

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

**FINANCIAL STATEMENTS
June 30, 2017 and 2016**



TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	9
Statements of Net Position Held in Trust for Plan Benefits.....	10
Statements of Changes in Net Position Held in Trust for Plan Benefits	11
Notes to Financial Statements.....	12
SUPPLEMENTARY INFORMATION	21
Schedule of Memorandums of Understanding	22
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 <i>GOVERNMENT AUDITING STANDARDS</i>	23
SCHEDULE OF OFFICIALS ROSTER	25
SCHEDULE OF EXIT CONFERENCE ATTENDEES	26



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, 2017 and 2016 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, 2017 and 2016, 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 8, 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 Memorandums of Understanding, Officials Roster and Exit Conference 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 27, 2017 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 27, 2017

**STATE OF NEW MEXICO PUBLIC EMPLOYEES’
DEFERRED COMPENSATION PLAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

This discussion and analysis of the State of New Mexico Deferred Compensation Plan’s (“the Plan” also known as “SmartSave”) financial performance provides an overview of the Plan’s financial activities for the fiscal years ended June 30, 2017, 2016 and 2015. 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		
	2017	2016	2015
Plan Net Position Held in Trust for Plan Participants	\$ 568,832,783	\$ 502,840,009	\$ 501,346,267
Employee Contributions	\$ 47,752,984	\$ 35,261,360	\$ 34,628,217
Variable Earnings Investment Income	58,477,246	994,163	18,933,171
Interest Income	480,123	502,112	449,843
Benefits Paid	(39,510,967)	(34,153,732)	(38,954,562)
Administrative Expenses	(1,164,518)	(1,055,123)	(996,178)
Life Insurance Premiums	(42,094)	(55,038)	(61,779)
Net Increase in Plan Net Position	\$ 65,992,774	\$ 1,493,742	\$ 13,998,712

