

STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
Santa Fe, New Mexico

FINANCIAL STATEMENTS
June 30, 2015 and 2014

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Independent Auditor's Report

The State of New Mexico Public Employees'
Deferred Compensation Plan

Report on the Financial Statements

We have audited the accompanying statements of net position held in trust for plan benefits of the State of New Mexico Public Employees' Deferred Compensation Plan (the Plan) as of June 30, 2015 and 2014 and the related statements of changes in net position available for plan benefits for the years then ended, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the accompanying 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 audits. We conducted our audits 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 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2015 and 2014, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2015 on our consideration of the Plan'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 to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

A handwritten signature in cursive script that reads "Eric Bailly LLP".

Boise, Idaho
September 24, 2015

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

This discussion and analysis of the State of New Mexico Deferred Compensation Plan's ("the Plan") financial performance provides an overview of the Plan's financial activities for the fiscal years ended June 30, 2015, 2014 and 2013. This section should be read in conjunction with the Plan's financial statements.

Using This Annual Financial Report

This annual financial report consists of two parts: (1) management's discussion and analysis (this section) and (2) the Plan's basic financial statements. The financial statements also include notes that explain information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current and prior years:

	Fiscal Years Ended June 30		
	2015	2014	2013
Plan Net Position	\$ 501,346,267	\$ 487,347,555	\$ 429,775,149
Employee Contributions	\$ 34,628,217	\$ 35,910,846	\$ 35,920,698
Variable Earnings Investment Income	18,933,171	59,542,936	39,829,688
Interest Income	449,843	427,252	371,604
Benefits Paid	(38,954,562)	(37,302,918)	(36,159,536)
Administrative Expenses	(996,178)	(930,155)	(917,513)
Life Insurance Premiums	(61,779)	(75,555)	(91,787)
Net Increase in Plan Net Position	\$ 13,998,712	\$ 57,572,406	\$ 38,953,154

Financial Highlights

The net position held in trust for plan benefits increased by approximately \$14 million during the current period from \$487.3 million at June 30, 2014 to \$501.3 million at June 30, 2015. This increase is primarily due to investment income earned during the current year and interest income from the Stable Value Option. The net position held in trust for plan benefits increased by approximately \$57.5 million from \$429.8 million at June 30, 2013 to \$487.3 million at June 30, 2014. This increase was primarily due to investment income earned.

Employee contributions were \$34.6, \$35.9 and \$35.9 million for the years ending June 30, 2015, 2014 and 2013, respectively. Employee contributions decreased by \$1.3 million from June 30, 2014 to June 30, 2015 and decreased by \$0.1 million from June 30, 2013 to June 30, 2014. Fluctuations in employee contributions are primarily due to differences in the number of actively contributing participants from year to year as well as changes in the average contributions per participant. The average contribution per participant was \$2,909, \$3,097 and \$3,134 for the year ended June 30, 2015, 2014 and 2013, respectively. There were 11,902, 11,594, and 11,462 actively contributing participants at June 30, 2015, 2014 and 2013, respectively. In accordance with the Internal Revenue Code, employees could voluntarily

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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contribute up to a maximum amount of \$18,000 in 2015 unless over age 50, which allows an additional \$6,000. However, participants' contributions are not always at maximum, causing uneven annual contribution changes in relation to participant changes.

Benefits paid to participants increased from \$37.3 million for the year ended June 30, 2014 to \$39.0 million for year ended June 30, 2015. This increase was due to rising average benefit payments, despite decreases in the number of retirees from 2,860 in 2014 to 2,482 in 2015. This is slightly different than between 2014 and 2013. During the previous period, benefits paid to participants increased from \$36.1 million for the year ended June 30, 2013 to \$37.3 million for year ended June 30, 2014. This increase was primarily due to an increase in the average benefit payment and an increase in the number of retirees from 2,774 in 2013 to 2,860 in 2014. The average distribution per participant was \$15,695, \$13,043 and \$13,035 for the years ended 2015, 2014 and 2013, respectively. The number of participants who withdraw funds from the plan due to termination of employment on an annual basis fluctuates. The number of participants who withdraw funds has risen from 337 in 2013 to 438 in 2014 to 796 in 2015.

