Actual presented as supplementary information, as defined by the Government Accounting Standards Board, for the year ended June 30, 2016, and have issued our report thereon dated December 1, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered ERB'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ERB's internal control. Accordingly, we do not express an opinion on the effectiveness of ERB'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. We did identify a significant deficiency in internal control which is described in the accompanying schedule of findings and responses as Finding 2016-001.

The Members of the State of New Mexico  
Educational Retirement Board and  
Honorable Timothy Keller, State Auditor  
New Mexico Educational Retirement Board  
Santa Fe, New Mexico

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ERB'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Finding 2016-002, Finding 2016-003, and Finding 2016-004.

### **ERB's Response to Findings**

ERB's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Responses. ERB's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



### **CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
December 1, 2016

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS  
For the Year Ended June 30, 2016**

**2015-001 Census Data  
Other Matter**

**Resolved**

**2015-002 Disaster Recovery Plan  
Other Matter**

**Repeated as 2016-003**

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2016**

**A. OTHER MATTERS AS REQUIRED BY THE NEW MEXICO STATE AUDIT RULE**

**2016-004 Cash Receipts Not Recorded or Deposited in a Timely Manner (Compliance and Other Matters)**

**Condition:** During our required state compliance test work over cash receipts per NMAC 2.2.2.10 (G), we noted that 1 out of the 22 receipts tested in the amount of \$2,999, was deposited three days after it was received.

**Criteria:** NMSA 6-10-3 states that state agencies receiving any money in cash or by check deliver or remit to the state treasurer such receipts before the close of the next succeeding business day after the receipt of the money. In addition according to the Manual of Model Accounting Practices (MAPs) Section FIN 2.1, all cash received by agencies must be recorded timely and accurately in accordance with state statute.

**Cause:** Lack of an effective cash receipt process to ensure timely deposits when the primary person responsible for making deposits is unavailable.

**Effect:** Noncompliance with applicable laws and regulations.

**Auditors' Recommendation:** We recommend that management establish effective backup procedures to ensure that timely deposits are made when the primary person responsible is unavailable.

**Management's Response:** Management recognizes the importance of timely deposits for all monies received. The deposit in question (a Service Credit Purchase payment), was received on the Friday prior to the Monday holiday, Martin Luther King Day, but not deposited until Wednesday. Based on the Monday holiday, the deposit was made one business day late because the assigned staff person was ill on Tuesday.

Service Credit Purchase payments are often submitted from multiple sources, and require additional time to confirm the amounts to the Purchase Agreement in order to assure the total matches the agreement amount. If a payment exceeds the payable amount, it is returned to the member to be revised. NMERB does not deposit the payment if it appears the payment will exceed the agreement amount because that may create a taxable event for the member.

To address staffing issues and vacancies, NMERB's two-member Accounting workgroup has initiated complementary Alternative Work Schedules to increase coverage for daily tasks. All deposits are made via a DeskTop Scanner provided by our fiscal agent to eliminate the need to physically take receipts to the bank. Staff Accountants work overlapping ten (10) hour schedules, both staff members have diligently cross trained in all daily tasks, and management requires scheduling meetings prior to granting leave requests to ensure coverage of daily tasks. NMERB has faced serious personnel resource issues in the Accounting department, limiting its ability to meet these tasks and new challenges. When open positions are filled, the new staff members will be similarly trained in the appropriate deposit process.



**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2016**

**A. OTHER MATTERS AS REQUIRED BY THE NEW MEXICO STATE AUDIT RULE (CONTINUED)**

**2016-004 Cash Receipts Not Recorded or Deposited in a Timely Manner (Compliance and Other Matters) (Continued)**

**Management's Response (Continued):** Since deposits are required to be made before the close of the next succeeding business day after receipt, we've increased the disclosures on our Daily Cash Report to include a section showing monies received, but not deposited, which will be tied out on a daily basis to the amount in the locked cash drawer. This will alert other accounting staff (personnel outside the immediate staff who complete electronic deposits) to check the cash drawer when staff are absent.

The implementation of the corrective action plan will be the responsibility of the Executive Director and is expected to be complete by June 2017.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2016-001 Investment Accounting (Significant Deficiency)**

**Condition:** During our audit procedures on investments, we identified incorrectly recorded investment activity in the general ledger.

**Criteria:** Management of a cost-sharing pension plan is responsible for the preparation and fair presentation of financial statements.

**Cause:** Inaccurate reconciliation of the custodial bank records to the general ledger.

**Effect:** Investments and net appreciation in fair value were understated. Management made the adjustment and it is reflected in the financial statements.

**Auditors' Recommendation:** We recommend management strengthen the reconciliation of investments and the investment journal entry preparation process so it is performed on a monthly basis and reviewed for accuracy by a member of the investment team.

**Management's Response:** Management acknowledges that adjustments to investment related accounts were required in order to reflect all financial activity for fiscal year 2016.