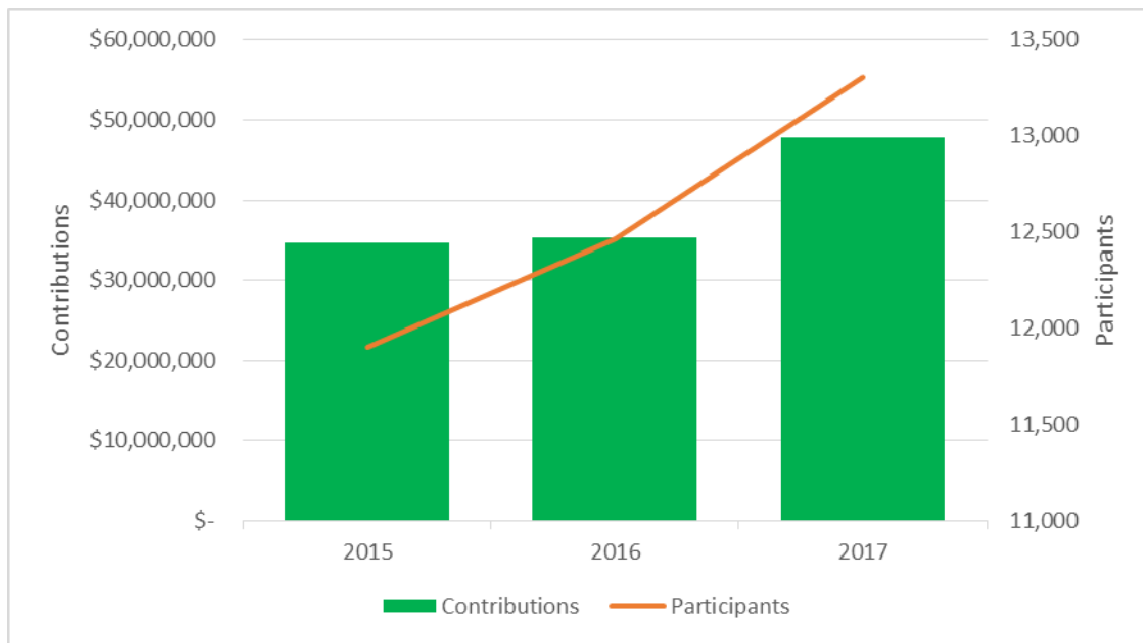
Financial Highlights

The net position held in trust for plan benefits increased by approximately \$66 million during the current period from \$502.8 million at June 30, 2016 to \$568.8 million at June 30, 2017. This increase is primarily due to: investment income earned during the current year, reflecting the overall market's strong performance, interest income from the Stable Value Option, the conversion of Bernalillo County from plans managed by the International City / County Management Association (ICMA) and a private vendor to SmartSave, as well as an increase in participants. The net position held in trust for plan benefits increased only by approximately \$1.5 million from \$501.3 million at June 30, 2015 to \$502.8 million at June 30, 2016, primarily due to investment income earned during that period.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES’
DEFERRED COMPENSATION PLAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

Contributions to the Plan

Employee contributions were \$47.8, \$35.2 and \$34.6 million for the years ending June 30, 2017, 2016 and 2015, respectively. Employee contributions increased by \$12.5 million from June 30, 2016 to June 30, 2017 and increased by \$0.6 million from June 30, 2015 to June 30, 2016, primarily due to the new participants from Bernalillo County. 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 \$3,590, \$2,829, and \$2,909 for the year ended June 30, 2017, 2016 and 2015, respectively, reflecting a stronger economy (as discussed in the Market Environment Overview section) and a wider understanding of the importance of saving for the future in SmartSave. There were 13,300, 12,462, and 11,902 actively contributing participants at June 30, 2017, 2016 and 2015, respectively. In accordance with the Internal Revenue Code, employees could voluntarily contribute up to a maximum amount of \$18,000 in 2017 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.