Overall Fund Structure and Objectives

The Plan was established in accordance with the provisions of the State of New Mexico Deferred Compensation Act, NMSA 1978, Section 10-7A-1 through 10-7A-12 (1995). The Plan complies with the requirements of Internal Revenue Code Section 457, as amended. The Plan provides a voluntary, supplemental tax-deferred retirement program, which provides employees a convenient means to save for retirement. The Public Employees Retirement Association ("PERA") of New Mexico is the Trustee of the Plan. PERA is directed by the Public Employees Retirement Board (the "Board") which consists of twelve members.

After an employer has adopted the Plan and the PERA Board has approved the adoption, an employee is eligible to participate in the Plan as of the first day of employment and may voluntarily contribute a portion of their compensation up to the annually established Internal Revenue Service limits. Under Plan provisions, employees of the State, its cities and counties, special districts and educational institutions are eligible to contribute to the Plan through payroll deductions. An employee participating in the Plan may discontinue, or temporarily suspend, contributions at any time. Employees can increase or decrease contribution amounts at any time. If the participant elects to contribute, the minimum amount that may be contributed for any Plan year is \$260 and shall not exceed the amount permitted pursuant to Section 457 of the Internal Revenue Code.

Costs of the Plan

The Plan seeks to maintain low costs for employees that elect to participate. In 2014-2015, the cost of providing recordkeeping, enrollment, education, and other administrative services to participants in the Plan was \$13.00 per quarter, per participant. Investment consulting services were provided at an average cost of \$1.22 per quarter, per participant. PERA operating fees averaged \$0.94 per quarter, per participant. Additional fees and other charges may be assessed for optional options available in the Plan. In addition, the Plan seeks to provide the best possible investment vehicles at the lowest cost.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Asset Allocation

All participants have the ability to direct the investments of their accounts under the Plan, in accordance with the investment choices as are made available and those policies or procedures as are determined by the Board and the administration from time to time. The Plan has no control over investment decisions made by the participants. Plan assets may be invested and reinvested in various instruments as deemed appropriate by the Board and Plan management. Several investment tiers have been developed and made available to participants. A summary of the types of investments is listed in Note 3 in the notes to the financial statements.

Market Environment Overview

Domestic equity markets posted gains for the year ending June 30, 2015 (FY15) with the broad market returning 7.3% as indicated by the Russell 3000 Index. Performance across the broad market cap spectrum fell within a 100 basis point band, with the S&P 500 Index posting a 7.4% gain, slightly above mid-cap stocks (Russell MidCap Index up 6.6%) and small-cap stocks (Russell 2000 Index up 6.5%) over the same period. There was a wide disparity in the performance of growth and value biased stocks during FY15, as growth outpaced value across the entire market cap spectrum. Small-cap growth stocks were top performing, with the Russell 2000 Growth Index returning 12.3% for the trailing 12-months ending June 30, 2015.

Non-US equities struggled over the fiscal year mainly due to the currency impact of an appreciating US dollar and the continued uncertainty over Greece's status within the Eurozone. The MSCI ACWI ex US Index was down 5.3% for FY15 in US dollar terms. Developed equities fared modestly better than emerging market equities over the twelve month period, with the MSCI EAFE Index losing 4.2% versus a decrease of 5.1% for the MSCI Emerging Markets Index.

Bond markets also experienced varied results across geographies. The broad US fixed income market was up 1.9% over the fiscal year. High Yield issues were slightly negative, with a loss of 0.4% for FY15 as indicated by the Barclays US High Yield Index. Global fixed income markets trailed the broad US bond market notably over the same time period. The Barclays Global Aggregate Bond Index declined 7.1% for the twelve months ending June 30, 2015.

The first fiscal quarter marked some weakness in non-US equity and fixed income markets. The US equity market experienced performance dispersions along the market cap spectrum, with only large cap stocks posting minimally positive results as indicated by the S&P 500 Index return of 1.1%. US markets benefited from a decrease in the unemployment rate and new job creation during the quarter. While the Eurozone economy weakened in the third quarter, developed international markets were negatively impacted by depreciation of the euro and the yen as the MSCI EAFE Index fell 5.9% in US dollar terms. Geopolitical and economic growth concerns, like the Ukraine crisis and weakness in commodity prices, proved a hindrance to emerging economies. The yield curve flattened during the quarter with the yield on the 3-year Treasury increasing 16 basis points to 1.78%, while the 30-year Treasury yield decreased 13 basis points to 3.21%.

