

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

**FINANCIAL STATEMENTS
June 30, 2016 and 2015**

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Independent Auditor's Report

To the State Auditor, Board of Directors, and PERA
The State of New Mexico Public Employees'
Deferred Compensation Plan
Santa Fe, New Mexico

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, 2016 and 2015 and the related statements of changes in net position held in trust 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, 2016 and 2015, 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 7, 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 Information

Our audit was conducted for the purpose of forming an opinion on the basis financial statements that collectively comprise the Plan's financial statements. The schedules of officials roster, exit conference, findings summary form, and schedule of vendor information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subject to the auditing procedures applied in the audit of the basic 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 October 28, 2016 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.



Boise, Idaho
October 28, 2016

**STATE OF NEW MEXICO PUBLIC EMPLOYEES’
DEFERRED COMPENSATION PLAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

This discussion and analysis of the State of New Mexico Public Employees’ Deferred Compensation Plan’s (“the Plan”) financial performance provides an overview of the Plan’s financial activities for the fiscal years ended June 30, 2016 and 2015. This section should be read in conjunction with the Plan’s financial statements.

Using This Annual Financial Report

The management of the New Mexico Public Employees Retirement Association Internal Revenue Code Section 457 Plan (the Plan) presents the readers of the Plan’s financial statements for the fiscal year ended June 30, 2016. This annual financial report consists of two parts: (1) management’s discussion and analysis (this section) (MD&A) 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		
	2016	2015	2014
Plan Net Position	<u>\$ 502,840,009</u>	<u>\$ 501,346,267</u>	<u>\$ 487,347,555</u>
Employee Contributions	\$ 35,261,360	\$ 34,628,217	\$ 35,910,846
Variable Earnings Investment Income	994,163	18,933,171	59,542,936
Interest Income	502,112	449,843	427,252
Benefits Paid	(34,153,732)	(38,954,562)	(37,302,918)
Administrative Expenses	(1,055,123)	(996,178)	(930,155)
Life Insurance Premiums	<u>(55,038)</u>	<u>(61,779)</u>	<u>(75,555)</u>
Net Increase in Plan Net Position	<u>\$ 1,493,742</u>	<u>\$ 13,998,712</u>	<u>\$ 57,572,406</u>

