



**PUBLIC EMPLOYEES
RETIREMENT
ASSOCIATION OF NEW
MEXICO**

FINANCIAL STATEMENTS

JUNE 30, 2009

Moss Adams LLP
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TABLE OF CONTENTS

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO

INTRODUCTORY SECTION

Official Roster.....	1
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FINANCIAL SECTION

Independent Auditors' Report.....	2
Management's Discussion and Analysis	5
Statements of Plan Net Assets	15
Statements of Changes in Plan Assets	17
Notes to Financial Statements.....	19

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Funding Progress	48
Schedules of Contributions From Employers and Other Contributing Entities	49
Notes to Required Supplementary Information	50

OTHER SUPPLEMENTAL INFORMATION

Schedule of Revenues, Appropriation, and Expenses – Budget and Actual – Public Employees Retirement Fund Only (Non-GAAP Basis).....	51
Schedule of Administrative and Investment Expenses	52
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>	53



TABLE OF CONTENTS

PUBLIC EMPLOYEES RETIREMENT
ASSOCIATION OF NEW MEXICO

OTHER SUPPLEMENTAL INFORMATION (CONTINUED)

Schedule of Status of Prior Year Audit Findings.....56
Schedule of Findings and Responses57
Exit Conference68



**PUBLIC EMPLOYEES RETIREMENT
ASSOCIATION OF NEW MEXICO**

*Official Roster
As of June 30, 2009*

NAME	TITLE
Ms. Cynthia D. Borrego	Municipal Member, Chair
Ms. Nancy Hewitt	State Member, Vice Chair
Ms. Mary E. Herrera	Secretary of State
Mr. James B. Lewis	State Treasurer
Mr. Oscar Arevalo	State Member
Mr. Francis Page	State Member
Ms. Annette Martinez-Varela	State Member
Mr. David A. Baca	County Member
Ms. Susan Biernacki	Municipal Member
Ms. Patricia French	Municipal Member
Mr. John Lucero	Retiree Member
Mr. Victor A. Montoya	Retiree Member

Independent Auditors' Report

To the Members of the Retirement Board of the
Public Employees Retirement Association of New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying Statements of Plan Net Assets and Statements of Changes in Plan Net Assets of the Public Employees Retirement Fund, Judicial Retirement Fund, Magistrate Retirement Fund, and the Volunteer Firefighter Retirement Fund (collectively, the Funds) administered by the Public Employees Retirement Association of New Mexico (PERA) as of and for the year ended June 30, 2009, as listed in the table of contents. We have also audited the Schedule of Revenues, Appropriations and Expenses – Budget and Actual (Non-GAAP) for the Public Employees Retirement Fund shown as supplemental information as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements and schedule are the responsibility of PERA's management. Our responsibility is to express opinions on these financial statements and schedule based on our audit. We did not audit the Deferred Compensation (IRC 457) Fund, which statements reflect total assets and revenues constituting 1.7 percent and 2.7 percent, respectively, of the related totals. The financial statements of the Deferred Compensation (IRC 457) Fund were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Deferred Compensation (IRC 457) Fund, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of PERA are intended to present the net assets and changes in net assets of only that portion of the State of New Mexico which are attributable to the transactions of the Funds administered by PERA. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2009, and the changes in its

To the Members of the Retirement Board of the
Public Employees Retirement Association of New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor

financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on the report of our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the plan net assets of PERA as of June 30, 2009, and the respective changes in financial position of its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the individual financial statements of each Fund referred to above present fairly, in all material respects the financial position of the plan net assets of each of the individual funds administered by PERA as of June 30, 2009, and the respective changes in the financial position of the plan net assets of the individual funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Schedule of Revenues, Appropriations and Expenses - Budget and Actual, (Non-GAAP Basis) - Public Employees Retirement Fund presents fairly the revenues, appropriations and expenses in conformity with the basis of accounting as described in Note 10, for the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009, on our consideration of PERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audit.

The Management's Discussion and Analysis on pages 5 through 14 and the Required Supplementary Schedules of Funding Progress and of Contributions from Employers and Other Contributing Entities on pages 48-50 are not a required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Members of the Retirement Board of the
Public Employees Retirement Association of New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor

Our audit was conducted for the purpose of forming opinions on the individual Fund financial statements that collectively comprise PERA's financial statements. The Schedule of Administrative and Investment Expenses listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Moss Adams LLP

Albuquerque, New Mexico
November 24, 2009

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**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

This discussion and analysis of the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, the Volunteer Firefighter Retirement Fund, and the Deferred Compensation (IRC 457) Plan (collectively, the "Funds") of the Public Employees Retirement Association of New Mexico (PERA) for the years ended June 30, 2009 and 2008 provides a summary of the financial position of the Funds, including highlights and comparisons. For more detailed information regarding the PERA financial activities, the reader should also review the actual financial statements, including the notes and supplementary schedules.

Financial Highlights

- The net assets held in trust to pay pension benefits were \$9.2 billion as of June 30, 2009. This amount reflects a decrease of \$3.2 billion from the prior fiscal year. This change is primarily the result of the net depreciation in the fair value of the investment portfolio. See Note 13 regarding subsequent events for further details.
- PERA's funding objective is to meet long-term benefit obligations through member and employer contributions and investment earnings.
- Retirement benefits paid this year totaled \$614 million to 27,524 annuitants as compared to \$566 million to 25,506 annuitants for last year. The increase in benefits paid is due to the number of new retirees and cost-of-living allowances.
- PERA's investments reported a total return of (24.27%) for the current year and (7.40%) for last year. (This percentage does not include the investments administered by the Deferred Compensation Plan's contracted third party.)

PERA Highlights

Overview of Financial Statements

- The financial statements of the funds of PERA include Statements of Plan Net Assets and Statement of Changes in Plan Net Assets for the four retirement funds administered by the Agency and the Deferred Compensation Plan (DC Plan) described below. The financial statements also include notes that explain the history and purpose of the funds, significant accounting policies, investment details, statutory disclosures and other required information regarding the financial position of the funds. The required supplementary information and the additional supplementary information that appear after the notes to the financial statements are not a required part of the financial statements, but represent supplementary information required by the Governmental Accounting Standards Board.
- The Deferred Compensation (DC Plan) available to state employees is administered by a contracted third party with oversight by the PERA Board and staff. The assets of that plan are included in these financial statements as a separate fund. The net operating account is funded by fees collected from the DC Plan participants and is used to pay administration expenses for the DC Plan. These amounts are included in the Public Employees Retirement Fund.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2009**

- The Statement of Plan Net Assets reflects the resources available at the end of the fiscal year to pay members, retirees, and beneficiaries. This statement also provides information about the fair value and composition of net assets.
- The Statement of Changes in Plan Net Assets presents the changes to PERA's net assets for the fiscal year, including investment income, net appreciation in fair value of the investment portfolio and contributions from members and employers.
- The notes to the financial statements are an integral part of the basic financial statements and provide additional information about the plans of PERA. Notes include plan descriptions, significant accounting policies, contributions, funding policies, investment risk disclosure, investment credit risk, security lending program, commitments and contingencies.
- The additional supplementary information includes schedules of administrative, investment and consulting fee expenditures.

Comparative Summary Statements

The following table displays the total assets, liabilities, net assets, and changes in net assets for the four retirement funds and the Deferred Compensation Plan in total:

ALL FUNDS:

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets	\$ 10,693,199,368	\$ 16,990,724,416	(6,297,525,048)	(37.06)%
Liabilities	<u>(1,480,370,690)</u>	<u>(4,566,659,271)</u>	3,086,288,581	(67.58)%
Net Assets Held in Trust	\$ <u>9,212,828,678</u>	\$ <u>12,424,065,145</u>	(3,211,236,467)	(25.85)%
Change in Net Assets	\$ <u>(3,211,236,467)</u>	\$ <u>(1,192,033,085)</u>	(2,019,203,382)	(169.39)%

The total net assets held by PERA decreased during the fiscal year ended June 30, 2009 primarily as a result of the net depreciation of the fair value of the investment portfolio. All four retirement funds participate in an investment pool and share in investment earnings based on the fund's equity percentage in the pool.

The most significant pension plan administered by PERA includes the following balances at the years ended June 30, 2009 and 2008:

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2009**

PUBLIC EMPLOYEES RETIREMENT FUND:

Statement of Plan Net Assets as of June 30, 2009, as compared to June 30, 2008, follows:

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets				
Cash and equivalents	\$ 993,149,439	\$ 248,732,026	744,417,413	299.28%
Receivables	364,193,986	2,474,915,619	(2,110,721,633)	(85.28)%
Investments	8,878,623,459	13,708,413,598	(4,829,790,139)	(35.23)%
Capital Assets, Net	20,119,973	12,376,075	7,743,898	62.57%
Total Assets	<u>10,256,086,857</u>	<u>16,444,437,318</u>	<u>(6,188,350,521)</u>	<u>(37.63)%</u>
Liabilities				
Accounts Payable	507,954,188	2,769,684,347	(2,261,730,159)	(81.66)%
Other Liabilities	952,313,528	1,738,037,374	(785,723,846)	(45.21)%
Total Liabilities	<u>1,460,267,716</u>	<u>4,507,721,721</u>	<u>(3,047,454,005)</u>	<u>(67.61)%</u>
Net Assets Held in Trust	<u>\$ 8,795,819,141</u>	<u>\$ 11,936,715,597</u>	<u>(3,140,896,516)</u>	<u>(26.31)%</u>

The net assets of the Public Employees Retirement Fund is 95.47% of the total net assets of all funds.

Statement of Changes in Plan Net Assets as of June 30, 2009, as compared to June 30, 2008, follows:

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Additions				
Contributions	\$ 526,531,137	\$ 491,227,906	35,303,231	7.19%
Net Investment Income	81,288,668	337,455,999	(256,167,331)	(75.91)%
Net Depreciation in Fair Value of Investments	(3,101,078,858)	(1,408,701,295)	(1,692,377,563)	120.14%
Other Income (Loss)	(815,350)	4,139,887	(4,955,237)	(119.69)%
Total Deductions	<u>(2,494,074,403)</u>	<u>(575,877,503)</u>	<u>(1,918,196,900)</u>	<u>333.09%</u>
Deductions				
Benefit Payments	(604,103,397)	(557,189,873)	(46,913,524)	8.42%
Refunds	(31,668,787)	(31,328,433)	(340,354)	1.09%
Administrative Expenses	(11,049,869)	(9,937,658)	(1,112,211)	11.19%
Total Deductions	<u>(646,822,053)</u>	<u>(598,455,964)</u>	<u>(48,366,089)</u>	<u>8.08%</u>
Change in Net Assets	<u>\$ (3,140,896,456)</u>	<u>\$ (1,174,333,467)</u>	<u>(1,966,562,989)</u>	<u>167.46%</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2009**

JUDICIAL RETIREMENT FUND

Statement of Plan Net Assets as of June 30, 2009, as compared to June 30, 2008, follows:

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets				
Cash and equivalents	\$ 6,766,927	\$ 1,603,155	5,163,772	322.10%
Receivables	2,425,960	15,928,668	(13,502,708)	(84.77)%
Investments	61,817,608	93,139,039	(31,321,431)	(33.63)%
Total Assets	<u>71,010,495</u>	<u>110,670,862</u>	<u>(39,660,367)</u>	<u>(35.84)%</u>
Liabilities				
Accounts Payable	3,441,633	17,832,057	(14,390,424)	(80.70)%
Other Liabilities	6,601,235	11,122,816	(4,521,581)	(40.65)%
Total Liabilities	<u>10,042,868</u>	<u>28,954,873</u>	<u>(18,912,005)</u>	<u>(65.32)%</u>
Net Assets Held in Trust	<u>\$ 60,967,627</u>	<u>\$ 81,715,989</u>	<u>(20,748,362)</u>	<u>(25.39)%</u>