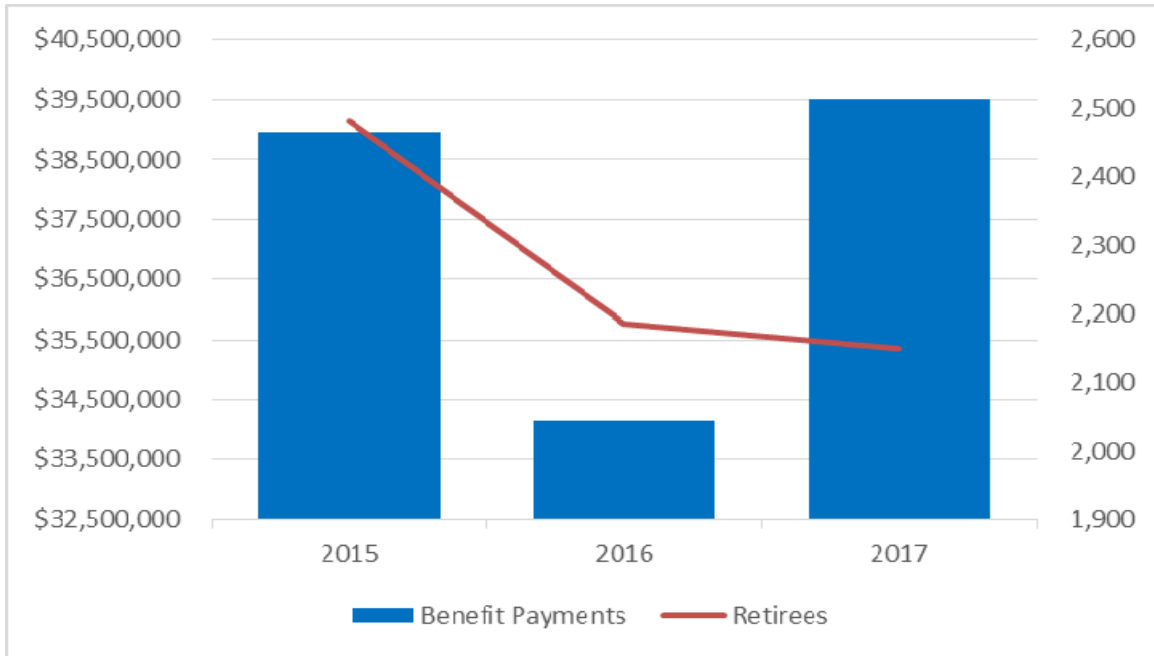


Beneficiaries of the Plan

Benefits paid to participants increased from just over \$34.2 million for the year ended June 30, 2016 to \$39.5 million for year ended June 30, 2017. This was due to an increase in assets being requested despite a slightly lowering number of retirees in 2017. 2,153 retirees received benefits this year compared to 2,192 in 2016. During the previous period, benefits paid to participants decreased from \$39.0 million for the year ended June 30, 2015 to \$34.2 million for year ended June 30, 2016. This decrease was primarily due to a decrease in the number of retirees, from 2,482 in 2015 to 2,192 in 2016, as well as minimal change in average distribution. The average distribution per participant was \$18,369, \$15,617, and \$15,695 for the years ended 2017, 2016 and 2015, respectively, some of which may be reflective of the economy and the use of funds to fund long-term purchases such as housing or a college education for a family member. 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

**STATE OF NEW MEXICO PUBLIC EMPLOYEES’
DEFERRED COMPENSATION PLAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

funds has risen from 796 in 2015, 1,130 in 2016 and 1,305 in 2017. Participants who withdraw funds may be reflective of demographics as well as personal need.



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 (2017). 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. For the year ended June 30, 2017 and 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 \$1.13 and \$1.12, respectively per quarter, per participant. For the year ended June 30, 2017 and 2016, PERA operating fees averaged \$1.06 and \$.048, respectively

**STATE OF NEW MEXICO PUBLIC EMPLOYEES’
DEFERRED COMPENSATION PLAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

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.

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

Equity markets across the globe posted strong returns for the fiscal year ending June 30, 2017. The Russell 3000, a broad reflection of the domestic U.S. equity market, returned +18.5% for the trailing 1-year. Foreign markets, as represented by the MSCI EAFE and the MSCI Emerging Markets, returned +20.3% and 23.7%, respectively. With regard to style and market capitalization, U.S. growth stocks tended to outperform value stocks, and both large capitalization and small capitalization stocks tended to outperform mid-capitalization stocks.

Global fixed income, with the exception of high yield bonds and global emerging market bonds, had more muted performance. The Barclays Aggregate returned -0.3% for the year ending June 30, 2017, with U.S. Treasury Inflation Protected Securities returning -0.6% over the same time period. High yield bonds, as represented by the Barclays High Yield index, which tend to be more closely correlated with equities than higher-grade fixed income instruments, returned +12.7% over trailing 1-year, and global emerging market bonds (as represented by JPM GBI-EM Global Diversified – Local Currency) returned +6.7% for the year.

Within other asset classes, performance was mixed. Real Estate, approximated by the NAREIT Equity Index, was down slightly for the twelve months ending June 30, 2017, with a return of -1.7%. While commodities, as represented by the Bloomberg Commodity index, was down -6.5%.

The beginning of the 2016/2017 fiscal year was a strong start for most risk assets. Major asset classes rallied during the third quarter 2016, and were highly correlated. Emerging markets and high yield bonds outperformed, in response to continued quantitative easing from the foreign central banks (the current level of the central bank asset purchases exceeded the level directly following the Global Financial Crisis) and record low interest rates. In the wake of the Brexit, the British Pound fell to new historical lows. As the quarter ended, many of the same macroeconomic themes occurring throughout the year remained at the forefront. Interest rates remained at record lows and were still negative in several countries, such as Europe and Japan. In the U.S., the Federal Reserve had continued to hold rates steady since December 2015, but expectations for future rate hikes increased.