US equity markets experienced a strong second fiscal quarter posting gains between 5% and 10% across the market cap spectrum. In contrast, non-US equities continued to drop driven by currency declines.

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Reduced fiscal tightening in the Eurozone had a positive effect on developed economies but could not outweigh the impact of currency movements, and the MSCI ACWI ex US Index ended the quarter down 3.9%. Drastic declines in oil prices, as well as political tensions, further drove emerging markets into negative territory in US dollar terms. Broadly, fixed income markets experienced a positive quarter, as the yield curve continued to flatten and the 30-year Treasury yield dropped below 3.0%.

Strength returned to the equity markets across all geographies in the third fiscal quarter and fixed income also experienced positive results. Growth in the US was somewhat stymied by severe weather and strikes in major ports on the West Coast, but the US dollar's strength had a positive impact and the Russell 3000 Index posted a 1.8% gain. The ECB initiated a 1.1 trillion euro QE (Quantitative Easing) program in March which bolstered the region; developed international equities surpassed broad US equities and gained 4.9% during the quarter as measured by the MSCI EAFE Index. There was dichotomy across emerging markets with countries focused on structural reforms faring the best. Nonetheless, the MSCI Emerging Markets Index was up 2.2% for the quarter. US bonds posted gains during the quarter as the yield curve flattened and shifted downward. Yields fell across the curve, with the 2-year Treasury declining 11 basis points and the 30-year Treasury dropping 21 basis points.

During the fourth fiscal quarter, non-US equities slightly beat US equities with the MSCI ACWI ex US Index returning 0.5% versus 0.1% for the Russell 3000 Index primarily due to depreciation of the US dollar. June brought volatility to the quarter, as the sell-off in China, uncertainty over a default in Puerto Rico and questions over Greece exiting the Eurozone came to a head and negatively impacted global markets. Within the US, unemployment was near its long-term average and core inflation hovered around the Fed's target, priming investors to expect the start of a gradual rate hike by the FOMC in coming months. In a reversal from the first three quarters of FY15, the yield curve steepened during the quarter causing the Barclays US Aggregate Index to decline 1.7% over the quarter. The 10- and 30-year Treasury yields increased 52 basis points and 57 basis points, respectively.

Contacting Management

This report is designed to provide the Board, Plan participants, investors and creditors with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the Plan's funds. If you have any questions about this report or need additional information, contact the Public Employees Retirement Association of New Mexico, Office of the Deferred Compensation Plan Manager, P.O. Box 2123, Santa Fe, New Mexico 87504-2123 or 1-800-342-3422.

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
STATEMENTS OF NET POSITION HELD IN TRUST FOR PLAN BENEFITS
June 30, 2015 and 2014

	2015	2014
INVESTMENTS		
Fixed annuity payout option	\$ 1,450,192	\$ 1,581,782
Stable value option	129,588,734	137,014,059
Variable earnings investments	357,486,615	337,693,602
Self-directed option	3,461,542	2,977,159
 Total investments	 491,987,083	 479,266,602
RECEIVABLES		
Participant contributions receivable	180,923	201,333
Participant loans receivable	9,178,261	7,879,620
 NET POSITION HELD IN TRUST FOR PLAN BENEFITS	 \$ 501,346,267	 \$ 487,347,555

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

STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN NET POSITION HELD IN TRUST FOR PLAN BENEFITS
Years Ended June 30, 2015 and 2014