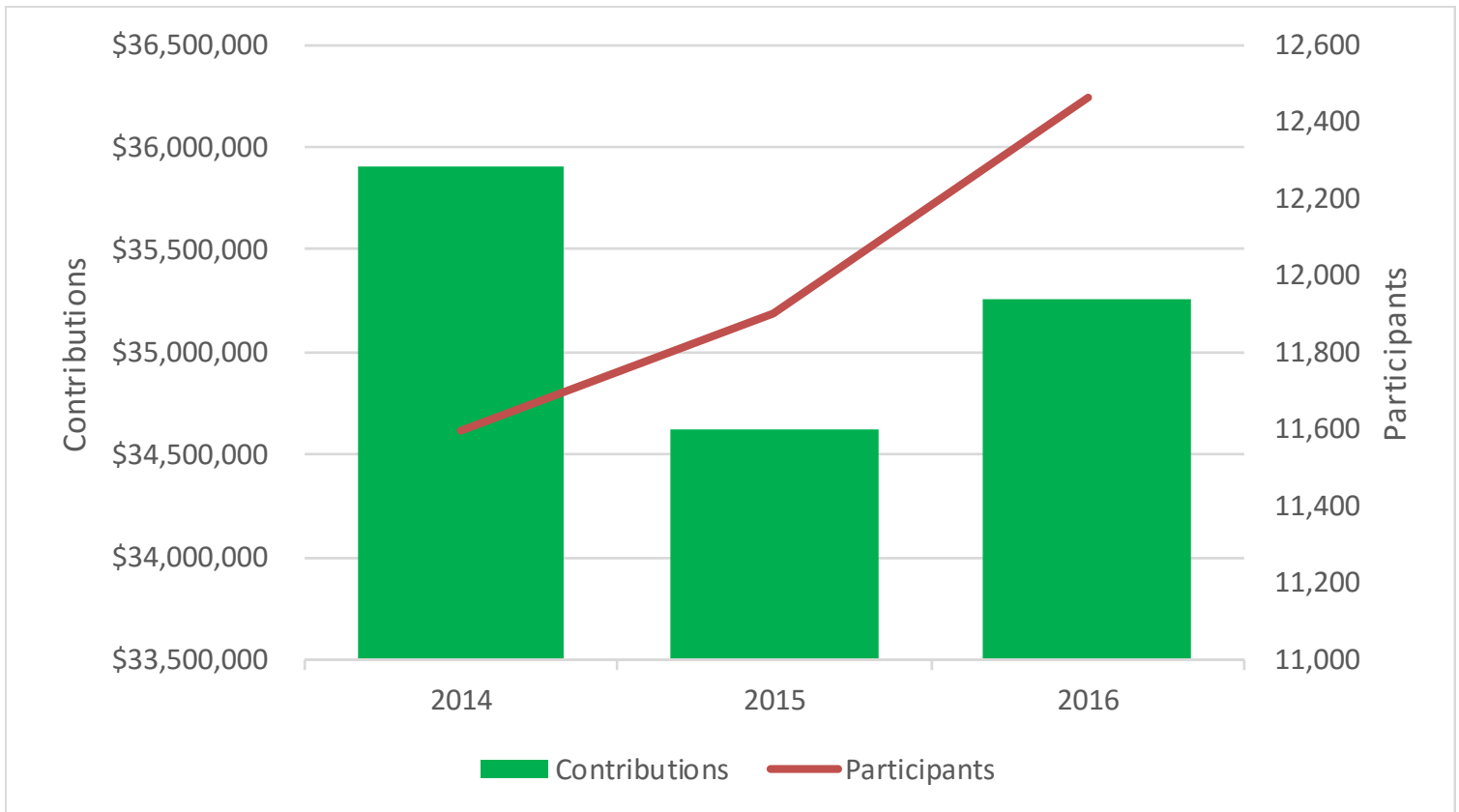
Financial Highlights

The net position held in trust for plan benefits increased by approximately \$1.4 million during the current period from \$501.3 million at June 30, 2015 to \$502.8 million at June 30, 2016. As employee contributions, less benefits paid and the costs to administer the Plan resulted in a net outflow of funds, the increase was the result of investment income earned during the current year. In comparison, the net position held in trust for plan benefits increased by approximately \$14 million from \$487.3 million at June 30, 2014 to \$501.3 million at June 30, 2015.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Contributions to the Plan