The end of 2016 was more eventful than the third quarter 2016, which resulted in the major asset classes producing mixed returns. U.S. equity and high yield bond markets rallied after the U.S. presidential election, however most other asset classes declined. As the quarter ended, global interest

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

rates remain at record lows and were still negative in several countries. In the U.S., interest rates moved higher post-election, in response to expected fiscal stimulus from the new administration and inflationary concerns. The Fed also approved a long awaited rate increase at their December meeting.

The first quarter of 2017 was stronger than 2016, as the majority of major asset classes produced positive returns. As the quarter ended, global interest rates remained negative in several countries, as developed and emerging market central banks continued to stimulate growth. International stocks were undervalued due to Sovereign debt concerns and the slow pace of economic growth in Europe. In the U.S., the Fed raised rates in March to 1.00% from 0.75%, and were projected to approve two more rate increases in 2017. The 10 Year Treasury Yield increased slightly, but remained historically low, at 2.2%.

The end of the 2016/2017 fiscal year saw another rally in emerging and international markets. The MSCI Emerging Markets Index posted a return of +6.3%, with the MSCI EAFE returning +6.1%. Domestic U.S. markets lagged, with the Russell 3000 returning +3.0% over the same time period. Fixed income instruments produced positive returns, with the exception of U.S. Treasury Inflation Protected Securities, which were down slightly. The Federal Reserve hiked interest rates in mid-June for the third time in six months. This increased the Fed Funds borrowing rate from 1.0% to 1.25%, the highest rate since September 2008. Commodities took another hit, with the Bloomberg Commodity Index down -3.0% in the second quarter of 2017.

Looking forward, four primary concerns face the global economy. First, the potential for simultaneous monetary tightening globally; second, uncertainty related to the U.S. economy and policies; third, declining growth in China, along with uncertain fiscal and monetary policies; and fourth, risks related to the U.K.'s exit from the European Union.

Since the Global Financial Crisis, central banks world-wide have attempted to support markets and the economy through low interest rates and bond-purchasing programs (i.e., quantitative easing). Total balance sheets have nearly doubled since the GFC and are near 40% of aggregate GDP. If we move into a period of a collective reduction in the global central bank balance sheet, we could see higher interest rates, less liquidity, and overall slower economic activity.

The U.S. has experienced largely stable growth since the end of the global financial crisis, but at levels below prior recoveries. The Federal Reserve has continued to increase interest rates and discuss plans of reducing its balance sheet, possibly to create room for easing if the economy were to enter another recession. The primary risk is that the Fed's actions could push the economy back into recession early, before they have significant policy tools at their disposal.

Given China's size and contribution to global growth, a slowing of its economy could have a meaningful impact, particularly on countries that depend on its trade. The growing debt, particularly in the corporate sector, remains a key concern. Another devaluation of the yuan could disrupt capital markets, weigh on domestic demand, and hurt countries with competing exports.

The decision of the U.K. to leave the EU further weighs on the fragile recovery in Europe. The U.K.'s negotiation of trade deals will be a key issue, with a wide range of potential outcomes. Uncertainty related to the outcome of negotiations should weigh on foreign investment and consumption. Any additional moves to leave the EU, or the Eurozone, could be disruptive to markets and growth.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