	2015	2014
ADDITIONS TO NET POSITION ATTRIBUTED TO		
Employee contributions	\$ 34,628,217	\$ 35,910,846
Investment income:		
Variable earnings investment income	18,933,171	59,542,936
Interest on fixed annuity payout	86,143	103,042
Interest income on participant loans	363,700	324,210
Total additions	54,011,231	95,881,034
DEDUCTIONS FROM NET POSITION ATTRIBUTED TO		
Benefits paid to participants	38,954,562	37,302,918
Administrative expenses	996,178	930,155
Life insurance premiums	61,779	75,555
Total deductions	40,012,519	38,308,628
NET INCREASE	13,998,712	57,572,406
NET POSITION HELD IN TRUST FOR PLAN BENEFITS, BEGINNING OF YEAR		
	487,347,555	429,775,149
NET POSITION HELD IN TRUST FOR PLAN BENEFITS, END OF YEAR		
	\$ 501,346,267	\$ 487,347,555

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

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

NOTE 1 – DESCRIPTION OF PLAN

General

The State of New Mexico (the State) Public Employees' Deferred Compensation Plan (the Plan), a defined contribution plan, was established pursuant to the Deferred Compensation Act of New Mexico, which was passed on April 6, 1981. The Plan was approved by the State Department of Finance and Administration on January 6, 1982, and is sponsored by the State. The Plan is administered by the New Mexico Public Employees' Retirement Association (NMPERA).

Contributions

Under Plan provisions, employees of the State, its cities and counties, special districts and educational institutions that have completed the Plan adoption process, are eligible to contribute into the Plan through payroll deductions. There were approximately 77,000 and 75,000 employees eligible to participate in the Plan as of June 30, 2015 and 2014, respectively. In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an individual's annual contribution to 100% of annual gross includable compensation, not to exceed \$18,000 and \$17,500 for calendar years 2015 and 2014, respectively. Additionally, in each of the three Retirement Catch-up years, a participant's Retirement Catch-up contribution is limited to the lesser of (a) the maximum amount for that year, \$18,000 in 2015 and \$17,500 in 2014 or (b) the amount by which contributions to the Plan in previous years were less than the maximum that the participant was eligible to contribute. An additional \$6,000 in 2015 and \$5,500 in 2014 can apply to a participant reaching the age 50 and each year thereafter. This catch-up provision is referred to as the Age 50 and Over Catch-up contribution. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. Participant employers do not make any contributions to the Plan.

Under provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for Plan years beginning after December 31, 1996, assets of the IRC Section 457 Plan must be held in a trust, custodial account, or annuity contract, for the exclusive benefit of employees and beneficiaries and will no longer be solely the property of the employer and subject only to claims of the employer's general creditors. At June 30, 2015 and 2014, the Plan met the requirements of the SBJPA.

At retirement or termination of employment, employees investing in universal life insurance contracts may continue to make premium payments directly to the insurance carrier or they may receive the cash surrender value of the policies. In the case of the death of an employee, the face value of the insurance contract is payable to the policy beneficiary.

Investment Options

Employees electing to participate in the Plan may contribute to any of the following options:

- Variable earnings investments consisting of various publicly-traded mutual funds;
- Stable value option managed by Galliard Capital Management; and
- Self-directed brokerage account option administered by Charles Schwab

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – DESCRIPTION OF PLAN (CONTINUED)

Participant Loans

The Plan allows participants to take loans from their account balances. Any participant is eligible to receive a loan. Each participant is entitled to one outstanding loan at a time. Participants are charged a nonrefundable loan set-up fee of \$50. An additional annual fee of \$50 is assessed on the anniversary date of the loan while the loan is outstanding. Repayments of loans are to be made automatically from a participant-specified account with a financial institution. The maximum term permitted on a loan is five years or 15 years if the loan is for the purchase of a principal residence. The minimum loan amount permitted is \$1,000 and the maximum amount of any loan under the Plan is the lesser of 50% of the participant's vested account balance or \$50,000. The total balance of loans outstanding to participants was \$9,178,261 and \$7,879,620 at June 30, 2015 and 2014, respectively and is listed as participant loans receivable on the Statement of Net Position Held in Trust for Plan Benefits. Interest rates range between 4.25% and 9.25% for all loans outstanding. The interest rate is based on market conditions at the time the loan is processed. Generally, the rate is the "Prime Rate" + 1%.