Statement of Changes in Plan Net Assets as of June 30, 2009, as compared to June 30, 2008, follows:

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Additions				
Contributions	\$ 5,215,120	\$ 4,758,254	456,866	9.60%
Net Investment Income	462,616	2,198,299	(1,735,683)	(78.96)%
Net Depreciation in Fair Value of Investments	(20,014,003)	(9,198,527)	(10,815,476)	117.58%
Other Income	15,035	27,552	(12,517)	(45.43)%
Total Deductions	<u>(14,321,232)</u>	<u>(2,214,422)</u>	<u>(12,106,810)</u>	<u>546.73%</u>
Deductions				
Benefit Payments	(6,392,932)	(5,907,420)	(485,512)	8.22%
Refunds	(12,543)	(25,849)	13,306	(51.48)%
Administrative Expenses	(21,655)	(33,931)	12,276	(36.18)%
Total Deductions	<u>(6,427,130)</u>	<u>(5,967,200)</u>	<u>(459,930)</u>	<u>7.71%</u>
Change in Net Assets	<u>\$ (20,748,362)</u>	<u>\$ (8,181,622)</u>	<u>(12,566,740)</u>	<u>153.60%</u>

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2009

MAGISTRATE RETIREMENT FUND

Statement of Plan Net Assets as of June 30, 2009, as compared to June 30, 2008, follows:

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets				
Cash and equivalents	\$ 2,929,392	\$ 731,749	2,197,643	300.33%
Receivables	1,102,404	7,297,711	(6,195,307)	(84.89)%
Investments	26,589,392	41,515,160	(14,925,768)	(35.95)%
Total Assets	<u>30,621,188</u>	<u>49,544,620</u>	<u>(18,923,432)</u>	<u>(38.19)%</u>
Liabilities				
Accounts Payable	1,490,544	8,139,319	(6,648,775)	(81.69)%
Other Liabilities	2,860,476	5,072,456	(2,211,980)	(43.61)%
Total Liabilities	<u>4,351,020</u>	<u>13,211,775</u>	<u>(8,860,755)</u>	<u>(67.07)%</u>
Net Assets Held in Trust	<u>\$ 26,270,168</u>	<u>\$ 36,332,845</u>	<u>(10,062,677)</u>	<u>(27.70)%</u>

Statement of Changes in Plan Net Assets as of June 30, 2009, as compared to June 30, 2008, follows:

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Additions				
Contributions	\$ 1,307,696	\$ 1,224,020	83,676	6.84%
Net Investment Income	231,318	1,006,398	(775,080)	(77.02)%
Net Depreciation in Fair Value of Investments	(9,142,654)	(4,203,032)	(4,939,622)	117.53%
Other Income	-	12,962	(12,962)	(100.00)%
Total Deductions	<u>(7,603,640)</u>	<u>(1,959,652)</u>	<u>(5,643,988)</u>	<u>288.01%</u>
Deductions				
Benefit Payments	(2,447,739)	(2,293,969)	(153,770)	6.70%
Refunds	-	(20,401)	20,401	(100.00)%
Administrative Expenses	(11,298)	(17,703)	6,405	(36.18)%
Total Deductions	<u>(2,459,037)</u>	<u>(2,332,073)</u>	<u>(126,964)</u>	<u>5.44%</u>
Change in Net Assets	<u>\$ (10,062,677)</u>	<u>\$ (4,291,725)</u>	<u>(5,770,952)</u>	<u>134.47%</u>

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2009

VOLUNTEER FIREFIGHTERS RETIREMENT FUND

Statement of Plan Net Assets as of June 30, 2009, as compared to June 30, 2008, follows:

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets				
Cash and equivalents	\$ 3,852,837	\$ 930,222	2,922,615	314.18%
Receivables	1,298,787	9,166,182	(7,867,395)	(85.83)%
Investments	34,593,762	51,883,480	(17,289,718)	(33.32)%
Total Assets	<u>39,745,386</u>	<u>61,979,884</u>	<u>(22,234,498)</u>	<u>(35.87)%</u>
Liabilities				
Accounts Payable	1,959,185	10,346,955	(8,387,770)	(81.07)%
Other Liabilities	3,749,901	6,423,947	(2,674,046)	(41.63)%
Total Liabilities	<u>5,709,086</u>	<u>16,770,902</u>	<u>(11,061,816)</u>	<u>(65.96)%</u>
Net Assets Held in Trust	<u>\$ 34,036,300</u>	<u>\$ 45,208,982</u>	<u>(11,172,682)</u>	<u>(24.71)%</u>

Statement of Changes in Plan Net Assets as of June 30, 2009, as compared to June 30, 2008, follows:

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Additions				
Appropriations from State	\$ 750,000	\$ 750,000	-	-
Net Investment Income	277,040	1,266,317	(989,277)	(78.12)%
Net Depreciation in Fair Value of Investments	(11,611,844)	(5,250,524)	(6,361,320)	121.16%
Other Income	-	15,069	(15,069)	(100.00)%
Total Deductions	<u>(10,584,804)</u>	<u>(3,219,138)</u>	<u>(7,365,666)</u>	<u>228.81%</u>
Deductions				
Benefit Payments	<u>(587,878)</u>	<u>(538,678)</u>	<u>(49,200)</u>	9.13%
Total Deductions	<u>(587,878)</u>	<u>(538,678)</u>	<u>(49,200)</u>	9.13%
Change in Net Assets	<u>\$ (11,172,682)</u>	<u>\$ (3,757,816)</u>	<u>(7,414,866)</u>	<u>197.32%</u>

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2009

DEFERRED COMPENSATION (IRC 457) FUND

In addition to the above retirement funds, the comparative summary of assets, liabilities, net assets and the related change in net assets of the Deferred Compensation (IRC 457) Plan is presented below. The assets and liabilities of this plan are administered by the plan administrator under contract with PERA as indicated in note 2 to the financial statements.

Statement of Plan Net Assets as of June 30, 2009, as compared to June 30, 2008, follows:

	2009	2008	Dollar Change	Percentage Change
Assets				
Receivables	\$ 6,346,445	\$ 5,806,492	539,953	9.30%
Policyholder value of life Insurance	2,139,818	2,130,189	9,629	0.45%
Investments	287,249,179	316,155,051	(28,905,872)	(9.14)%
Total Assets	<u>295,735,442</u>	<u>324,091,732</u>	<u>(28,356,290)</u>	(8.75)%
Net Assets Held in Trust	\$ <u>295,735,442</u>	\$ <u>324,091,732</u>	<u>(28,356,290)</u>	(8.75)%

Statement of Changes in Plan Net Assets as of June 30, 2009, as compared to June 30, 2008, follows:

	2009	2008	Dollar Change	Percentage Change
Additions				
Contributions	\$ 33,940,668	\$ 31,078,463	2,862,205	9.21%
Net Investment Income	5,647,393	5,460,542	186,851	3.42%
Net Depreciation in Fair Value of Investments	(46,485,235)	(15,914,649)	(30,570,586)	192.09%
Total Deductions	<u>(6,897,174)</u>	<u>20,624,356</u>	<u>(27,521,530)</u>	(133.44)%
Deductions				
Benefit Payments	(20,304,064)	(21,078,846)	774,782	(3.68)%
Life Insurance Premiums	(154,341)	(170,645)	16,304	(9.55)%
Administrative Expenses	(1,000,711)	(843,320)	(157,391)	18.66%
Total Deductions	<u>(21,459,116)</u>	<u>(22,092,811)</u>	<u>633,695</u>	(2.87)%
Change in Net Assets	\$ <u>(28,356,290)</u>	\$ <u>(1,468,455)</u>	<u>(26,887,835)</u>	183.03%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2009

INVESTMENTS:

Investment Category	2009	2008	Dollar Change	Percentage Change
U.S. Government & Agency Securities	\$ 1,319,904,073	\$ 1,615,701,045	(295,796,971)	(18)%
Municipal Bonds	260,741	13,390,763	(13,130,022)	(98)%
Fixed Income Investments (IRC 457)	287,249,179	316,155,051	(28,905,872)	(9)%
Corporate Equity Securities	2,955,019,794	4,491,289,720	(1,536,269,926)	(34)%
Corporate Obligations	1,223,422,976	1,611,253,215	(387,830,239)	(24)%
International Securities	1,557,322,847	3,247,747,860	(1,690,425,013)	(52)%
Venture Capital and Partnerships	892,156,838	991,828,335	(99,671,497)	(10)%
Other Alternative Investments	273,530,305	287,160,027	(13,629,723)	(5)%
Securities Lending Collateral	767,482,746	1,629,994,279	(862,511,533)	(53)%
Investment in State General Fund Investment Pool	12,523,901	6,586,033	5,937,868	47%
Total Investments	\$ <u>9,288,873,400</u>	\$ <u>14,211,106,328</u>	<u>(4,922,232,928)</u>	(35)%

In previous years, the PERA building had been considered an investment of the Public Employees Retirement Fund. In fiscal year 2007, the building was sold at the appraised value of \$23,500,000. Accordingly, no gain or loss was recognized as a result of the sale. Occupancy of the new PERA building began in June 2009. The building was recorded as a capital asset that will be depreciated over the life of the building.

The largest negative changes to the invested assets were in Municipal Bonds and International Securities, which represented .003% and 17% of the total investments at June 30, 2009, respectively, and collectively decreased \$1.70 billion from the previous fiscal year.

While the economy had begun the recovery process at the end of the fiscal year, there has not been enough of a recovery to reverse all of the substantial losses incurred during the first nine months of fiscal year 2009. Congress enacted a \$700 billion bank bailout packet, an automotive loan package plus a "Cash for Clunkers" program, along with the Federal Reserve Bank cutting interest rates; however, the long term effect of these programs on the performance of the funds cannot be determined.

Budget Highlights: Original Budget – Final Budget Comparisons

The contractual services and other operating costs original budget to the final budget expenditures in Administration mostly increased as a result of an increase due to two special appropriations in the amounts of \$1.7 million and \$230,000. The \$230,000 appropriation was for upgrading digital imaging on the member database system, RIO. The \$1.7 million appropriation was for RIO hardware and third party software upgrades. Also, an increase in the amount of \$376,000 was for contractual services cover expenditures due to the Saber Contract for the RIO system.

Since interest income is substantial in comparison to expenditures, only amounts necessary to pay for PERA's expenditures increased from the original budget to the final budget.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2009

Budget Comparisons – Budget to Actual

All of PERA's expenditures used to administer the retirement funds that are under management by PERA are appropriated in the Public Employees Retirement Fund. For trust accounting and financial statement purposes, allocations of the budgeted expenditures were made as follows:

	Judicial Fund	Magistrate Judges Fund	Volunteer Firefighters Fund	Total
Investment expenses	\$ 119,306	\$51,647	\$67,929	\$238,882
Administrative expenses	<u>21,655</u>	<u>11,298</u>	<u>-</u>	<u>32,953</u>
Total allocated expenses	<u>\$ 140,961</u>	<u>\$62,945</u>	<u>\$67,929</u>	<u>\$271,835</u>

The investment expenses were allocated based on each individual fund's equity in the investment pool. The administrative expenses were allocated based on each fund's number of the members participating in the plan to the total number of members.