Contacting Management

This report is designed to provide the Board, Smart Save Committee, 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. For additional information, contact the NM PERA Deferred Compensation Plan Manager at 33 Plaza La Prensa, Santa Fe, New Mexico 87507 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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
INVESTMENTS		
Annuities	\$ 1,197,477	\$ 1,345,131
Stable value option	131,884,328	132,815,809
Variable earnings investments	418,943,401	354,519,687
Self-directed option	<u>4,629,288</u>	<u>3,899,093</u>
 Total investments	 556,654,494	 492,579,720
RECEIVABLES		
Participant contributions receivable	860,212	173,754
Participant loans receivable	<u>11,318,077</u>	<u>10,086,535</u>
 NET POSITION HELD IN TRUST FOR PLAN BENEFITS	 <u><u>\$ 568,832,783</u></u>	 <u><u>\$ 502,840,009</u></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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
ADDITIONS TO NET POSITION ATTRIBUTED TO		
Employee contributions	\$ 47,752,984	\$ 35,261,360
Investment income:		
Variable earnings investment income	58,477,246	994,163
Interest on fixed annuity payout	19,467	87,081
Interest income on participant loans	460,656	415,031
	<u>106,710,353</u>	<u>36,757,635</u>
DEDUCTIONS FROM NET POSITION ATTRIBUTED TO		
Benefits paid to participants	39,510,967	34,153,732
Administrative expenses	1,164,518	1,055,123
Life insurance premiums	42,094	55,038
	<u>40,717,579</u>	<u>35,263,893</u>
NET INCREASE	65,992,774	1,493,742
NET POSITION HELD IN TRUST FOR PLAN BENEFITS, BEGINNING OF YEAR	<u>502,840,009</u>	<u>501,346,267</u>
NET POSITION HELD IN TRUST FOR PLAN BENEFITS, END OF YEAR	<u>\$ 568,832,783</u>	<u>\$ 502,840,009</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, 2017 and 2016**

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 80,000 and 78,500 employees eligible to participate in the Plan as of June 30, 2017 and 2016, 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 2017 and 2016. 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 2017 and in 2016 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 2017 and in 2016 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, 2017 and 2016, the Plan met the requirements of the SBJPA.

Although this is no longer offered as an option for new participants, at retirement or termination of employment, employees already 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, 2017 and 2016**

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 \$11,318,077 and \$10,086,535 at June 30, 2017 and 2016, respectively and is listed as participant loans receivable on the Statement of Net Position Held in Trust for Plan Benefits. Interest rates range between 3.75% 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, 2017 and 2016**

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 \$1,197,477 and \$1,345,131 at June 30, 2017 and 2016, 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, 2017 and 2016. 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 crediting interest rate for the stable value investment option, net of fees, ranged from 1.65% to 1.78% for the year ended June 30, 2017, and 1.64 % to 1.72% for the year ended June 30, 2016. Interest income for the stable value investment option is recorded as earned on the accrual basis.

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.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

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, 2017:

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. 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.

	June 30, 2017	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	\$ 282,812,855	\$ 282,812,855	\$ -	\$ -
Self-directed investments	4,629,288	4,629,288	-	-
Total Investments at Fair Value	287,442,143	\$ 287,442,143	\$ -	\$ -
Investments at Net Asset Value:				
Lifecycle Funds	136,211,881			
Investments at Contract Value:				
Stable value option	131,884,328			
Annuities, net of payments in transit	1,116,142			
Total Investments	\$ 556,654,494			

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 3 – INVESTMENTS AND DEPOSITS (GASB 72) (CONTINUED)

	Fair Value Measurements Using:			
	June 30, 2016	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	<u>251,929,348</u>	<u>\$ 251,929,348</u>	<u>\$ -</u>	<u>\$ -</u>
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	<u>1,315,471</u>			
Total Investments	<u>\$ 492,579,720</u>			

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
June 30, 2017				
Lifecycle Funds	\$ 136,211,881	\$ -	Daily	None
June 30, 2016				
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, 2017 and 2016**

NOTE 3 – INVESTMENTS AND DEPOSITS (GASB 72) (CONTINUED)

At June 30, 2017 and 2016, 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, 2017 and 2016. Investments marked with two asterisks (**) represent international mutual funds.