Payment of Benefits

A Plan distribution can become available only after the participant reaches the age of 70½ years old, the participant's death, separation-from-service, retirement, upon the participant's severe financial emergency, or if a participant's account balance does not exceed \$5,000 and no amount was deferred during a 2-year period and there was no prior distribution. Participants may select various payout options, including lump sum payments or payments over various periods.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies followed by the Plan are as follows:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect amounts reported in financial statements and accompanying notes. Actual results may differ from those estimates.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Valuation and Income Recognition

Investments in the fixed annuity payout option are valued based upon the fixed earnings rates as reported by the investment carriers or manager, which approximate fair value. Investments in the Stable Value Option are valued based upon the daily net asset value reported daily by Galliard Capital Management, which approximates fair value. The investment valuation includes contributions received, plus investment income earned to date less applicable charges and amounts withdrawn.

Variable earnings investments in publicly-traded mutual funds are presented at fair value based upon published quotations. All purchases and sales of investments are recorded on a trade-date basis.

Assets held in fixed and variable annuity payout investments are for discontinued annuity payout options in the Plan. The Plan held \$1,450,192 and \$1,581,782 at June 30, 2015 and 2014, respectively, which represents assets transferred to a product provider for investment in fixed and variable group annuity contracts. Periodic payments are made to retired participants of the Plan as provided by these purchased annuity contracts. The contract valuation of these assets is based upon an actuarial valuation of the present value of future retirement benefits to be paid under the contracts, which approximates fair value. Annuity payout investments are no longer available as options in the Plan.

Contributions and Contributions Receivable

Contributions are recognized when amounts are withheld from employees. Contributions receivable represents amounts withheld from employees, but not remitted to the investment carriers at June 30, 2015 and 2014. The Plan requires that contributions received “in good order” by the Plan Administrator from the various Plan payroll centers be applied to the respective participant account within one business day following the date of receipt.

Interest Income

Interest income for the fixed annuity payout option and participant loans is recorded as earned on the accrual basis.

The annual interest rate for the stable value investment option ranged from 1.41% to 1.65% for the year ended June 30, 2015, and 1.40 % to 1.70% for the year ended June 30, 2014. Interest income for the stable value investment option is recorded as earned on the accrual basis.

STATE OF NEW MEXICO PUBLIC EMPLOYEES'
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NOTES TO FINANCIAL STATEMENTS
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Variable Earnings Investment Income

Variable earnings investment income consists of dividends earned and realized and unrealized gains and losses attributed to the mutual funds supporting the variable earnings investments. Dividends are recorded on the ex-dividend date.

NOTE 3 – INVESTMENTS AND DEPOSITS

At June 30, 2015 and 2014, investments were as follows. Investments marked with an asterisk (*) represent investments exceeding 5% or more of net position available for Plan benefits as of June 30, 2015 and 2014. Investments marked with two asterisks (**) represent international mutual funds.

	<u>2015</u>	<u>2014</u>
Fixed Annuity Payout Option:		
Nationwide Fixed Annuity Payout Option (at contract value)	\$ 1,450,192	\$ 1,581,782
Stable Value Option:		
Stable Value Fund	129,588,734 *	137,014,059 *
Variable Earnings Investments:		
Vanguard Institutional Index Fund - Institutional Shares	70,069,365 *	62,456,318 *
Life Cycle 2025 Portfolio	36,276,010 *	31,911,458 *
Fidelity® Contrafund - Class K	35,561,958 *	-
Dodge & Cox Stock Fund	27,458,983 *	27,089,296 *
T. Rowe Price Institutional Mid-Cap Equity Growth Fund	25,067,848 *	21,223,370
Oakmark Equity and Income Fund (The) - Class I	21,075,633	21,533,191
Life Cycle 2015 Portfolio	20,891,341	20,780,917
Life Cycle 2035 Portfolio	16,738,120	14,687,454
Vanguard Total Bond Market Index Fund - Institutional Shares	15,201,263	14,331,795
Life Cycle Conservative Portfolio	13,594,100	12,718,767
Fidelity® Diversified International Fund - Class K	11,864,117 **	-
Principal Investors Fund, Inc. - MidCap Blend Fund - Institutional Class	10,817,923	8,709,775
DFA U.S. Small Cap Portfolio	10,453,143	11,048,628
Life Cycle 2045 Portfolio	9,206,302	8,548,712
EuroPacific Growth Fund® - Class R6	9,057,355 **	9,332,195 **
Fidelity® Low-Priced Stock Fund - Class K	8,679,067	-
Life Cycle 2055 Portfolio	4,371,071	3,577,907
Blackrock Inflation Protected Bond	3,645,100	3,646,535
Templeton Global Bond Fund - Class R6	1,953,891	1,369,284