Capital Assets

Significant items include:

- Building costs increased by \$9,544,399 over the prior year. Occupancy of the new PERA building occurred in June 2009. Some minor change orders are being finalized before all of the charges related to the building will be capitalized.
- In connection with the move into the new building, all the old furniture was left at the old building and given to the Public Regulatory Commission (buyers of building) contingent upon the agreement from the sale of the building in 2007.
- Depreciation and amortization expense, reported as part of administrative expenses, for the year was \$2,091,218.

Capital assets, at carrying value, are listed for the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land	\$ 1,478,990	\$ 1,478,990
Capital Assets, net of depreciation and amortization:		
Building*	12,095,920	-
Computer Equipment and Software	6,102,695	7,764,004
Property and Equipment	<u>442,368</u>	<u>139,191</u>
Total	<u>\$20,119,973</u>	<u>\$ 9,382,185</u>

* Building was previously classified as an investment and accordingly was not depreciated.

Long-Term Debt

The only long-term liability activity relates to compensated absences reported in Note 8.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2009

Infrastructure

PERA has no infrastructure assets to report.

Currently Known Facts and Conditions

As discussed in Note 13, during fiscal year 2009 financial markets as a whole incurred significant declines in values. PERA's investment portfolio has also incurred a significant decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of losses or gains that PERA will recognize in our future financial statements cannot be determined. Subsequent to June 30, 2009, investment markets have generally been positive but continue to be volatile.

PERA has invested the cash collateral from securities. With the financial markets being extremely volatile and significant declines in values are occurring, PERA could have a potential loss on these collateral investments resulting in PERA liquidating assets to offset the loss.

Financial Contact

Any questions regarding the financial statements of PERA should be directed to the PERA Comptroller at (505) 476-9313 or by mail at P.O. Box 2123, Santa Fe, NM 87504.

Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Deferred Compensation (IRC 457) Fund	Total
\$ 2,929,392	3,852,837	-	1,006,698,595
122,972	143,393	-	39,127,016
878,437	1,155,350	-	301,878,729
100,454	-	-	27,540,345
189	-	-	196,305
-	-	6,346,445	6,346,445
352	44	-	278,742
<u>1,102,404</u>	<u>1,298,787</u>	<u>6,346,445</u>	<u>375,367,582</u>
432,071	188,526	-	12,523,901
3,840,649	5,051,539	-	1,319,904,073
759	998	-	260,741
-	-	287,249,179	287,249,179
8,598,812	11,309,452	-	2,955,019,794
3,560,039	4,682,284	-	1,223,422,976
4,531,654	5,960,186	-	1,557,322,847
2,596,087	3,414,463	-	892,156,838
795,946	1,046,855	-	273,530,305
<u>24,356,017</u>	<u>31,654,303</u>	<u>287,249,179</u>	<u>8,521,390,654</u>
<u>2,233,375</u>	<u>2,939,459</u>	-	<u>767,482,746</u>
26,589,392	34,593,762	287,249,179	9,288,873,400
-	-	-	20,119,973
-	-	2,139,818	2,139,818
<u>\$ 30,621,188</u>	<u>39,745,386</u>	<u>295,735,442</u>	<u>10,693,199,368</u>
\$ 1,489,609	1,959,185	-	511,910,738
935	-	-	2,934,812
-	-	-	3,485,439
-	-	-	410,616
62,946	67,929	-	278,742
<u>2,797,530</u>	<u>3,681,972</u>	-	<u>961,350,343</u>
<u>\$ 4,351,020</u>	<u>5,709,086</u>	-	<u>1,480,370,690</u>
<u>\$ 26,270,168</u>	<u>34,036,300</u>	<u>295,735,442</u>	<u>9,212,828,678</u>

Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Deferred Compensation (IRC 457) Fund	Total
\$ 1,000,180	-	-	316,140,375
307,516	-	33,940,668	244,317,914
-	750,000	-	750,000
-	-	-	6,536,272
<u>1,307,696</u>	<u>750,000</u>	<u>33,940,668</u>	<u>567,744,621</u>
174,967	229,740	5,647,393	67,911,487
408,933	523,027	-	140,969,372
(9,142,654)	(11,611,844)	(46,485,235)	(3,188,332,594)
(250,720)	(341,101)	-	(85,976,312)
116	(454)	-	47,169
<u>(8,809,358)</u>	<u>(11,200,632)</u>	<u>(40,837,842)</u>	<u>(3,065,380,878)</u>
(50,331)	(66,243)	-	(17,295,807)
<u>(51,647)</u>	<u>(67,929)</u>	<u>-</u>	<u>(17,748,874)</u>
<u>(8,911,336)</u>	<u>(11,334,804)</u>	<u>(40,837,842)</u>	<u>(3,100,425,559)</u>
-	-	-	(800,315)
<u>(7,603,640)</u>	<u>(10,584,804)</u>	<u>(6,897,174)</u>	<u>(2,533,481,253)</u>
2,447,739	587,878	20,304,064	633,836,010
-	-	-	31,681,330
-	-	154,341	154,341
11,298	-	1,000,711	12,083,533
<u>2,459,037</u>	<u>587,878</u>	<u>21,459,116</u>	<u>677,755,214</u>
(10,062,677)	(11,172,682)	(28,356,290)	(3,211,236,467)
<u>36,332,845</u>	<u>45,208,982</u>	<u>324,091,732</u>	<u>12,424,065,145</u>
<u>\$ 26,270,168</u>	<u>34,036,300</u>	<u>295,735,442</u>	<u>9,212,828,678</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

**NOTE 1. GENERAL DESCRIPTION OF THE ASSOCIATION AND
RETIREMENT FUNDS**

A. General

The Public Employee Retirement Association (“PERA”) was created by legislation enacted in 1947.

PERA is the administrator of four retirement funds, including the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, and the Volunteer Firefighters Retirement Fund, offering an array of retirement benefit plans to state, county, and municipal employees, police, firefighters, judges, magistrates, and legislators. The laws governing the administration of these funds are set forth in Chapter 10 of the New Mexico Statutes Annotated 1978 (“NMSA 1978”) and applicable Replacement Pamphlets. PERA also has limited administrative responsibilities with respect to the State of New Mexico Deferred Compensation Fund, as more fully discussed in Note 2. Collectively, the four retirement funds and the Deferred Compensation Fund are known as “Funds”.

PERA is directed by the Public Employees Retirement Board (the “Board”) which consists of twelve members. Ten of the Board members are elected by PERA active and retired members under state and municipal coverage plans. Two Board members, the Secretary of State and the State Treasurer, are ex-officio members.

B. Reporting Entity

PERA is an agency of the State of New Mexico. The funds administered by PERA are considered part of the State of New Mexico financial reporting entity and are pension trust funds of the State of New Mexico. The State of New Mexico Deferred Compensation Fund is also presented in the financial statements. See section C for information on the Deferred Compensation Fund and how to obtain separate financial statements of the Deferred Compensation Fund.

PERA has developed criteria to determine whether other state agencies, boards or commissions which benefit the members of PERA should be included within its financial reporting entity. The criteria include, but are not limited to, whether PERA exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service, and special financing relationships. Based on these criteria, management of PERA has determined that no other such entities should be included in its financial reporting entity. PERA does not have any component units.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1. GENERAL DESCRIPTION OF THE ASSOCIATION AND RETIREMENT FUNDS
(CONTINUED)

B. Reporting Entity (Continued)

The State of New Mexico, Department of Finance and Administration (DFA) codes for the PERA funds are as follows:

Public Employees Retirement Fund - SHARE fund #60600

Judicial Retirement Fund - SHARE fund #60300

Magistrate Retirement Fund - SHARE fund #60400

Volunteer Firefighters Retirement Fund - SHARE fund #60700

Public Employees Retirement Fund - Building Capital Project Fund #60800 *

Deferred Compensation Fund - Administration - SHARE fund # 75500 * This fund is used strictly to account for expenses that are reimbursed by the Deferred Compensation Plan administrator

* These funds are combined with SHARE fund #60600 in the financial statements under "Public Employees Retirement Fund"

PERA does not receive General Appropriations from the State of New Mexico. PERA is self-funded through investment income and therefore is a non-reverting fund. PERA is not required to follow New Mexico Statute (6-5-10, NMSA 1978), which defines reverting funds.

C. Description of the Funds

Public Employees Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Hazardous Duty, Municipal General, Municipal Police, Municipal Fire, and State Legislative Divisions, and offers 18 different coverage plans. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service. Members of the State Legislative Division may retire at any age with 14 years of credited service. Generally, the amount of normal retirement pension is based on final average salary, which is

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1. GENERAL DESCRIPTION OF THE ASSOCIATION AND RETIREMENT FUNDS
(CONTINUED)

C. Description of the Funds (Continued)

defined as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 100% of the final average salary, depending on the division. Legislative members who meet retirement eligibility requirements receive annual pensions equal to \$250 or \$500 multiplied by the number of years of credited service. Benefits for duty and non-duty death and disability and for post retirement survivors' annuities are also available.

Current member contributions for all plans, except the State Legislative Division, are based upon a percentage of salary and range from 4.78% to 16.65%, depending upon the division and coverage plan of their gross salary— i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officers. Employer contributions also vary with the different divisions and coverage plans and are based upon a percentage of salaries paid, ranging from 7% to 25.72%. The contribution requirements of plan members and PERA are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. Members of the State Legislative Division contribute \$500 for each year of credited service; employer contributions for members of the State Legislative Division are determined annually by the actuary. The total employer contribution for the State Legislative Division for the fiscal year ended June 30, 2009 was determined by the actuary to be \$755,156.

Judicial Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. Eligibility for membership in the Judicial Retirement Fund is set forth in 10-12B-4 NMSA 1978. Every judge or justice becomes a member in the Judicial Retirement Fund upon election or appointment to office, unless an application for exemption has been appropriately filed or unless specifically excluded.

For individuals that became a member prior to July 1, 2005, benefits are available at age 64 or older to anyone having served a minimum of five years and at age 60 to anyone having served at least 15 years. The annual pension amount for those members covered prior to July 1, 2005, is determined as 75% of the salary received during the last year in office prior to retirement multiplied by the number of years of service, not to exceed 10 years divided by 10. For individuals that become a member after July 1, 2005, benefits are available at age 64 or older to anyone having served a minimum of five years and at age 55 to anyone having served at least 16 years. For those individuals who became members subsequent to July 1, 2005, the annual pension amount is determined as 75% of salary received during the last year in office prior to retirement multiplied by 5% of the number of years in service, not exceeding fifteen years, plus five years or one-twelfth of the salary received during the last year in office prior to retirement multiplied by the product of three and seventy-five hundredths percent times the sum of the number of years of service; provided that a pension calculated shall not exceed seventy-five percent of one-twelfth of the salary received during the last year in office. Early retirement

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1. GENERAL DESCRIPTION OF THE ASSOCIATION AND RETIREMENT FUNDS
(CONTINUED)

C. Description of the Funds (Continued)

provisions apply to members retiring between ages 50 and 60. The plan also provides for survivors' allowances and disability benefits. Members contribute at a rate of 7.5% of their salaries and the member's court contributes at a rate of 12% of the member's salary. Additionally, the district court contributes \$38 for each civil case docket fee paid in the district court, \$25 from each civil docket fee paid in metropolitan court and \$10 for each jury fee paid in metropolitan court. Contribution rates are established by State statute.

Magistrate Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. Eligibility for membership in the Magistrate Retirement Fund is set forth in 10-12C-4 NMSA 1978. Every magistrate becomes a member in the Magistrate Retirement Fund upon election or appointment to office, unless an application for exemption has been appropriately filed or unless specifically excluded. Benefits are available at age 64 or older to any member having served as a magistrate for a minimum of 5 years. Retirement is available at age 60 to any magistrate or former magistrate having served at least 15 years or at any age with 24 or more years of service credit. The annual pension amount is determined by multiplying 75% of the salary received during the last year in office prior to retirement by 5% of the number of years of service, not exceeding 15 years, plus 5 years.