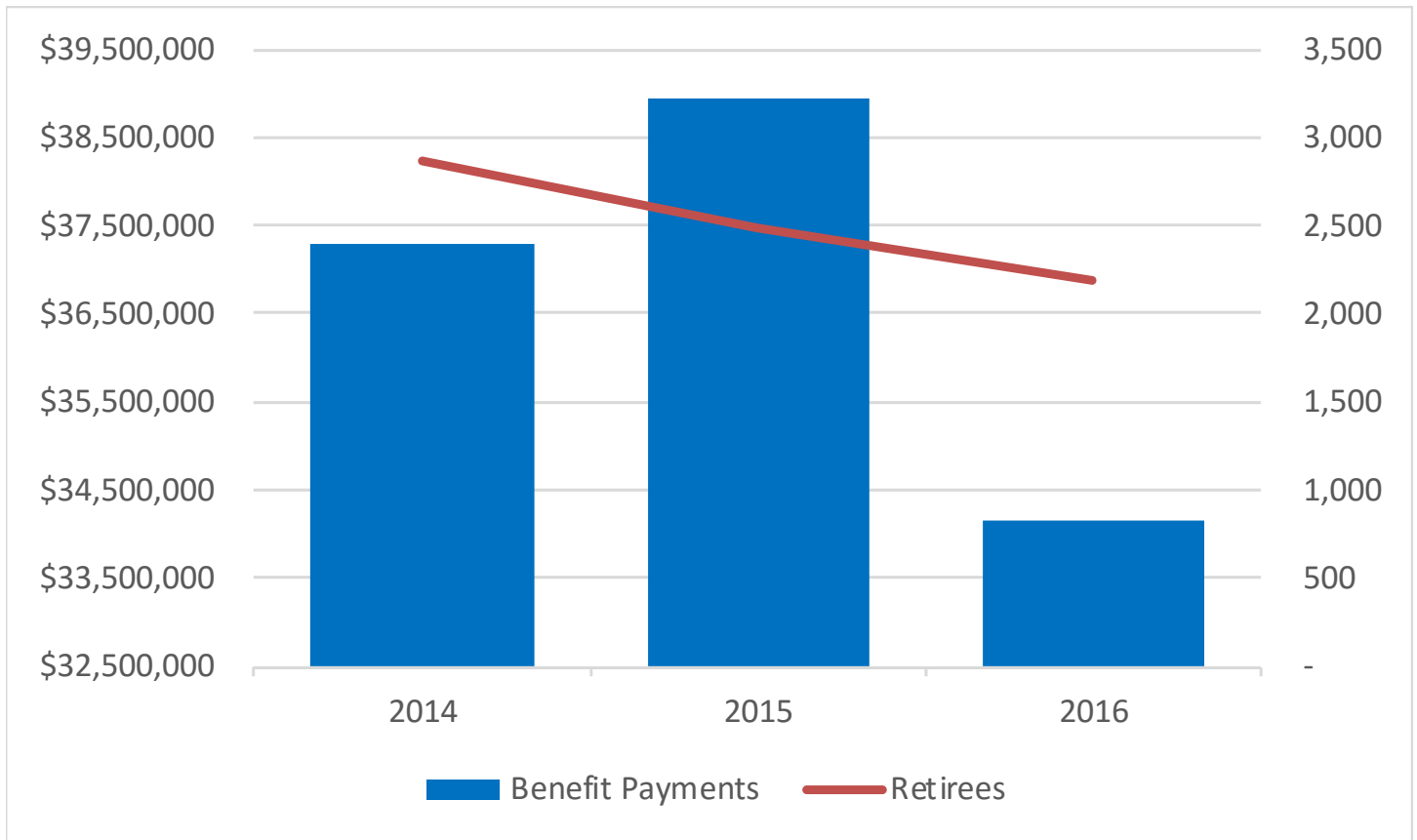
Employee contributions increased by \$0.6 million from June 30, 2015 to June 30, 2016 and decreased by \$1.3 million from June 30, 2014 to June 30, 2015. Fluctuations in employee contributions are primarily due to differences in the number of actively contributing participants from year to year as well as changes in the average contributions per participant. Active participation continues to grow in the Plan. In accordance with the Internal Revenue Code, employees could voluntarily contribute up to a maximum amount of \$18,000 in 2016 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. This caused changing average contributions per participant, which were \$2,829, \$2,909 and \$3,097 for the year ended June 30, 2016, 2015 and 2014, respectively.



**STATE OF NEW MEXICO PUBLIC EMPLOYEES’
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Beneficiaries of the Plan

Benefits paid to participants decreased from just under \$39.0 million for the year ended June 30, 2015 to \$34.2 million for year ended June 30, 2016. This reversed the trend from 2014 to 2015, when benefits paid to participants grew from \$37.3 million. During the same three year period, the numbers of retirees also declined from 2,860 in 2014, to 2,482 in 2015 and then 2,192 in 2016. The average distribution per participant was \$15,617, \$15,695 and \$13,043 for the years ended 2016, 2015 and 2014, 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 438 in 2014 to 796 in 2015 to 1,130 in 2016.