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NOTE 3 – INVESTMENTS AND DEPOSITS (CONTINUED)

	<u>2015</u>		<u>2014</u>
Vanguard Total International Stock Index Fund - Institutional Shares	1,786,636	**	960,576 **
Invesco Global Real Estate - Institutional Class	1,626,048	**	1,001,994 **
Aberdeen Emerging Markets Fund - Institutional Class	1,425,712	**	1,639,065 **
Principal Diversified Real Asset Fund - Institutional Class	637,624		776,576
Nationwide Variable Annuity Payout Option	26,686		27,077
Monies held pending investment	1,319		73,387
Calvert Social Investment Fund - Equity Portfolio - Class I	-		4,961,464
Fidelity® Contrafund	-		33,826,000 *
Fidelity® Diversified International Fund	-	**	12,309,141 **
Fidelity® Low Priced Stock Fund	-		9,152,720
	<u>357,486,615</u>		<u>337,693,602</u>
 Self-Directed Option:			
Personal Choice Retirements Accounts - Charles Schwab	<u>3,461,542</u>		<u>2,977,159</u>
Total	<u><u>\$ 491,987,083</u></u>		<u><u>\$ 479,266,602</u></u>

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan would not be able to recover the value of its deposits, investments, or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent, but not in the Plan's name.

Investments in the stable value option are held in the Plan's name by Galliard Capital Management, Inc., agent of the Plan. The remaining investments are held in a trust account for the benefit of the Plan. As a result the investments of the Plan are not exposed to custodial credit risk.

Credit risk is the risk that the Plan will lose money because of the default of the security of the issuer or investment counterparty. The stable value option and the variable earnings mutual funds are unrated.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investments are managed by several fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options as selected by the Committee. The investments that exceed 5% are identified on page 13.

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NOTE 3 – INVESTMENTS AND DEPOSITS (CONTINUED)

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of the investment. The Plan allows the option of investments in mutual funds of countries outside the U.S. that invest in securities not required to disclose the individual assets within the fund. The fair value of these investments was \$25,759,868 and \$26,242,971 as of June 30, 2015 and 2014, respectively. The individual funds are identified on page 13 and page 14.

Interest rate risk is the risk that changes in interest rates that will adversely affect the value of an investment.

As of June 30, 2015 and 2014, the Plan had the following investments and maturities in its fixed earnings investments, stable asset investments and its mutual funds, which include investments in bonds.

	2015		2014	
	Fair Value	Weighted Average Maturity	Fair Value	Weighted Average Maturity
Stable Value Option:				
Stable Value Fund	\$ 129,588,734	3.49	\$ 137,014,059	3.52
Variable Earnings Investments:				
Life Cycle 2025 Portfolio	36,276,010	6.97	31,911,458	7.03
Life Cycle 2015 Portfolio	20,891,341	7.57	20,780,917	7.45
Oakmark Equity and Income Fund (The) - Class I	21,075,633	N/A	21,533,191	N/A
Vanguard Total Bond Market Index Instl	15,201,263	7.90	14,331,795	7.70
Life Cycle 2035 Portfolio	16,738,120	6.23	14,687,454	6.29
Life Cycle Conservative Portfolio	13,594,100	8.10	12,718,767	7.45
Life Cycle 2045 Portfolio	9,206,302	5.41	8,548,712	5.21
Blackrock Inflation Protected Bond	3,645,100	10.42	3,646,535	10.53
Life Cycle 2055 Portfolio	4,371,071	4.95	3,577,907	4.15
Templeton Global Bond Fund - Class R6	1,953,891	2.36	1,369,284	2.51

Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions on demand and has responsibility for managing their exposure to fair value loss.