	2017	2016
Investments:		
Aberdeen Emerging Markets Fund - Institutional Class	\$ 2,664,292 **	\$ 1,513,006 **
EuroPacific Growth Fund® - Class R6	9,232,195 **	7,709,085 **
Blackrock Inflation Protected Bond	-	4,224,652
Dodge & Cox Stock Fund	30,880,849 *	23,955,902
DFA U.S. Small Cap Portfolio	12,955,162	9,872,933
The SEI Stable Asset Fund	131,884,327 *	132,815,809 *
Fidelity® Low-Priced Stock Fund - Class K	8,369,432	7,979,470
Fidelity® Diversified International Fund - Class K	10,963,620 **	10,716,126 **
Invesco Global Real Estate - Institutional Class	1,639,112 **	1,662,887 **
Life Cycle 2045 Portfolio	14,249,186	10,218,726
Life Cycle 2035 Portfolio	25,604,863	19,263,382
Life Cycle 2025 Portfolio	45,311,209 *	38,592,105 *
Conservative Portfolio	38,187,781 *	33,912,260 *
Life Cycle 2055 Portfolio	6,066,221	4,421,550
Life Cycle 2020 Portfolio	1,711,248	75,987
Life Cycle 2030 Portfolio	1,961,495	2,980
Life Cycle 2040 Portfolio	2,348,931	31,547
Life Cycle 2050 Portfolio	770,947	555
Vanguard Inflation Protected Securities Fund-Institutional Shares	5,014,054	-
Oakmark Equity and Income Fund (The) - Class I	20,506,932	19,202,434
Principal Investors Fund, Inc. - MidCap Blend Fund - Institutional Class	12,304,374	9,651,791
Principal Diversified Real Asset Fund - Institutional Class	399,070	341,028
Templeton Global Bond Fund - Class R6	1,868,902	1,632,320
Fidelity® Contrafund - Class K	38,263,005 *	34,442,359 *
T. Rowe Price Institutional Mid-Cap Equity Growth Fund	26,713,104	25,321,253 *
Vanguard Institutional Index Fund - Institutional Shares	81,346,646 *	70,549,165 *
Vanguard Total Bond Market Index Fund - Institutional Shares	16,798,883	17,619,960
Institutional Shares	2,893,223 **	1,635,884 **
	550,909,063	487,365,156

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 3 – INVESTMENTS AND DEPOSITS (GASB 72) (CONTINUED)

	2017	2016
Suspense:		
Monies held pending investment	(108,136)	(53,775)
Payouts:		
Nationwide Fixed Annuity Payout Option (at contract value)	1,197,477	1,345,131
Nationwide Variable Annuity Payout Option	26,802	24,115
Self Directed Option:		
Investments Held at Charles Schwab	4,629,288	3,899,093
Total investments at fair value	\$ 556,654,494	\$ 492,579,720

The Plan has a formal investment policy that allows the Plan to select investment options that offer the best prospects to meet the participant's financial goals. The Policies allow for different tiers of investments that provide options for the participant to choose from. These are participant directed accounts, thus there are no limitations on concentration, credit and interest rate risk aside from the Plan's evaluation of the appropriate investment options to offer. The policy and investment offerings are reviewed and evaluated to ensure appropriate funds are available to the participant.

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.

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 \$27,392,441 and \$23,236,988 as of June 30, 2017 and 2016, 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.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 3 – INVESTMENTS AND DEPOSITS (GASB 72) (CONTINUED)

As of June 30, 2017 and 2016, 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