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

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

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 2015-2016, 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 \$1.12 per quarter, per participant. PERA operating fees averaged \$0.48 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. Overall, the administrative cost of the Plan remains approximately 0.21% of the Plan's net position held in trust for Plan benefits.

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 had moderately positive returns for the year ending June 30, 2016. The Russell 3000 returned +2.1% during the trailing year, with large cap stocks (Russell 1000 +2.9%) outpacing small cap stocks (Russell 2000 -6.7%). Within the small and mid-cap areas, value oriented indices outperformed those with a growth orientation, however with the larger cap space there was no significant return difference between investment styles.

Non-U.S. equities struggled over the past year due to currency headwinds, slowing global growth, and the U.K.'s decision to exit the European Union during the last few weeks of June. The MSCI EAFE and MSCI ACWI ex U.S. Indices each returned -10.2% in dollar terms during the year ending June 30, 2016, and the MSCI Emerging Markets Index returned -12.1%.

Bond markets were mostly positive for the year, with Barclays Aggregate Index returning +6.0%, Barclays U.S. TIPS Index returning +4.4%, the Barclays High Yield Index returning +1.6%, and the Barclays Global Aggregate Index returning +8.9%. Falling bond yields and central bank bond purchasing programs contributed to the strong returns for fixed income assets.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES’
DEFERRED COMPENSATION PLAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

The 2016 fiscal year began as a very difficult environment for investors. Global markets were experiencing significant volatility from a variety of factors including: China’s currency devaluation, speculation of a September Federal Reserve interest rate hike, and a commodity price decline. When the third quarter of 2015 ended, only one public market asset class, high quality fixed income, had positive returns. Global growth was slowing and the International Monetary Fund (“IMF”) lowered their 2015 global growth projections to 3.1%, a 0.2% decrease. Within the U.S., unemployment continued to decline (5.1% as of September 2015), consumer spending was strong, and 12-month trailing real GDP was +2.1%. However, U.S. corporate earnings growth had slowed, impacted by declining earnings in the energy sector and a strengthening U.S. dollar. Alternatively, inflation continued to remain a non-factor as CPI was 0.0% over the trailing 12 months.

Global macroeconomic issues continued to weigh on markets as the 2015 calendar year came to an end and 2016 began. In December 2015, China removed the Yuan’s peg to the U.S. dollar, instead choosing to use a “reference basket” of global currencies. China’s currency devaluation sparked fears of a slowing Chinese economy and global deflationary pressures. Also in December, the Federal Reserve approved a 0.25% interest rate increase, the first increase in nearly a decade. Commodity prices continued their downward spiral, ending the calendar year down 24.7%.

2016 began with one of the worst calendar year starts for domestic equity markets in history. Global equity markets declined between 8% and 11% over the first two weeks of January. However, markets reversed course and rallied throughout February and March. By the end of the quarter, year-to-date returns for domestic equity indices were slightly positive, emerging market equities were up nearly 6%, and international developed markets were down roughly 3%.

The final three months of the 2016 fiscal year were rather uneventful, with one notable exception. On June 23rd, British citizens voted to leave the European Union (“Brexit”) and global capital markets, which had steadily been pricing in a victory for the “Remain” camp in the days leading up to the referendum, broadly declined. On the day following the vote, the British Pound collapsed to 30-year lows and global equity markets fell anywhere from -2% to -8%.

As the fiscal year ended, many of the same macroeconomic themes occurring throughout the year remained at the forefront. Monetary stimulus campaigns persisted as developed market central banks continued their asset purchase programs (quantitative easing), though the U.S. had ended their program several years ago. Interest rates remained at record lows, even negative in several countries, as developed and emerging market central banks attempted to stimulate growth. In the U.S., the Federal Reserve had still not raised rates since December 2015, despite market expectations for up to four rate increases throughout 2016.