The Investment department staff has a reliable process to validate investment accounts to custodial records each month, and communicates the completion of that validation process, the availability of monthly custodial reports on NMERB's network, as well as other significant investment transactions reported for investments held outside the custodial bank. Custodial closing dates do not occur early enough in the month to be recorded in the SHARE General Ledger in the transaction month. During this fiscal year the Accounting department developed an internal worksheet titled Investment Reconciliation Worksheet which is used to translate the custodial bank's monthly summary data into a format that can be input to the SHARE General Ledger account scheme. Journal entries are posted as the information becomes available based on the monthly worksheets. All fiscal year journal entries are prepared by a staff Accountant and reviewed by the Chief Financial Officer (CFO).

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2016**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2016-001 Investment Accounting (Significant Deficiency) (Continued)**

**Management’s Response (Continued):** During this fiscal year the CFO began to actively train Accounting personnel to perform additional monthly review and reconciliation procedures, supplemented by accounting and spreadsheet courses in order to increase staff skill levels and productivity. The Accounting department workload has grown over the past two years due to new external financial reporting requirements from the Governmental Accounting Standards Board, and due to State level reporting requirements designed to improve reporting information across State agencies. NMERB has faced serious personnel resource planning issues limiting its ability to meet these new challenges, especially in the Accounting department due to multiple, longstanding personnel vacancies. We have actively attempted to fill these vacancies. In addition, until we can fill the multiple, longstanding vacancies, we will identify outside professional accountants to ensure reconciliations are performed on a timely basis.

The CFO and the Accounting staff have made significant progress in building new processes and augmenting internal controls, as well as in increasing staff experience and skill levels. We recognize the need to continue to build on this year’s efforts in order to meet interim and annual financial statement timelines, and to be prepared for further reporting challenges in the coming year.

The implementation of the corrective action plan will be the responsibility of the Executive Director and is expected to be complete by June 2017.

**2016-002 Accuracy and Completeness of Census Data (Compliance and Other Matters)**

**Condition:** During our audit procedures on census data we identified 559 members that had an active status in the census data whom had been terminated prior the actuarial measurement date.

**Criteria:** Management of a cost-sharing pension plan is responsible for the preparation and fair presentation of financial statements that report the plan’s total pension liability and resulting employers’ net pension liability at the measurement date. The plan’s actuary relies on the plan to provide complete and accurate census data for an accurate calculation of the total pension liability.

**Cause:** Reporting and data entry of terminated employees in the pension system is not completed timely and there are no reconciliation procedures to identify terminated employees reported as active.

**Effect:** The actuary evaluated the impact of this error and determined that the total pension liability was overstated by approximately \$7.3 million or 0.04%. This difference was determined to be immaterial and did not result in an adjustment of the total pension liability.

**Auditors’ Recommendation:** We recommend management strengthen internal controls over the census data to ensure that data submitted to the plan’s actuary is complete and accurate as of the actuarial measurement date. Management should implement procedures to review the census data and ensure all required member information is included and accurate before submitting the data to the actuary.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2016**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2016-002 Accuracy and Completeness of Census Data (Compliance and Other Matters)  
(Continued)**

**Management’s Response:** NMERB recognizes the importance of accurate data to the calculation of the total pension liability each year, and the pivotal role employers and their internal controls play in reporting on a timely and accurate basis. Terminations are reported by employers through the monthly file upload process. NMERB analysts update all termination data received on a timely basis by reviewing and balancing each upload file every month. NMERB will continue to work with employers to reinforce their understanding of the impact of accurate membership status information.

NMERB relies on the standard monthly upload process to update the status of members on a timely basis. This involves both automatic and manual steps to record changes in the status of active and retired members. Each month employers upload files containing wages, contributions, terminations, and other demographic information. Employers also send signed data forms to document hire dates and other changes to members’ records which are input manually by analysts. NMERB processes data from each of these sources on a timely basis.

The post year end records reviewed to identify changes to the database that may impact the net pension liability calculation, were taken from June, July, and August 2016. The records identified as producing this condition were reported primarily by universities and colleges. Based on communication with these employers, some of the terminations may not be reported in the final month of an employee’s annual contract, or the final month of the fiscal year, because

- 1) the potentially terminating members are at work onsite,
- 2) terminating members have not yet made the retroactive decision, or have not communicated that decision, to employer staff,
- 3) fewer employer administrative staff are available to process their payroll data, or
- 4) the employer’s administrative staff at these larger institutions are distributed across separate Human Resources and Payroll workgroups, potentially causing timing delays for the reporting process.

Although NMERB contacts employers to advise them about member status conditions, to request information needed, and to solicit outstanding data, employers face system and resource constraints. We are committed to educating employers in order to improve the accuracy of their reporting process through online publications, consistent analyst feedback and training, and onsite compliance visits. The results of this data analysis will be communicated to employers who bear the responsibility of reporting the net pension liability within their financials, but we do not view the results of the timing and process differences identified in the finding as a database error.

NMERB has already considered implementing additional periodic database reviews to maximize the benefits of improved reporting, and will seek to develop opportunities for additional automated solutions.