NOTE 4 – ALLOCATED LIFE INSURANCE CONTRACTS

Generally accepted accounting principles require that contracts in a participants name be excluded from the face of the financial statements. This product was closed to new participants in 2001. The values of insurance contracts change daily due to premiums paid, investment return and settlements of cash surrender value. Due to the actual cash surrender value being significantly less than the policyholder account value in the early years of universal life insurance contracts, a participant may receive substantially less than the value of their account upon the withdrawal of funds from their universal life insurance contract. The total amount of life insurance in force at June 30, 2015 and 2014 was

STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 4 – ALLOCATED LIFE INSURANCE CONTRACTS (CONTINUED)

\$15,220,111 and \$16,570,282, respectively. The cash surrender value of policies in force as of June 30, 2015 and 2014 was \$1,722,473 and \$1,816,837, respectively.

NOTE 5 – PLAN ADMINISTRATOR AND ADMINISTRATIVE EXPENSES

The Plan's third-party administrator is Nationwide Retirement Solutions, Inc. (NRS). For services performed, NRS receives an annual per participant account administrative fee; this fee is charged at an average cost of \$13.00 per quarter per participant. NRS and Nationwide are subsidiaries of Nationwide Financial Services, Inc.

The Plan's independent investment consultant is Mercer Investment Consulting (Mercer). For services performed by Mercer an annual fee is charged at an average cost of \$1.22 per quarter per participant.

The New Mexico Public Employees Retirement Association (PERA) receives an annual per participant fee to cover the direct expenses of administering the Plan; this fee is charged at an average cost of \$1.22 per quarter per participant.

Monumental Life and Transamerica may assess a charge when a participant withdraws any part of the policyholder account value of their universal life insurance contract.

NRS charges an initial set-up fee of \$50 and an annual maintenance fee of \$50 on each participant self-directed brokerage account. Charles Schwab may assess a charge on transfers related to participant self-directed brokerage accounts. NRS charges an annual loan maintenance fee of \$50. There is also the possibility of an annual loan default fee of \$50 and an insufficient funds fee of \$25. Another optional service available to Plan participants is Morningstar Advice Online. A \$45 annual fee is charged to participant's using this service.

	2015	2014
Administrative Fees	\$ 876,017	\$ 802,198
Loan-Related Fees	116,950	119,771
SDO-Related Fees	3,100	2,000
Short Term Redemption Fees	111	6,186
	\$ 996,178	\$ 930,155

NOTE 6 – TAX STATUS

In the opinion of the legal counsel, the Plan is an eligible deferred compensation plan as defined by Section 457 to the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or, otherwise, made available to the participant or their beneficiary.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

NOTE 7 – RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the Statements of Plan Net Position.

NOTE 8 – RELATED PARTIES

Certain Board members of the Public Employees' Retirement Association are active participants in the Plan.

**Independent Auditor’s 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***

Investment Committee and PERA Board Members
The State of New Mexico Public Employees’
Deferred Compensation Plan

We have audited, 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, the financial statements of State of New Mexico Public Employees’ Deferred Compensation Plan (the Plan) as of and for the year ended June 30, 2015, and have issued our report thereon dated September 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered State of New Mexico Public Employees' Deferred Compensation Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of State of New Mexico Public Employees' Deferred Compensation Plan’s internal control. Accordingly, we do not express an opinion on the effectiveness of State of New Mexico Public Employees' Deferred Compensation Plan’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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether State of New Mexico Public Employees' Deferred Compensation Plan’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests

disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
September 24, 2015

STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
EXIT CONFERENCE
Year Ended June 30, 2015

We discussed the recommendations contained in the letter during the exit conference held on October 29, 2015. The exit conference was held in a closed executive session and was attended by the following individuals:

Members Present

Patricia French, Chair – Municipal
Stewart Logan, Vice Chair – County
Dan Mayfield – Retiree
Tim Eichenberg – *Ex-officio*
Dan Esquibel – Municipal
Roman Jimenez – State
Loretta Naranjo Lopex – Retiree
John Reyonolds – State
Paula fisher – State

Members Excused

Jackie Kohlasch – State
Louis Martinez - Municipal

Eide Bailly LLP

Eric Berman - Partner