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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
INVESTMENTS		
Annuities	\$ 1,345,131	\$ 1,450,192
Stable value option	132,815,809	129,588,734
Variable earnings investments	354,519,687	357,486,615
Self-directed option	<u>3,899,093</u>	<u>3,461,542</u>
 Total investments	 492,579,720	 491,987,083
RECEIVABLES		
Participant contributions receivable	173,754	180,923
Participant loans receivable	<u>10,086,535</u>	<u>9,178,261</u>
 NET POSITION HELD IN TRUST FOR PLAN BENEFITS	 <u>\$ 502,840,009</u>	 <u>\$ 501,346,267</u>

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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
ADDITIONS TO NET POSITION ATTRIBUTED TO		
Employee contributions	\$ 35,261,360	\$ 34,628,217
Investment income:		
Variable earnings investment income	994,163	18,933,171
Interest on fixed annuity payout	87,081	86,143
Interest income on participant loans	415,031	363,700
	<u>36,757,635</u>	<u>54,011,231</u>
DEDUCTIONS FROM NET POSITION ATTRIBUTED TO		
Benefits paid to participants	34,153,732	38,954,562
Administrative expenses	1,055,123	996,178
Life insurance premiums	55,038	61,779
	<u>35,263,893</u>	<u>40,012,519</u>
NET INCREASE	1,493,742	13,998,712
NET POSITION HELD IN TRUST FOR PLAN BENEFITS, BEGINNING OF YEAR	<u>501,346,267</u>	<u>487,347,555</u>
NET POSITION HELD IN TRUST FOR PLAN BENEFITS, END OF YEAR	<u>\$ 502,840,009</u>	<u>\$ 501,346,267</u>

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, 2016 and 2015**

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 78,500 and 77,000 employees eligible to participate in the Plan as of June 30, 2016 and 2015, 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 for calendar years 2016 and 2015. 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 2016 and in 2015 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 2016 and in 2015 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, 2016 and 2015, 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
June 30, 2016 and 2015**

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 \$10,086,535 and \$9,178,261 at June 30, 2016 and 2015, 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’
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

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 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 annuity payout investments are for discontinued annuity payout options in the Plan. The Plan held \$1,345,131 and \$1,450,192 at June 30, 2016 and 2015, 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 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, 2016 and 2015. 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 1.54% for the year ended June 30, 2016, and 1.41 % to 1.65% for the year ended June 30, 2015. Interest income for the stable value investment option is recorded as earned on the accrual basis.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

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 (GASB 72)

The State of New Mexico Public Employees' Deferred Compensation Plan categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at June 30, 2016:

Mutual Funds: Valued at fair value based on the quoted net asset value (NAV) of shares held by the Plan at year end. The mutual funds held by the Plan are deemed to be actively traded.

Self-directed investments: Valued at the daily closing price as reported by the fund and reported as Level 1. These represent investments that are actively traded on an open market.

Lifecycle funds: Valued at carrying value based on the NAV of the observable market prices of the underlying assets within that account less liabilities.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES’
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 – INVESTMENTS AND DEPOSITS (CONTINUED)

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments at Fair Value:				
Mutual funds	\$ 248,030,255	\$ 248,030,255	\$ -	\$ -
Self-directed investments	3,899,093	3,899,093	-	-
Total Investments at Fair Value	251,929,348	\$ 251,929,348	\$ -	\$ -
Investments at Net Asset Value:				
Lifecycle Funds	106,519,092			
Investments at Contract Value:				
Stable value option	132,815,809			
Annuities, net of payments in transit	1,315,471			
Total Investments	<u>\$ 492,579,720</u>			
Investments measured at the net asset value (NAV):	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Lifecycle Funds	\$ 106,519,092	\$ -	Daily	None

Lifecycle Funds: This asset class is generally comprised of a combination of fixed income and equity investment options. These investment options may include balanced, asset allocation, target-date, and target-risk investment options. Although typically lower risk than investment options that invest solely in equities, all investment options in this category have the potential to lose value.