Member contributions are based on 7.5% of salaries and the State of New Mexico, through the administrative office of the courts, contributes at a rate of 11% of the member's salary. Additionally, the magistrate or metropolitan courts contribute \$25 for each civil case docket fee paid and \$10 for each civil jury fee paid in magistrate court. Contribution rates are established by State statute.

Volunteer Firefighters Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan with a special funding situation. Eligibility for membership in the Volunteer Firefighters Retirement Fund is set forth in NMSA 1978 10-11A-2. Any volunteer non-salaried firefighter who is listed as an active member on the rolls of a fire department and who meets certain age and service credit requirements set forth in the statute is eligible for membership in the Volunteer Firefighters Retirement Fund, unless specifically excluded. Benefits are available at age 55 or older to any member having served as a volunteer fire fighter for a minimum of 10 years. Benefits are \$100 per month with at least 10 but less than 25 years of service or \$200 per month with 25 or more years of service. Benefits for post retirement surviving spouse annuities are also available. Members of the Volunteer Firefighters Retirement Fund do not make contributions. State statutes required that the State Treasurer transfer \$750,000 during the 2009 fiscal year from the Fire Protection Fund to the Volunteer Firefighters Retirement Fund.

Deferred Compensation Plan - The State of New Mexico offers its employees a deferred compensation plan under NMSA 1978, Sections 10-7A-1 through 10-7A-12, the "Deferred Compensation Act," in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their income until future years.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

**NOTE 1. GENERAL DESCRIPTION OF THE ASSOCIATION AND RETIREMENT FUNDS
(CONTINUED)**

C. Description of the Funds (Continued)

PERA is the trustee of the Deferred Compensation Plan (the “Plan”); however, the Plan is administered by a third party administrator (the “Administrator”) acting under contract with PERA. The Administrator has authority to control and manage the operation of the Plan. The Administrator is delegated any and all powers as may be necessary or advisable to discharge its duties under the Plan, and has certain discretionary authority to decide all matters under the Plan. As Plan trustee, PERA’s primary responsibility is to select investment options that are safe and provide a reasonable rate of return and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan. The Deferred Compensation Fund issues a publicly available stand-alone financial report which can be obtained by writing to the Public Employees Retirement Association of New Mexico, 33 Plaza La Prensa, Santa Fe, New Mexico 87507, or calling (505) 476-9300.

D. Membership

At June 30, 2009, the number of participating government employers were:

Public Employees Retirement Fund	
State Agencies	126
Cities	86
Counties	33
Special Districts and Councils of Government	40
Housing Authorities	16
Hospitals	2
Other	4
Totals	<u>307</u>
Judicial Retirement Fund	16
Magistrate Retirement Fund	9
Volunteer Firefighters Retirement Fund	363

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 1. GENERAL DESCRIPTION OF THE ASSOCIATION AND
 RETIREMENT FUNDS (CONTINUED)

D. Membership (Continued)

At June 30, 2009, membership in the plans was as follows:

	PERA Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	VFF Retirement Fund
Retirees and beneficiaries receiving benefits	25,950	109	61	470
Terminated plan members not yet receiving benefits	3,018	8	12	N/A
Active plan members	53,866	125	54	4,283

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting and Measurement Focus. The financial statements of the Funds presented herein have been prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned. Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in NMSA 1978. The Funds are accounted for on the flow of economic resources measurement focus.

Cash and Cash Equivalents. Cash and cash equivalents include demand deposit accounts and all short-term instruments with maturities at purchase of 90 days or less. Cash and short-term investments are stated at amortized cost, which approximates fair value.

Investments. In accordance with the Uniform Prudent Investor Act, which is cited as (UPIA) and is in the NMSA 1978 Subsection 45-7-601 to 612, PERA primarily invests in obligations of the United States Treasury, obligations of federal agencies guaranteed by or for which the credit of the United States government is pledged for payment of principal and interest, corporate bonds, stocks, and international securities. Security transactions and any resulting gains or losses are accounted for on a trade date basis.

All investment securities are reported at fair value as determined by the custodial agent. The agent's determination of fair values includes, among other things, published market prices, prices obtained from pricing services, and prices quoted by independent brokers at current exchange rates. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There are certain market risks, credit risks, foreign exchange currency risks, or event risks which may subject the Funds' investment portfolios to economic changes occurring in certain industries, sectors, or geographies.

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, securities lending income, rental income, and investment expenses, which include investment management and custodial fees, securities lending expense, and all other significant investment related costs.

In an effort to maximize the benefits of investment diversification and investment earnings, the Judicial, Magistrate, and Volunteer Firefighters Retirement Funds participate with the Public Employee Retirement Fund in an investment pool. The fair value of PERA's investments in short-term investment pools is the same as the value of the pool shares. All investments in the short-term investment pool are either SEC registered or are exempt from SEC registration under exemption 3a3 or 4(2) of SEC regulations. Each fund's equity percentage in the pool is based on that fund's investment in the pool and will only increase or decrease by additional deposits or withdrawals.

Ownership percentages (rounded to the nearest hundredth of a percent) at June 30, 2009, are as follows:

	Pool
Public Employees Retirement Fund	98.65%
Magistrate Retirement Fund	0.29
Judicial Retirement Fund	0.67
Volunteer Firefighters Retirement Fund	<u>0.39</u>
Total	<u><u>100.00%</u></u>

Capital Assets. Capital assets costing \$5,000 or more used in PERA's operations consist of furniture and equipment. Intangible assets such as internally generated computer software used to maintain a membership data base are also capitalized. These are recorded at historical cost less accumulated depreciation or amortization. The building is depreciated over 40 years. All remaining capital assets are depreciated over five to ten years, depending on the nature of the asset, using the straight-line method of depreciation.

Accrued Compensated Absences. Accumulated vacation, compensation time and sick leave over 600 hours earned but not taken at June 30 are recorded as a liability and expense in the Public Employees Retirement Fund.

Accrued Expenses. Accrued expenses consist primarily of accrued payroll.

Interfund Receivables and Payables. During the course of operations, numerous transactions occur between the Funds for goods provided and services rendered. These receivables and payables are expected to be repaid in the subsequent fiscal year and are not eliminated in the financial statements.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Required Reserves. New Mexico Statutes, Annotated 1978, Subsections 10-11-123, 10-12B-3, and 10-12C-3 set forth required accounting policies for reserves to be maintained within net assets available for benefits for the Public Employees Retirement Fund, the Judicial Retirement Fund, and the Magistrate Retirement Fund, respectively. State statutes do not specifically require separate accounting for the Volunteer Firefighters Retirement Fund. The funds to be maintained are as follows:

Members Contribution Fund represents the accumulated contributions deducted from members' compensation, less refunds and transfers of contributions as provided for in the statute. Annually on June 30, the members' accounts are credited with interest on member contributions and previously earned interest at a rate determined by the Board. The rate for the 2009 fiscal year was 5.25%.

Employers Accumulation Fund represents the accumulated contributions made by affiliated public employers. Each year following receipt of the report of the annual actuarial valuation, the excess, if any, of the reported actuarial present value of benefits to be paid over the balance in the Retirement Reserve Fund, discussed below, is transferred to the Retirement Reserve Fund from the Employers Accumulation Fund.

Retirement Reserve Fund represents the accumulated balance available to pay pension benefits to retired members and eligible survivors of deceased members or retirees and to pay residual refunds due to eligible beneficiaries and survivors as provided for in the statute.

Income Fund represents the accumulation of interest, dividends, rents, and other income of PERA, less administrative expense paid out of this fund. At least annually, the balance in this fund is transferred to other funds in a manner determined by the Board. The distribution rate of interest as determined by the Board for fiscal year 2009 was 5.25% of member account balances to the Member Contribution Fund. The remaining balance of the Income Fund was distributed to the Retirement Reserve Fund.

Fund Balances as of June 30, 2009 are as follows:

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
Member Contribution Fund	\$ 2,120,189,633	7,609,469	2,898,183
Employers Accumulation Fund	3,143,532,551	41,845,098	20,642,517
Retirement Reserve Fund	3,532,096,957	11,513,060	2,729,468
Total	<u>\$ 8,795,819,141</u>	<u>60,967,627</u>	<u>26,270,168</u>

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Compensation Plan - At June 30, 2009, PERA had \$98,088 in an operating account maintained for the sole purpose of paying administrative expenses associated with the Deferred Compensation Fund. This cash account is maintained by the State Treasurer. Accrued expenses and other liabilities associated with administrative operations of \$98,088 are included in the financial statements of the Public Employees Retirement Fund. The net of cash held, accrued income earned on cash deposits and accrued expenses are reflected as liabilities in the Public Employees Retirement Fund.

Actuarial Valuation - The information included in the required supplementary information as listed in the foregoing table of contents is based on the actuarial valuations performed as of June 30, 2009, which is the latest available information. Significant actuarial assumptions used in the valuations are included in the notes to the required supplementary information.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from plan net assets during the reported period.

Actual results could differ from those estimates. The Funds utilize various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of plan net assets.

Federal Income Tax Status - The four retirement funds are qualified plans under Section 401(a) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a). The Deferred Compensation (IRC 457) Fund is an eligible deferred compensation plan as defined by Section 457 to the Internal Revenue Code. Accordingly, any 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.

Funding Policy - Funding of the retirement funds is accomplished through member and employer contributions and the investment earnings on these contributions, according to RSSI. The retirement funds uses the aggregate actuarial funding method, which does not identify or separately amortize unfunded actuarial accrued liabilities.

The individual entry-age actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's pensionable compensation between the entry age of the member and the pattern of projected exit ages.

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting accrued assets from the actuarial accrued liability determines the unfunded actuarial accrued liability. The period of time needed to finance the unfunded

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

actuarial accrued liability with current statutory contribution rates is determined using a level percent of payroll amortization technique.

Active member payroll was projected to increase 4.5% a year for the purpose of determining the financing period. This estimate is consistent with the base rate of increase in salaries used to calculate actuarial present values.

The valuation assets used for funding purposes is derived as follows: prior year valuations assets are increased by contributions and expected investment income and reduced by refunds, benefit payments and expenses. To this amount, 25% of the difference between expected and actual investment income net of expenses for each of the previous four years is added. The funding value of assets for each division is allocated in proportion to the total fund balances.

As required under GASB Statement Number 50, *Pension Disclosures (an amendment of GASB 25 and 27)*, the following is a schedule of funding progress using the entry age normal funding method to approximate the funding status of the retirement funds divisions as of the most recent actuarial valuation date.

The funded status of the retirement plans and divisions as of June 30, 2009 is as follows:

Plan	Actuarial Assets (a)	Actuarial Accrued Liability (b)	Unfunded (Overfunded) Actuarial Liability (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll ((b-a)/c)
PERA	12,553,985,914	14,908,279,200	2,354,293,286	84.21%	2,081,258,000	113%
Legislative	21,156,210	24,345,140	3,188,930	86.90%	N/A	N/A
Judicial	73,161,152	120,840,622	47,679,470	60.54%	13,011,196	366%
Magistrate	31,524,204	47,567,604	16,043,400	66.27%	4,128,599	389%
Volunteer Fire	40,843,560	19,029,000	(21,814,560)	214.64%	N/A	N/A

The required Schedule of Funding Progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS

Deposits

Investment balances reported in the Statements of Plan Net Assets include an interest in the State General Fund Investment Pool maintained at the State Treasurer's Office. All deposit accounts maintained at the State Treasurer's Office participate in an overnight repurchase agreement program administered by the State Treasurer.