The implementation of the corrective action plan will be the responsibility of the Executive Director and is expected to be complete by June 2017.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2016**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2016-003 Disaster Recovery Plan (Original Finding 2015-002) (Compliance and Other Matters)**

**Condition:** ERB has a Disaster Recovery Plan but it was last updated in 2014. Although the ERB has taken various measures to address brief interruptions to systems processing (such as regular back-ups and redundancy and data center off-site), the formal plan still needs to be updated to address the recovery and resumption of critical systems and data in the event of an interruption.

*Management Progress on Repeat Findings: Management was not successful in adequately implementing a corrective action plan to resolve this finding.*

**Criteria:** In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) 5 framework (DSS04), to ensure continuous service, a Disaster Recovery and Business Continuity Plans need to be developed and tested to reduce impact of a major disruption on key business functions and processes.

**Cause:** Management was unaware of the 2014 Disaster Recovery Plan until after the fiscal year end.

**Effect:** ERB is at risk of losing valuable data during a disruption or disaster and to experience a delay before systems can be restarted and archived back-up data restored.

**Auditors' Recommendation:** ERB should review and update the disaster recovery plan to make sure it is up to date. The plan should be reviewed at least annually. We further recommend that the plan be tested on a periodic basis.

**Management's Response:** NMERB is very concerned about disaster recovery and has taken several important steps during fiscal year 2016 to improve our capabilities in this area. NMERB has a draft disaster recovery plan, which was provided to Michael Nyman, a Senior IT Assurance Manager with CliftonLarsonAllen, on November 7, 2016.

For the fiscal year ending June 30, 2016 our Disaster Recovery plan has been directed primarily at a tape backup strategy. That strategy is comprised of daily, weekly monthly, and annual (calendar end of year tapes). Daily incremental backups begin each day at 6:00 PM ending between 2:00 and 5:00 AM. These are a record of all data changes made that day across our physical and virtual server environment. Weekly full backups consist of a full backup of all physical and virtual environments, including the operating systems for each server. We have a total of 8 separate weekly backup sets. Each set consists of 5 LTO 5 tapes. These tapes are cycled to State Records and Archives (SRCA) each week on Friday of that week. Annual tape sets are currently set for the last Friday of a calendar year. These vary across multiple tape media, but none have been destroyed.

In addition, it is important to note that NMERB is actively engaged in the deployment of our server environment from our main Santa Fe office and our Albuquerque office into two secured data centers. This is an important element of the Information Technology strategic plan that NMERB has been working on for the past 2 years. The first datacenter is the NM Department of Information Technology's (DoIT's) Simms data center in Santa Fe and their backup data center in Albuquerque located in the Oso Grande data center. In each of these facilities we will be placing duplicate hardware consisting of the following:

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2016**

**C. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2016-003 Disaster Recovery Plan (Original Finding 2015-002) (Compliance and Other Matters)**

**Management's Response (Continued):**

- 1 Cisco ISR 4331 router
- 1 Meraki MX100 firewall
- 1 Cisco class B server
- 1 EMC SAN storage
- 1 Meraki Switch
- 1 EMC Data Domain disk storage
- 1 Oracle Database appliance

This new hardware will provide NMERB with sustainable business continuity and disaster recovery.

Moving our hardware infrastructure into these Tier 3 (DoIT) and Tier 2 (Oso Grande) data centers will provide ERB with a significantly more robust business continuity and disaster recover profile. Oso Grande plans to make the necessary generator additions to their facility to make it a Tier 3 data center in the coming calendar year. Tier 3 is the highest level of data center in New Mexico.

The proposed configuration for these data centers will provide for failover and failback scenarios to contend with the theoretical event of the main data center going offline at any future time. The configuration phase of this hardware migration will include the initial testing of just such an event. Future testing plans will be constructed once the original configuration testing has conducted. Finally, this hardware infrastructure move will allow access to the agency's data from our three business offices at all times.

NMERB management understands the importance of having a formal, written disaster recovery plan and is taking steps to officially document all of our current, ongoing processes into this formal plan.

The implementation of the corrective action plan will be the responsibility of the Executive Director and is expected to be complete by June 2017.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
EXIT CONFERENCE  
JUNE 30, 2016**

NMERB staff prepared the Management Discussion and Analysis (MD&A), financial statements, statements, schedules, and notes for the fiscal years ended June 30, 2016 and 2015. The contents of this report were discussed during an exit conference with the Audit Committee of the Board of Trustees and management of NMERB on November 17, 2016. The following individuals attended this exit conference:

**Educational Retirement Board  
Members of the Audit Committee**

Mary Lou Cameron, Audit Committee Chairperson  
H. Russell Goff, Vice-Chairperson  
Tim Eichenberg, State Treasurer

**Agency Management**

Jan Goodwin, Executive Director  
Dianne L. Rossbach, Chief Financial Officer

**CliftonLarsonAllen, LLP, CPAs**

Jason Ostroski, Audit Team Lead

The contents of this report will also be presented to the NMERB Board of Trustees as part of the regular board meeting on December 9, 2016.