Stable value option and Annuities: The plan invests in annuities that represent guaranteed investment contracts that represent a fixed-income security portfolio of fixed-income securities and a value guarantee (wrapper) provided by a third party and are reported at contract value. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 – INVESTMENTS AND DEPOSITS (CONTINUED)

At June 30, 2016 and 2015, 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, 2016 and 2015. Investments marked with two asterisks (**) represent international mutual funds.

	<u>2016</u>		<u>2015</u>
Investments:			
Aberdeen Emerging Markets Fund - Institutional Class	1,513,006	**	1,425,712
EuroPacific Growth Fund® - Class R6	7,709,085	**	9,057,355
Blackrock Inflation Protected Bond	4,224,652		3,645,100
Dodge & Cox Stock Fund	23,955,902		27,458,983
DFA U.S. Small Cap Portfolio	9,872,933		10,453,143
The SEI Stable Asset Fund	132,815,809	*	129,588,734
Fidelity® Low-Priced Stock Fund - Class K	7,979,470		8,679,067
Fidelity® Diversified International Fund - Class K	10,716,126	**	11,864,117
Invesco Global Real Estate - Institutional Class	1,662,887	**	1,626,048
Life Cycle 2045 Portfolio	10,218,726		9,206,302
Life Cycle 2035 Portfolio	19,263,382		16,738,120
Life Cycle 2025 Portfolio	38,592,105	*	36,276,010
Life Cycle 2015 Portfolio	-		20,891,341
Conservative Portfolio	33,912,260	*	13,594,100
Life Cycle 2055 Portfolio	4,421,550		4,371,071
Life Cycle 2020 Portfolio	75,987		-
Life Cycle 2030 Portfolio	2,980		-
Life Cycle 2040 Portfolio	31,547		-
Life Cycle 2050 Portfolio	555		-

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 – INVESTMENTS AND DEPOSITS (CONTINUED)

	<u>2016</u>	<u>2015</u>
Oakmark Equity and Income Fund (The) - Class I	19,202,434	21,075,633
Principal Investors Fund, Inc. - MidCap Blend Fund - Institutional Class	9,651,791	10,817,923
Principal Diversified Real Asset Fund - Institutional Class	341,028	637,624
Templeton Global Bond Fund - Class R6	1,632,320	1,953,891
Fidelity® Contrafund - Class K	34,442,359 *	35,561,958
T. Rowe Price Institutional Mid-Cap Equity Growth Fund	25,321,253 *	25,067,848
Vanguard Institutional Index Fund - Institutional Shares	70,549,165 *	70,069,365 *
Vanguard Total Bond Market Index Fund - Institutional Shares	17,619,960	15,201,263
Vanguard Total International Stock Index Fund - Institutional Shares	1,635,884 **	1,786,636 **
	<u>487,365,156</u>	<u>487,047,344</u>
Suspense:		
Monies held pending investment	(53,775)	1,319
Payouts:		
Nationwide Fixed Annuity Payout Option (at contract value)	1,345,131	1,450,192
Nationwide Variable Annuity Payout Option	24,115	26,686
Self Directed Option:		
Investments Held at Charles Schwab	<u>3,899,093</u>	<u>3,461,542</u>
Total investments at fair value	<u><u>\$ 492,579,720</u></u>	<u><u>\$ 491,987,083</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 indicated in the previous table.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

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 \$23,236,988 and \$25,759,868 as of June 30, 2016 and 2015, respectively. The individual funds are identified in the previous table.

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

As of June 30, 2016 and 2015, 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. Weighted average maturities will vary annually based on the underlying investments of funds.