The interest in the State General Fund Investment Pool is in accounts that are pooled with other state funds on deposit in the State Treasurer's name at commercial banking and other financial institutions. Information regarding the adequacy of collateralization of deposits is not known to individual agencies and is the responsibility of the State Treasurer. To obtain pledged collateral, investment risk, and insurance coverage information for the Department's State Treasurer deposits, a copy of separately issued financial statements can be obtained from the State Treasurer's Office.

The disclosure of the deposits by fund is required by the New Mexico Administrative Code 2.2.2. These amounts, listed below, are held in the name of the entity indicated and are fully collateralized.

	Bank Balance	Carrying Amount
PERA Trust Administration	\$ 9,501,792	9,501,792
PERA Building Capital Project	908,493	808,493
Deferred Compensation Operating Account	98,088	98,088
Judicial Retirement Fund	1,394,931	1,394,931
Volunteer Firefighters Retirement Fund	188,526	188,526
Magistrate Retirement Fund	432,071	432,071
Total deposits at State Treasurer's Office	\$ 12,523,901	12,523,901

Cash and cash equivalent balances reported in the Statements of Plan Net Assets consist of amounts held by the investment custodian. Cash equivalents held by the investment custodian (Northern Trust Company) are invested in commercial paper, government agencies, and asset backed securities with Standard and Poor's ratings of at least AA as presented in the schedule of credit risk.

Investments

IRC 457 Fund. Securities held in the IRC 457 Fund are excluded from the investment disclosures below because the investments are self-directed by participants. Further detail of the investments are detailed in a publicly available stand-alone financial report which can be obtained by writing to the Public Employees Retirement Association of New Mexico, P.O. Box 2123, Santa Fe, New Mexico 87504-2123, or calling (505) 476-9300.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, PERA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds, external investment pools, and securities underlying reverse repurchase agreements are not exposed to custodial credit risk.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

**NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL
INVESTMENTS (CONTINUED)**

All of PERA's securities are held by PERA's own third-party custodian, independent of any Counterparty; therefore, there is no risk that PERA will not be able to recover the value of its investments or collateral securities held by a Counterparty.

The Custodian holds assets directly, through its agents, its sub-custodians, or designated clearing systems. The Custodian is accountable for registration of those designated assets in good delivery form, collection of income generated by those assets, and any corporate action notification. The Custodian is responsible for delivery and receipt of securities of the aforementioned transactions. The Custodian is responsible for the ongoing pricing and valuation of all assets; investment managers must reconcile their values to those of the Custodian. The Custodian is to cooperate with, and provide assistance to, PERA and its investment managers in the reconciliation process. The Custodian is required to provide online records and reports, performance reporting, accounting reports and other services included in the agreement. The Board may opt to designate other duties to the Custodian as stipulated in its agreement with the New Mexico Department of Finance and Administration, State Board of Finance (Board).

Regarding Repurchase Agreements (REPOS) the policy states. "The Board shall utilize the services of the State Treasurer for holding PERA's assets. The State Treasurer at the direction of the Board shall deposit said assets with a bank or trust company for safe keeping or servicing. In addition, for cash management, the Board may utilize the services of the State treasurer for overnight investment of short-term assets and/or a separate or commingled short-term investment fund ("STIF") approved by the Board or administered by the Custody Bank designated by the State Treasurer or the Board providing the STIF account only invests in those securities authorized by PERA's statutes, investment policy and investment guidelines. Investment managers shall invest all cash in PERA's approved STIF funds."

In addition the policy states, in part, "An investment manager under contract to PERA must preliminarily reconcile the differences between market values of securities as reported by the Custody Bank designated by the State Treasurer for safekeeping PERA's securities and the market values as shown on the monthly report of the investment manager's records."

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL
INVESTMENTS (CONTINUED)

PERA's investments (summarized) at June 30, 2009 and its exposure to custodial credit risk are as follows:

Asset Type	Held in the Name of the Fund by the Fund's Custodian Bank	Custody Arrangements Contracted by Fund Manager	Total
U.S. Government Bonds and agency securities	\$ 269,295,066	-	269,295,066
International Government Bonds and agency securities	31,450,670	-	31,450,670
U.S. Municipal Bonds	260,740	-	260,740
International Municipal Bonds	16,186,998	-	16,186,998
Corporate Bonds	938,879,930	-	938,879,930
International Corporate Bonds	8,687,980	-	8,687,980
U.S. Government MBS	979,263,332	-	979,263,332
Commercial MBS	133,351,968	-	133,351,968
Asset Backed Securities	96,618,037	-	96,618,037
Non-government C.M.O.	54,573,041	-	54,573,041
Domestic Corporate Conv. Bonds	5,566,631	-	5,566,631
Index Linked Government Bonds (International)	7,212,840	-	7,212,840
Index Linked Government Bonds	17,233,374	-	17,233,374
Total Fixed Income Investments	<u>2,558,580,607</u>	-	<u>2,558,580,607</u>
International Common Stock	1,465,099,474	-	1,465,099,474
Domestic Common Stock	2,984,514,264	-	2,984,514,264
U.S. Venture Capital & Partnerships	883,298,819	-	883,298,819
International Venture Capital & Partnerships	7,361,910	-	7,361,910
Alternative Investments	273,530,305	-	273,530,305
Other Equity Assets	768,483	-	768,483
International Preferred Stock	9,224,808	-	9,224,808
Domestic Preferred Stock	13,860,381	-	13,860,381
Domestic Convertible Equity	835,472	-	835,472
Domestic Unit Trust	1,418,539	-	1,418,539
International Unit Trust	10,304,892	-	10,304,892
Domestic Rights/Warrants	11,026,344	-	11,026,344
International Rights/Warrants	1,793,276	-	1,793,276
Total Equities	<u>5,663,039,967</u>	-	<u>5,663,039,967</u>
Securities Lending		<u>\$ 767,482,746</u>	767,482,746
Total Investments as presented above			<u>\$ 8,989,100,320</u>
IRC 457 fund investments directed by participants			\$ 287,249,179
Investments in State General Fund Investment Pool			<u>12,523,901</u>
Total Investments per the Statements of Plan Net Assets			<u>\$ 9,288,873,400</u>

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS (CONTINUED)

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. PERA is required to disclose credit ratings of its investments in order to assess credit risk. U.S. obligations or investments guaranteed by the U.S. Government are excluded from this requirement.

PERA's investment policy restricts investments to specific investment ratings issued by nationally recognized statistical rating organizations as follows:

Credit ratings are limited to:

1. Bonds, notes or other obligations issued by a state, its municipalities or other political subdivisions, that have received an investment grade (at least Baa or BBB) bond rating, and are registered by the SEC or the Municipal Securities Rulemaking Board (MSRB).
2. Bonds, notes, commercial paper or other obligations of any corporation organized and operating within the United States; provided that the securities shall have a minimum credit rating of CCC- according to Standard and Poor's rating system or Caa3 according to Moody's investors rating system or their equivalents by a national rating agency approved by the Board; and provided that not more than ten percent of the funds for which the retirement board is trustee shall at any one time be invested in debt obligations of corporations with a credit rating less than BBB according to the Standard and Poor's rating system or Baa according to the Moody's investors rating system or its equivalents. Investment managers may purchase securities that are not rated by a national rating agency, if stipulated in their contract. and provided that the investment manager's internal credit rating on the security is equivalent to at least CCC- according to Standard and Poor's or Caa3 according to Moody's.
3. Debt obligations of non-United States governmental or quasi-governmental entities may be denominated in foreign currencies; obligations, including but not limited to bonds, notes or commercial paper with an investment grade (at least Baa or BBB) rating (unless otherwise approved by the Board) of any corporation organized outside of the United States. Currency transactions, including spot or cash basis currency transactions, forward contracts and buying or selling options or futures on foreign currencies, shall be permitted for the purposes of hedging foreign currency risk.
4. Collateralized obligations, including but not limited to mortgages, held in trust that; (1) are publicly traded and are registered by the SEC or other Self Regulatory Organization (SRO) and (2) have underlying collateral that is either an obligation of the United States government or else has a credit rating above or equal to BBB according to the Standard and Poor's rating system or Baa according to the Moody's investors rating system or their equivalent by a national rating agency approved by the Board (unless otherwise approved by the Board)."

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL
 INVESTMENTS (CONTINUED)

A summary of PERA's investments at June 30, 2009 and its exposure to credit risk are as follows:

Type	S & P Ratings	Market Value	% of Bond Portfolio
Government Bonds	AAA	\$ 68,860,705	2.69%
	A	13,140,959	0.51%
	BBB	11,487,600	0.45%
	Not Rated	381,417	0.01%
	US Gov Guaranteed	66,504,786	2.60%
Government Agencies	AAA	89,503,650	3.50%
	A	4,437,509	0.17%
	BBB	2,873,577	0.11%
	Not Rated	5,541,050	0.22%
	US Gov Guaranteed	37,913,232	1.48%
Municipal Agencies	AAA	1,189,964	0.05%
	AA	15,257,774	0.60%
Corporate Bonds	AAA	12,331,916	0.48%
	AA	55,616,815	2.17%
	A	332,182,372	12.98%
	BBB	347,378,529	13.58%
	BB	87,855,829	3.43%
	B	58,604,910	2.29%
	CCC	37,928,479	1.48%
	CC	307,340	0.01%
	C	178,425	0.01%
	D	1,169,298	0.05%
	Not Rated	14,013,997	0.55%
Government MBS	AAA	4,494,435	0.18%
	Not Rated	16,699,247	0.65%
	US Gov Guaranteed	958,069,650	37.46%
Commercial MBS	AAA	109,806,816	4.29%
	AA	6,624,495	0.26%
	Not Rated	16,920,656	0.66%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL
 INVESTMENTS (CONTINUED)

Type	S & P Ratings	Market Value	% of Bond Portfolio
Asset Backed Securities	AAA	\$ 71,345,863	2.79%
	AA	5,082,359	0.20%
	A	2,071,513	0.08%
	BBB	7,087,038	0.28%
	BB	443,737	0.02%
	B	1,701,339	0.07%
	CCC	3,759,084	0.15%
	Not Rated	5,127,104	0.20%
Index Linked Government Bonds	AAA	17,233,374	0.67%
	A	7,212,840	0.28%
Corporate Convertible Bonds	A	29,356	0.00%
	BBB	701,469	0.03%
	BB	1,289,500	0.05%
	B	3,447,181	0.13%
	Not Rated	99,125	0.00%
Non Government Backed C.M.O.	AAA	37,726,672	1.47%
	AA	966,888	0.04%
	A	3,064,659	0.12%
	BBB	3,982,656	0.16%
	BB	1,981,302	0.08%
	B	1,078,722	0.04%
	CCC	1,581,441	0.06%
	Not Rated	4,291,953	0.16%
		<u>\$ 2,558,580,607</u>	<u>100.00%</u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. PERA's interest rate risk is controlled by the duration guidelines provided in the Investment Guidelines for each fixed income manager. The Investment Guidelines are attached to each investment manager's contract, or Professional Services Agreement (PSA), with PERA. Duration is loosely defined as the dollar weighted average time to recover all of principal in a fixed-income investment. For example, a "duration" of 4 years suggests a 1% increase in corresponding interest rates could cause a 4% decline in the market value of the portfolio. PERA's fixed-income managers are typically limited to a duration of plus or minus 1 year or 20% of the duration of the applicable portfolio benchmark. Such limitations are contained in the Investment Guidelines of all fixed income managers.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS (CONTINUED)

A summary of PERA's investments and its respective maturities at June 30, 2009 and its exposure to interest rate risk are as follows:

Bond Category	WAM* in years	Market Value	Percentage of Fixed Income Portfolio
Corporate Bonds	11.804	\$ 947,567,910	37.03%
Government MBS	25.107	800,176,268	31.27%
Asset Backed Securities	22.599	96,618,037	3.78%
Government Bonds	11.787	160,375,468	6.27%
Commercial MBS	29.484	133,351,968	5.21%
Non-Government Backed C.M.O.s	30.091	54,573,041	2.13%
Government Agencies	8.086	140,370,268	5.49%
Index Linked Government Bonds	10.137	24,446,214	0.96%
Corporate Convertible Bonds	15.580	5,566,631	0.22%
Municipal Bonds	7.763	16,447,738	0.64%
Government MBS included as Interest Rate Swaps	N/A	179,087,064	7.00%
Total Fixed Income Investments		\$ 2,558,580,607	100.00%
Short Term Bills & Notes reported as Cash and Cash Equivalents	0.196	139,392,705	N/A
Total Investments Subject to Interest Rate Risk		\$ 2,696,973,312	

* Weighted Average Maturity

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL
INVESTMENTS (CONTINUED)

Concentration of Credit Risk. Concentration Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent 5% or more of all total investments including components unit investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. PERA's policy over concentration of credit risks are contained in each investment managers Investment Guidelines.