	2017		2016	
	Fair Value	Weighted Average Maturity	Fair Value	Weighted Average Maturity
Stable Value Option:				
Stable Value Fund	\$ 131,884,327	3.47	\$ 132,815,809	3.60
Variable Earnings Investments:				
Life Cycle 2025 Portfolio	45,311,209	2.41	38,592,105	2.16
Life Cycle 2035 Portfolio	25,604,863	1.44	19,263,382	1.20
Life Cycle 2045 Portfolio	14,249,186	1.10	10,218,726	0.70
Life Cycle 2055 Portfolio	6,066,221	0.94	4,421,550	0.49
Life Cycle 2020 Portfolio	1,711,248	2.88	75,987	2.19
Life Cycle 2030 Portfolio	1,961,495	1.92	2,980	2.17
Life Cycle 2040 Portfolio	2,348,931	1.23	31,547	2.29
Life Cycle 2050 Portfolio	770,947	1.00	555	2.29
Oakmark Equity and Income Fund (The) - Class I	20,506,932	-	19,202,434	-
Vanguard Total Bond Market Index Instl	16,798,883	8.30	17,619,960	8.00
Life Cycle Conservative Portfolio	38,187,781	3.25	33,912,260	1.94
Blackrock Inflation Protected Bond	-	9.92	4,224,652	10.58
Templeton Global Bond Fund - Class R6	1,868,902	3.80	1,632,320	3.26

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

Contracts in a participant's name are 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, 2017 and 2016 was \$12,789,021 and \$13,977,873, respectively. The cash surrender value of policies in force as of June 30, 2017 and 2016 was \$1,559,744 and \$1,642,535, respectively.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

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 \$1.13 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 \$1.06 per quarter per participant.

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.

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.

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
SCHEDULE OF MEMORANDUMS OF UNDERSTANDING
Year Ended June 30, 2017**

<i>Participants</i>	<i>Party Responsible for Operations</i>	<i>Beginning and Ending Dates</i>	<i>Total Estimated Amount of Project</i>	<i>Portion Applicable to the Agency</i>	<i>Amount Agency Contributed in the Current Fiscal Year</i>	<i>Audit Responsibility</i>	<i>Fiscal Agent</i>	<i>Government Agency Where Revenues and Expenditures are Reported</i>
Nationwide Retirement Solutions, Inc. Public Employees Retirement Board	Nationwide Retirement Solutions, Inc.	October 1, 2011 through September 30, 2019	Annual fee assessed quarterly \$45-\$52 per participant account	\$ -	\$ -	Nationwide Retirement Solutions, Inc.	N/A	State of New Mexico Deferred Compensation Plan

See Independent Auditor's Report



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, 2017, and have issued our report thereon dated October 27, 2017.

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 cursive script that reads "Eide Bailly LLP".

Boise, Idaho
October 27, 2017

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
SCHEDULE OF OFFICIALS ROSTER
June 30, 2017**

Mr. Daniel Mayfield	Chair	Retiree Member
Mr. James Maxon	Vice-Chair	County Member
Ms. Maggie Toulouse Oliver	Ex-Officio	Secretary of State
Mr. Tim Eichenberg	Ex-Officio	State Treasurer
Ms. Jackie Kohlasch		State Member
Mr. John Reynolds		State Member
Ms. Cathy Townes		State Member
Ms. Claudia Armijo		State Member
Ms. Patricia French		Municipal Member
Mr. Dan Esquibel		Municipal Member
Mr. John Melia		Municipal Member
Ms. Loretta Naranjo-Lopez		Retiree Member

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
SCHEDULE OF EXIT CONFERENCE ATTENDEES
June 30, 2017**

The exit conference was held on October 26, 2017 in a closed executive session and was attended by the following individuals:

Members Present:

Daniel Mayfield	Chair	Retiree Member
Maggie Toulouse Oliver	Ex-Officio Member	Secretary of State
Jackie Kohlasch		State Member
John Reynolds		State Member
Claudia Armijo		State Member
Patricia French		Municipal Member
Dan Esquibel		Municipal Member
John Melia		Municipal Member
Loretta Naranjo-Lopez		Retiree Member

Members Excused:

James Maxon	Vice-Chair	County Member
Tim Eichenberg	Ex-Officio Member	State Treasurer
Cathy Townes		State Member

Eide Bailly LLP

Eric Berman - Partner