	2016		2015	
	Fair Value	Weighted Average Maturity	Fair Value	Weighted Average Maturity
Stable Value Option:				
Stable Value Fund	\$ 132,815,809	3.60	\$ 129,588,734	3.49
Variable Earnings Investments:				
Life Cycle 2025 Portfolio	38,592,105	2.16	36,276,010	6.97
Life Cycle 2015 Portfolio	-	-	20,891,341	7.57
Life Cycle 2035 Portfolio	19,263,382	1.20	16,738,120	6.23
Life Cycle 2045 Portfolio	10,218,726	0.70	9,206,302	5.41
Life Cycle 2055 Portfolio	4,421,550	0.49	4,371,071	4.95
Life Cycle 2020 Portfolio	75,987	2.19	-	-
Life Cycle 2030 Portfolio	2,980	2.17	-	-
Life Cycle 2040 Portfolio	31,547	2.29	-	-
Life Cycle 2050 Portfolio	555	2.29	-	-
Oakmark Equity and Income Fund (The) -				
Class I	19,202,434	-	21,075,633	N/A
Vanguard Total Bond Market Index Instl	17,619,960	8.00	15,201,263	7.90
Life Cycle Conservative Portfolio	33,912,260	1.94	13,594,100	8.10
Blackrock Inflation Protected Bond	4,224,652	10.58	3,645,100	10.42
Templeton Global Bond Fund - Class R6	1,632,320	3.26	1,953,891	2.36

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.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

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, 2016 and 2015 was \$13,977,873 and \$15,220,111, respectively. The cash surrender value of policies in force as of June 30, 2016 and 2015 was \$1,642,535 and \$1,722,473, 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 Meketa Investment Group (MIG). For services performed by MIG an annual fee is charged at an average cost of \$1.12 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 \$0.48 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.

NOTE 6 – TAX STATUS

The Plan is exempt from Federal Income Taxes in accordance with Section 457 of the Internal Revenue Code. 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, 2016 and 2015**

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 Net Position Held in Trust for Plan Benefits.

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, 2016, and have issued our report thereon dated October 28, 2016.

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
October 28, 2016

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
OFFICIAL ROSTER
June 30, 2016**

Ms. Patricia French	Chair	Municipal Member
Mr. Daniel Mayfield	Vice Chair	Retiree Member
Mr. Timothy Eichenberg	Ex-Officio	State Treasurer
Mr. Brad Winter Ex-Officio		Secretary of State
Ms. Jackie Kohlasch		State Member
Ms. Paula Fisher		State Member
Ms. Cathy Townes		State Member
Mr. John Reynolds		State Member
Mr. John Melia, Municipal		Member
Mr. Daniel Esquibel, Municipal		Member
Ms. Loretta Naranjo-Lopez, Retiree		Member
Ms. James Maxon, County		Member

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
EXIT CONFERENCE
June 30, 2016**

We discussed the recommendations contained in the letter during the exit conference held on October 27, 2016. The exit conference was held in a closed executive session and was attended by the following individuals:

Members Present:

Patricia French	Chair	Municipal Member
Paula Fisher		State Member
John Melia		Municipal Member
Daniel Esquibel		Municipal Member
Loretta Naranjo-Lopez		Retiree Member
James Maxon		County Member
Cathy A. Townes		State Member

Members Excused:

Daniel Mayfield	Vice-Chair	Retiree Member
Tim Eichenberg	Ex-Officio Member	State Treasurer
Brad Winter	Ex-Officio Member	Secretary of State
John Reynolds		State Member
Jackie Kohlasch		State Member

Eide Bailly LLP

Eric Berman - Partner

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
FINDINGS SUMMARY FORM
June 30, 2016**

<u>Agency Number</u>	<u>Agency Name</u>	<u>Audit Fiscal Year</u>	<u>Agency Classification</u>	<u>Financial Statement Opinion</u>	<u>Opinion for Major Federal Programs</u>	<u>Finding Number</u>	<u>New or Repeat Finding</u>	<u>Year Finding Originated</u>	<u>Classification of Finding</u>	<u>Category of Finding</u>	<u>Finding Title / Summary (200 Characters or Less)</u>
366-A	Public Employees' Deferred Compensation Plan	6/30/2016	Other Local Public Bodies	Unmodified	Not Applicable	N/A - no findings			No Findings Reported		