At June 30, 2009, PERA had one investment with a concentration of greater than 5% of total investments as follows:

6.693% Federal National Mortgage Association

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

PERA's investment managers responsible for investing in non-U.S. equities maybe are benchmarked to an index that is half-hedged. The benchmark is contained in each investment manager's Investment Guidelines, which are attached to each investment manager's contract or Professional Services Agreement (PSA).

A half-hedged benchmark means half of the losses attributable to a decline in the value of local (the non-U.S. currencies) versus the U.S. Dollar will be experienced by the PERA portfolio. Therefore, there is an incentive for PERA's investment managers of non-U.S. equities to hedge their local currency positions to the extent, in their expert opinion; a decline is likely to occur in a single currency in an amount that would significantly impact the value of the portfolio versus the half-hedged benchmark.

PERA's emerging markets (non-U.S. equity) mandate for non-developed countries is less than 4% of PERA's total combined-funds' assets. Since this portfolio is broadly diversified among many countries, the likelihood of a decline in the market value of a single local currency (the non-U.S. currency) or of several local currencies versus the U.S. dollar such that the impact on PERA's total assets is insignificant. For example, stocks in 1 local currency out of 20 would be 4%-8% of the mandate or 2.00% (\$300 million) of PERA's total assets in a worst case scenario assuming the value of the currency would decline to zero.

Below is a summary of the PERA's investments exposed to foreign currency risk by currency and the respective values at June 30, 2009.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS (CONTINUED)

Non-U.S. dollar denominated investments and cash and cash equivalents at June 30, 2009 are as follows:

		Market Value (included in investments)			
		Fixed			
Currency		Equity	Income	Total	Deposits
AUD	Australian Dollar	\$ 96,780,403	\$ 20,229,830	\$ 117,010,233	\$ 2,841,733
BWP	Botswana Pula	883,710	-	883,710	-
BRL	Brazilian Real	7,698,829	4,759,829	12,458,658	25,310
GBP	British Pound Sterling	276,830,404	-	276,830,404	3,171,742
CAD	Canadian Dollar	18,159,670	4,470,202	22,629,872	44,199
CLP	Chilean Peso	3,785,461	-	3,785,461	77,343
COP	Columbian Peso	875,942	-	875,942	-
HRK	Croatia Kuna	1,083,524	-	1,083,524	2,430
CZK	Czech Koruna	2,822,112	-	2,822,112	32,423
DKK	Danish Krone	15,845,618	-	15,845,618	67,862
EEK	Estonian Kroon	42,476	-	42,476	-
EGP	Egyptian Pound	1,620,222	-	1,620,222	-
EUR	Euro	449,860,075	2,578,123	452,438,198	3,818,049
GHS	Ghanaian Cedi	453,051	-	453,051	-
HKD	Hong Kong Dollar	49,295,387	-	49,295,387	329,082
HUF	Hungarian Forint	3,153,543	-	3,153,543	-
ISK	Iceland Krona	-	76,432	76,432	90,657
IDR	Indonesian Rupiah	4,331,902	-	4,331,902	16,424
JPY	Japanese Yen	328,907,651	-	328,907,651	4,152,273
KES	Kenyan Shilling	1,075,304	-	1,075,304	12,133
LVL	Latvia Lats	281,240	-	281,240	-
LTL	Lithuanian Litas	560,862	-	560,862	-
MYR	Malaysian Ringgit	4,813,872	-	4,813,872	2,590
MUR	Mauritian Rupee	1,225,642	-	1,225,642	-
MXN	Mexican Peso	6,891,904	8,269,339	15,161,243	155,531
MAD	Moroccan Dirham	2,072,322	-	2,072,322	1,350
ILS	New Israeli Shekel	2,073,288	-	2,073,288	1
TWD	New Taiwan Dollar	8,051,787	-	8,051,787	16,507
NZD	New Zealand Dollar	907,802	1,991,159	2,898,961	59,329
NOK	Norwegian Krone	12,055,453	6,950,348	19,005,801	281,522
PKR	Pakistan Rupee	954,983	-	954,983	-
PEN	Peruvian Nuevo Sol	1,088,593	-	1,088,593	-
PHP	Philippine Peso	2,270,468	-	2,270,468	-

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS (CONTINUED)

		Market Value (included in investments)			
		Fixed			
	Currency	Equity	Income	Total	Deposits
PLN	Polish Zlory	\$ 2,553,109	\$ -	\$ 2,553,109	\$ -
RUB	Russian Ruble	1,748	-	1,748	-
SGD	Singapore Dollar	18,754,677	492,873	19,247,550	1,166,601
ZAR	South African Rand	9,554,627	-	9,554,627	12,119
KRW	South Korean Won	7,587,888	6,534,677	14,122,565	1,958
SEK	Swedish Krona	33,737,633	7,185,677	40,923,310	371,791
CHF	Swiss Franc	106,697,608	-	106,697,608	313,414
THB	Thai Baht	4,285,189	-	4,285,189	-
TRY	Turkish Lira	3,858,380	-	3,858,380	-
		<u>\$ 1,493,784,359</u>	<u>\$ 63,538,489</u>	<u>\$ 1,557,322,848</u>	<u>\$ 17,064,373</u>
% of total investments or cash and cash equivalents				19%	2%

NOTE 4. DERIVATIVES

Derivatives are generally defined as contracts whose value depend on, or derive from, the value of an underlying asset, reference rate, or index. The following provides information about derivatives held in the Funds' investment portfolio.

Government Agency Mortgage-backed Securities - As of June 30, 2009, the Funds' investment portfolios, excluding securities lending collateral investments, included mortgage-backed securities issued by agencies of the United States government of \$979,263,332 at fair value. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the Funds will receive the full amount of principal if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment, is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to prepay the existing loan and obtain new lower financing. In addition to the change in interest rates, mortgage loan prepayments depend on other factors such as loan types and geographic location of the related properties.

Corporate Asset-backed Securities - As of June 30, 2009, the Funds' investment portfolio, excluding securities lending collateral investment, included corporate asset-backed securities with a fair value of \$96,618,037. These securities represent interests in various trusts consisting of pooled financial assets conveyed by the issuing parties. The Funds' ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4. DERIVATIVES (CONTINUED)

Forward Currency Contracts - The Funds may enter into various currency contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. At June 30, 2009, the Funds had outstanding forward exchange currency contracts to purchase foreign currencies of \$89,409,177 and to sell foreign currencies of \$89,409,177. The market values of these outstanding contracts at June 30, 2009, were \$89,329,798 and \$87,371,815, respectively. The fair values of the contracts are reflected in the Statement of Plan Net Assets. Gains and losses on forward currency may occur to the extent that the market value of the contracts varies from the actual contract amount and are recorded as incurred in the Statement Changes in Plan Net Assets.

NOTE 5. SECURITIES LENDING

NMSA 1978 10-11-132 and Board policies permit PERA to use the Funds' investments to enter into securities lending transactions—loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Pursuant to the governing securities lending agreement, the securities lending agent may loan United States government and agency securities, international securities, domestic equity securities, and corporate obligations owned by the Funds in exchange for cash and securities issued or guaranteed by the United States government as collateral. Collateral for these loans is held by PERA's custodial agent and must be equal to a) 102% of the market value of the loaned securities in the case of loaned securities denominated in United States dollars or whose primary trading market is located in the United States or sovereign debt issued by foreign governments, or b) 105% in the case of loaned securities not denominated in United States dollars or whose primary trading market is not located in the United States. Securities on loan at year end are presented as unclassified in the preceding schedule in Note 3. At June 30, 2009, the Funds have no credit risk exposure to borrowers because the amounts the Funds owe the borrowers exceed the amounts the borrowers owe the Funds. PERA may invest cash collateral received in eligible securities as defined in the governing securities lending agreement; such investments are also held by PERA's custodial agent. Securities received as collateral may not be pledged or sold without borrower default. There are no restrictions on the amount of loans that the securities lending agent may make. The fair value of the cash collateral as of June 30, 2009 was \$767,482,746 and the securities lending obligations were \$961,350,343. The unrealized loss in invested cash collateral on June 30, 2009 was \$193,867,597 which is reflected in the Statement of Changes in Plan Net Assets, "Net depreciation in fair value of investments."

The lending agent has indemnified PERA by agreeing to purchase replacement securities or return cash collateral in the event that a borrower fails to return a loaned security or pay distributions thereon. As of June 30, 2009, no such failures by any borrowers have occurred. Moreover, there were no losses during the fiscal year ended June 30, 2009, resulting from borrower default. PERA and the borrowers maintain the right to terminate all securities lending transactions on demand. Because the loans are terminable at will, its duration does not generally match the investments made with cash collateral. The cash collateral has been invested and therefore could result in potential realized losses, which would mean PERA would have to liquidate assets to cover the deficit.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6. ALTERNATIVE INVESTMENTS

Alternative investments are generally described as investments that are not traditional investment assets such as: stocks, bonds and cash. Alternative investments for the purposes of PERA's portfolio are defined as investments in Absolute Return (hedge funds), Private Equity, Real "Tangible" Assets and Real Estate. Generally, investments in these asset classes are invested via Limited Partnership vehicles and contain different liquidity and investor terms than the traditional asset classes. In general, fees for Alternative Investments made via Limited Partnerships are paid as part of PERA's committed capital and are not subject to the normal budgetary process. The PERA Board adopted an allocation to Alternative Investments in calendar year 2008 of 15% to Alternatives Investment Vehicles: 5% to Absolute Return (hedge funds), 5% to Private Equity, 2.5% to Real Estate, and 2.5% to Real Assets.

Absolute Return (hedge funds) –Absolute Return is defined as investment assets in varying hedge fund strategies for the purpose of providing positive returns regardless of market direction. The stated target for Absolute Return investments is to produce returns at LIBOR + 3% to 5%. Funding for Absolute Return investments is from PERA's fixed income portfolio. PERA's Absolute Return portfolio is comprised of 100% single manager or direct hedge funds in the following strategies:

Market Neutral - strategies such as equity market neutral, fixed income arbitrage, and convertible bond arbitrage.

Credit - strategies that typically invest in high yield bonds, bank loans, and structured credit products.

Distressed - strategies that seek to take advantage of corporate securities in default, under bankruptcy protection, in distress or heading toward such a condition or liquidation.

Event Driven- strategies that take advantage of transaction announcements and other one time events, including merger arbitrage, spin-offs and restructurings.

Equity Long/Short - strategies where there is a combination of long and short positions primarily in publicly traded equities, with a net market exposure less than that of the overall equity market. Strategies may be focused on US, non-US, and/or specialty mandates.

Global Macro - strategies such as all market portfolios, opportunistic long-only, managed futures, currency, dedicated short selling strategies or other specialty strategies.

Multistrategy - hedge funds that invest using a combination of previously described strategies.

As of June 30, 2009, PERA had a total market value of \$830,575,262 of assets invested in Absolute Return.

Private Equity - Private Equity investments are typically private interests in corporations across different areas of the capital structure and in different stages of the corporations' development via limited partnership vehicles. Private Equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. PERA's Private Equity portfolio will likely have a "J-Curve Effect" whereby there are low to negative returns in the initial years due to the payment of investment management fees and initial funding of investments made by the General Partner during a period when investments are typically carried at cost and

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6. ALTERNATIVE INVESTMENTS (CONTINUED)

returns have not been realized. Funding for Private Equity is from PERA's public equity portfolio. To diversify the program, Private Equity investments are made across business cycles, vintage years, and different strategies. PERA's Private Equity investments are made across the following strategies:

Buyouts - these include investments in acquisitions, growth equity, recovery investments, subordinated debt, and special situations and involve the purchase of a control position in an established company. The use of leverage is used. Investments may be made with companies in the US and with Non-US companies.

Venture Capital - these include investments in companies in a range of stages of development from start-up/seed stage, early stage, and later/expansion stage. Investments are typically made in years one through six and returns typically occur in years four through ten.

Distressed Debt - these include investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments and bank loans.

As of June 30, 2009, PERA had committed \$638,780,000 to Private Equity limited partnerships and funded only a portion of the total commitment for a market value of \$146,480,968.

Real Estate and Real "Tangible" Assets - These investments are intended to provide allocations to tangible assets that are expected to be inflation protected and provide performance above the inflation rate as indicated by the CPI. Investments will include both private limited partnerships and publicly traded assets. Funding for Real Estate and Real Asset investments are from PERA's fixed income portfolio. Investments in Real Estate and Real Assets will include:

Real Estate Investment Trusts (REITS) - include equity investments in publicly traded securities of a company dedicated to owning, and/or operating income-producing real estate, including but not limited to apartments, shopping centers, offices and warehouses.

Real Estate Partnerships - include investments in private vehicles through limited partnerships or limited liability companies that have an ownership interest in direct real estate properties. The investment strategies may include "value added" strategies, which derive their return from both income and appreciation, and "opportunistic", which derive their return primarily through appreciation.

Commodities - include investment to futures and/or swaps on individually traded commodities or indexes comprising groups of commodities, which may be an overlay strategy on Treasury Inflation Protected Securities (TIPS).

Timber Partnerships - include investments in limited partnerships or limited liability companies that have an ownership interest in properties where the majority value of the property is derived from income-producing timber.

Energy Partnerships - include investment in limited partnerships or limited liability companies that have an ownership interest in energy-related businesses. Investments may include those across the industry spectrum from upstream, midstream, and downstream.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 6. ALTERNATIVE INVESTMENTS (CONTINUED)

As of June 30, 2009, PERA had committed \$300,000,000 to Real Estate limited partnerships and funded only a portion of the total commitment for a market value of \$44,074,688.

NOTE 7. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2009, is as follows:

	Balance June 30, 2008	Reclass	Additions	Deletions	Balance June 30, 2009
Capital assets at cost					
Land	\$ 1,478,990	-	-	-	1,478,990
Building	-	-	12,095,920	-	12,095,920
Property and equipment	497,949	(51,460)	-	(318,919)	569,938
Computer equipment and software	14,786,584	51,460	456,577	(355,602)	14,939,020
	<u>16,763,523</u>	<u>-</u>	<u>12,552,497</u>	<u>(674,521)</u>	<u>20,083,868</u>
Accumulated depreciation					
Building	-	-	-	-	-
Property and equipment	(358,758)	-	(14,301)	245,489	(127,570)
Computer equipment And software	(7,022,580)	-	(2,076,917)	263,172	(8,836,325)
	<u>(7,381,338)</u>	<u>-</u>	<u>(2,091,218)</u>	<u>508,661</u>	<u>(8,963,895)</u>
	<u>\$ 9,382,185</u>	<u>-</u>	<u>10,461,279</u>	<u>(165,860)</u>	<u>20,119,973</u>

The following significant additions and deletions are included in the above schedule.

- Depreciation and amortization expense, reported as part of administrative expenses, for the year was \$2,091,218.
- PERA moved into the newly constructed building in June 2009.
- Upon moving into new building, all the old furniture was left at the old building as part of the agreement of the sale of the building.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 8. COMPENSATED ABSENCES

The following represents changes in long-term liabilities for the year ended June 30, 2009.

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Compensated absences	<u>\$ 295,220</u>	<u>719,716</u>	<u>(604,320)</u>	<u>\$ 410,616</u>

Management estimates that compensated absences are due within one year. The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year-end plus applicable payroll taxes.

NOTE 9. CONTINGENCIES

PERA has been named as a defendant in various lawsuits arising in the normal course of business primarily related to disability and retirement benefits. Management of PERA intends to vigorously defend the actions, and it is their opinion as well as the opinion of legal counsel that the resolution of these matters will not have a material effect on these financial statements.

NOTE 10. STATUTORY DISCLOSURES

The following disclosures are required by 2 NMAC 2.2, *Requirements for Contracting and Conducting Audits of Agencies*, issued by the Office of the State Auditor.

Budgets and Budgetary Accounting (Public Employees Retirement Fund only)

Formal budgetary integration is employed as a management control device over the Public Employees Retirement Fund. Administrative expenses, rental income and a small portion of interest income are budgeted while significant revenues and non-administrative expenses are not. The budget is prepared on a non- generally accepted accounting principles (“non-GAAP”) basis which recognizes capital expenditures as current expenditures, does not recognize depreciation expense, and recognizes revenue on the accrual basis. Because all funds are budgeted from the PERA trust funds, there are no reversions to the State General Fund. All unexpended funds revert to the appropriate PERA fund. Formal budgets are not provided for the Judicial, Magistrate, or Volunteer Firefighters Retirement Funds.

PERA follows these procedures in establishing budgetary data for the Public Employees Retirement Fund:

1. By September 1, PERA prepares a budget appropriation request by category to be presented to the next state legislature.
2. The appropriation request is submitted to the Department of Finance and Administration (“DFA”) Budget Division and to the Legislative Finance Committee (“LFC”).
3. DFA makes recommendations and adjustments to the appropriation request, which becomes part of the Governor's proposal to the Legislature.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 10. STATUTORY DISCLOSURES (CONTINUED)

4. The LFC holds hearings on the appropriation request, also making recommendations and adjustments before presentation to the Legislature.
5. Both the DFA and the LFC recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the category level and changes are approved by DFA.

A Statement of Revenues, Appropriations, and Expenses - Budget and Actual (Non-GAAP Basis) is included as additional information in this report.

Special, Deficiency, and Specific Appropriations (Public Employees Retirement Fund only)

PERA received authorization to use internal funds for a capital appropriation of \$3,203,431 in FY07 to allow PERA to begin the process of constructing a new office building. The appropriation authorization was based on a statutory amendment enacted in 2005 (Laws of 2005, Chapter 147, Section 1). The appropriation allocated \$2,250,000 for the acquisition of a building site and \$953,431 for the design of the new building. At the end of fiscal 2007, \$70,000 had been expended on land acquisition, and \$423,197 had been expended on the building design. The appropriation does not revert until the end of fiscal year 2010.

PERA also received authorization to use internal funds for a capital appropriation of \$9,656,700 in fiscal year 2007 for the actual construction of a new office building. The appropriation was authorized in Laws of 2007, Chapter 42, Section 92. Because construction of the building commenced in fiscal year 2008, no expenditures were made against this appropriation in fiscal year 2007. The appropriation does not revert until the end of fiscal year 2011.

	2007 Budget	2007 Expenditures	Beginning 2008 Budget
Acquisition of Building Site	\$ 2,250,000	(70,000)	2,180,000
Construction of New PERA Building	10,610,131	(423,197)	10,186,934
	<u>\$ 12,860,131</u>	<u>(493,197)</u>	<u>12,366,934</u>

PERA received authorization to use internal funds for a capital appropriation of \$1,500,000 in fiscal year 2008 for the construction of the new office building. The appropriation was authorized in Laws 2008, Chapter 92, Senate Floor Substitute for Senate Bill 471, with emergency clause Section 74. The appropriation does not revert until the end of FY12.

	New 2008 Appropriation	2008 Actual Expenditures	Beginning 2009 Budget
Acquisition of Building Site	\$ -	(1,478,990)	701,010
Construction of New PERA Building	1,500,000	(2,500,692)	9,186,242
	<u>\$ 1,500,000</u>	<u>(3,979,682)</u>	<u>9,887,252</u>

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 10. STATUTORY DISCLOSURES (CONTINUED)

	New 2009 Appropriation	2009 Actual Expenditures	Beginning 2010 Budget
Acquisition of Building Site	\$ -	(578,740)	122,270
Construction of New PERA Building	-	(8,965,659)	220,583
	<u>\$ 1,500,000</u>	<u>(9,544,399)</u>	<u>342,853</u>

As these monies are appropriated from the Public Employees Retirement Fund, any unspent amount will revert to that same Fund and not to the State of New Mexico General Fund.

NOTE 11. RETIREMENT PLANS

Plan Description. Substantially all of the PERA's full-time employees participate in the public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). PERA is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 7.42% of their gross salary (ranges from 4.78% to 16.65% depending on the plan – i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer). PERA is required to contribute 16.59% of the gross covered salary (ranges from 7.0% to 25.72% depending upon the plan). The contribution requirements of plan members and PERA are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. PERA's contributions to the PERA retirement plan for the years ending June 30, 2009, 2008, and 2007, were \$691,372, \$684,510, and \$588,147, respectively, equal to the amount of the required contributions from the employer for each year. In addition, the employees contributed an additional \$309,221, \$306,152, and \$263,053, respectively, equal to the amount of the required contributions from employees for each year.

NOTE 12. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description: PERA contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

**NOTE 12. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf, unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employee's effective date, and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13, NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or a former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15, NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

PERA's contributions to the RHCA for the years ending June 30, 2009, 2008 and 2007 were \$54,601, \$51,397, and \$44,682 for employer contributions and \$27,301, \$25,698, and \$22,341 in employee contributions, respectively, which equal the required contributions for each year.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 13. SUBSEQUENT EVENTS/MARKET VOLATILITY

Subsequent to June 30, 2009, investment markets have generally been positive but continue to be volatile.

PERA has invested the cash collateral from securities. With the financial markets being extremely volatile and significant declines in values are occurring, PERA could have a potential loss on these collateral investments resulting in PERA liquidating assets to offset the loss.

NOTE 14. INVESTMENT PLACEMENT AGENTS

Placement agents are an entity who acts on behalf of an investment manager as a finder, solicitor, marketer, consultant, broker or other intermediary to raise funds from investors. The role of a placement agent can vary depending on the needs of their clients. About 10% of PERA's private investments involve placement agents. In each case, the agent is an established firm such as Credit Suisse or the Park Hill Group as opposed to an individual. A typical agent's fee is 1 to 2 percent of the amount invested. The role of placement agents moved into the spotlight earlier this year in a New York scandal that has rippled into California and New Mexico's other two investing agencies.

Currently PERA complies with the statutory disclosure requirement of NMSA 1978, Section 10-11-133.1, which mandates the disclosure of the identity and fees paid, if any, to any third-party marketer or placement agent involved in PERA's investment in private funds. PERA has no direct relationships with third-party marketers or placement agents. PERA is currently rewriting its internal Investment Policy and plans to incorporate the disclosure requirements of NMSA 1978, 10-11-133.1 as it pertains to private investments. PERA's two investment consultants, RVKuhns and Cliffwater, LLC, do not receive any form of compensation other than client advisory fees and do not accept compensation from investment management organizations or their marketers. Cliffwater, LLC serves in a gatekeeper capacity for all PERA's private investments and does not recommend any investment management firm to a client without interfacing directly with the firm's portfolio management professionals.

NOTE 15. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2007, the Governmental Accounting Standards Board (GASB) issued Statement Number 51, *Accounting and Financial Reporting for Intangible Assets*, to enhance the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets and includes guidance on recognition and amortization of such assets. GASB Statement Number 51 is effective for periods beginning after June 15, 2009. PERA will implement this pronouncement with the financial report for fiscal year 2010.

In June 2008, the GASB issued Statement Number 53, *Accounting and Financial Reporting for Derivative Instruments*, to strengthen and clarify the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB 53 will be effective for periods beginning after June 15, 2009. PERA will implement this pronouncement with the financial report for fiscal year 2010.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
Year Ended June 30, 2009

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entrv Age	(3) Unfunded (Excess) AAL (UAAL) (2) - (1)	(4) Funded Ratios (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll (3)/(5)
<i><u>PUBLIC EMPLOYEES RETIREMENT FUND*</u></i>						
June 30, 2003	\$ 8,976,907,804	\$ 9,223,602,484	\$ 246,694,680	97.3%	\$1,437,357,206	17.2%
June 30, 2004	9,275,675,773	9,973,754,952	698,079,179	93.0	1,499,069,439	46.6
June 30, 2005	10,008,511,489	10,920,967,242	912,455,753	91.6	1,607,838,716	56.8
June 30, 2006	10,863,894,951	11,800,860,704	936,965,753	92.1	1,774,918,446	52.8
June 30, 2007	12,049,357,827	12,982,072,143	932,714,316	92.8	1,908,519,615	48.7
June 30, 2008	12,836,217,447	13,761,749,633	925,532,186	93.3	1,965,064,160	47.0
June 30, 2009	12,575,142,124	14,932,624,340	2,357,482,216	84.2	2,081,259,000	113.3
<i><u>JUDICIAL RETIREMENT FUND</u></i>						
June 30, 2003	65,223,266	85,951,596	20,728,330	75.9	8,575,202	241.7
June 30, 2004	66,208,769	87,620,154	21,411,385	75.6	9,074,078	236.0
June 30, 2005	68,780,617	87,175,211	18,394,594	78.9	9,882,659	186.1
June 30, 2006	74,003,122	95,216,477	21,213,355	77.7	10,059,893	210.9
June 30, 2007	82,569,524	104,040,035	21,470,511	79.4	11,754,248	182.7
June 30, 2008	87,429,745	111,721,411	24,291,666	78.3	11,697,421	207.7
June 30, 2009	73,161,152	120,840,622	47,679,470	60.5	13,011,196	366.4
<i><u>MAGISTRATE RETIREMENT FUND</u></i>						
June 30, 2003	29,629,462	29,078,050	(551,412)	101.9	3,081,850	-
June 30, 2004	30,071,628	30,194,583	122,955	99.6	3,002,422	4.1
June 30, 2005	31,303,435	31,384,962	81,527	99.7	3,196,052	2.6
June 30, 2006	33,694,422	33,362,138	(332,284)	101.0	3,149,560	-
June 30, 2007	37,241,627	36,964,449	(277,178)	109.6	3,464,587	-
June 30, 2008	38,866,453	41,721,278	2,854,825	93.2	3,363,342	84.9
June 30, 2009	31,524,204	47,567,604	16,043,400	66.3	4,128,599	389.6
<i><u>VOLUNTEER FIREFIGHTERS RETIREMENT FUND**</u></i>						
June 30, 2003	31,221,546	17,058,252	(14,163,294)	183.0	N/A	N/A
June 30, 2004	33,000,250	17,778,145	(15,222,105)	185.6	N/A	N/A
June 30, 2005	35,651,070	25,151,577	(10,499,493)	141.7	N/A	N/A
June 30, 2006	39,511,723	23,742,890	(15,768,833)	166.4	N/A	N/A
June 30, 2007	44,960,981	16,536,060	(28,424,921)	271.9	N/A	N/A
June 30, 2008	48,437,876	16,945,857	(31,492,019)	285.8	N/A	N/A
June 30, 2009	40,843,560	19,029,000	(21,814,560)	214.6	N/A	N/A

* Includes the Legislative Retirement Plan Data

** Volunteer Firefighters Retirement Fund benefits are not based on salary. Accordingly, payroll information has been excluded

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS AND
OTHER CONTRIBUTING ENTITIES
Year Ended June 30, 2009**

Fiscal Year Ended	Public Employees Retirement Fund		Judicial Retirement Fund	
	Annual Required Contribution	% Contributed	Annual Required Contribution	% Contributed
June 30, 2003	\$ 213,712,566	100.0%	2,812,687	75.3%
June 30, 2004	206,835,702	100.0	3,720,692	69.7
June 30, 2005	219,163,952	100.0	3,995,583	82.0
June 30, 2006	235,863,262	100.0	3,851,188	100.0
June 30, 2007	257,095,466	100.0	4,149,058	108.4
June 30, 2008	293,164,836	100.0	4,549,247	112.6
June 30, 2009	302,614,335	102.8	4,690,274	115.6

Fiscal Year Ended	Magistrate Retirement Fund		Volunteer Firefighters Retirement Fund*	
	Annual Required Contribution	% Contributed	Annual Required Contribution	% Contributed**
June 30, 2003	881,229	129.7	0 – 653,000	114.9
June 30, 2004	894,349	87.1	0 – 680,000	110.3
June 30, 2005	927,233	100.8	0 – 565,000	132.7
June 30, 2006	1,009,203	104.8	406,000 – 1,370,000	54.7
June 30, 2007	943,884	127.8	0-446,000	168.2
June 30, 2008	1,029,865	132.6	0	750.0
June 30, 2009	1,151,061	86.9	0	750.0

* Contributions are appropriated from the State of New Mexico Fire Protection Fund

** Using the high end of the range for the calculation

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2009

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Valuation date	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009
Actuarial cost method	Entry age	Entry age	Entry age	Unit credit
Amortization method	Level percent, open	Level percent, open	Level percent, open	Level dollar, open
Amortization period	13 years	30 years^^	30 years#	30 years#
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market	4 year smoothed market
Rate of return on investment of present and future assets*	8.0 %	8.0 %	8.0 %	8.0 %
Projected salary increases*	4.5 - 19%	5.25 %	4.75 %	N/A+
Post retirement benefit Increases	3.0 %	3.0 %	3.0 %	N/A+
* Includes inflation at	4.0 %	4.5 %	4.0 %	4.0 %

+ Benefits are not based on salary and are not subject to cost of living increases.

Assets currently exceed actuarial accrued liabilities. The excess was amortized over 30 years and applied as a credit to determine the required contribution.

^^ The statutory contribution rate is not sufficient to meet PERA board's objective of funding over 30 years

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF REVENUES, APPROPRIATIONS, AND EXPENSES-
BUDGET AND ACTUAL (Non-GAAP Basis) – PUBLIC EMPLOYEES
RETIREMENT FUND ONLY
Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues and Appropriations				
Other state funds				
Interest income	\$ 39,587,314	41,913,631	61,455,433	19,541,802
Deferred Comp Plan Income	108,886	108,886	80,602	(28,284)
Total revenues and appropriations	<u>\$ 39,696,200</u>	<u>42,022,517</u>	<u>61,536,035</u>	<u>19,513,518</u>
Expenditures				
Administration				
Contractual services	\$ 32,653,700	33,892,846	19,506,622	14,386,224
Personnel services and benefits	5,753,800	5,707,971	5,707,971	-
Other operating costs	1,288,700	2,421,700	1,455,765	965,935
Total expenditures	<u>\$ 39,696,200</u>	<u>42,022,517</u>	<u>26,670,358</u>	<u>15,045,213</u>
Change in net assets, budget items			\$ 34,865,677	
Non-budgeted revenues and expenses				
Investment earnings and change in fair value			(3,063,840)	
Depreciation expense			(2,091,218)	
Contributions from members and employers			526,531,137	
Other income			(895,952)	
Compensated absences			306,946	
Benefit payments to retirees and beneficiaries			(604,103,397)	
Refunds to terminated employees			<u>(31,668,787)</u>	
Increase (Decrease) in plan net assets			(3,140,896,456)	
Net assets held in trust for pension benefits				
Balance – beginning of year			<u>11,936,715,597</u>	
Balance – end of year			<u>\$ 8,795,819,141</u>	

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
OTHER SUPPLEMENTAL SCHEDULES
SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES
Year Ended June 30, 2009

Investment Expenses:

Investment Manager Fees	\$	13,759,241
Custodian Fees		1,505,852
Consultant Fees		2,195,255
Legal Fees		<u>288,526</u>

Total Investment Expenses	\$	<u>17,748,874</u>
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Administrative Expenses:

Other Contractual Services:

Information Technology Services		1,369,167
Legal Fees		68,376
Audit Fees		121,838
Medical Services		39,824
Other Professional Services		<u>404,437</u>

Total Other Contractual Services		<u>2,003,642</u>
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Other Administrative Services:

Personnel Services and Benefits		6,035,782
Other Operating Costs		1,460,841
Deferred Compensation Plan expenses		1,000,711
Depreciation Expense		<u>1,582,557</u>

Total Other Administrative Services		<u>10,079,891</u>
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Total Administrative Expenses	\$	<u>12,083,533</u>
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Total Investment and Administrative Expenses	\$	<u><u>29,832,407</u></u>
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**Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With *Governmental Auditing Standards***

To the Members of the Retirement Board of the
Public Employees Retirement Association of New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the Statements of Plan Net Assets and Statements of Changes in Plan Net Assets of the Public Employees Retirement Fund, Judicial Retirement Fund, Magistrate Retirement Fund, and the Volunteer Firefighters Retirement Fund, (collectively, the Funds) administered by the Public Employees Retirement Association of New Mexico (PERA) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 24, 2009. We have also audited the Schedule of Revenues, Appropriations and Expenses – Budget and Actual (Non-GAAP) for the Public Employees Retirement Fund presented as supplemental information for the year ended June 30, 2009, as listed in the table of contents. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Deferred Compensation (IRC 457) Fund as described in our report on PERA's financial statements. This report does not include the results of other auditors' testing of internal controls over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PERA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PERA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PERA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

To the Members of the Retirement Board of the
Public Employees Retirement Association of New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of entity's financial statements that is more than inconsequential will not be prevented or detected by entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 05-06, 06-01, 07-01, 07-06 and 09-01 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by PERA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PERA's basic financial statements are free of 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 09-02.

We noted certain matters that are required to be reported under *Government Auditing Standards* paragraph 5.14 and 5.16 and Section 12-6-5 NMSA 1978 which are described in the accompanying schedule of findings and responses as items 09-03 and 09-04.

To the Members of the Retirement Board of the
Public Employees Retirement Association of New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor

PERA's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit PERA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Members of PERA's Retirement Board, the Audit Committee, management, the Department of Finance and Administration, the Legislative Finance Committee, and the State Auditor, and is not intended to be, and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
November 24, 2009

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2009

05-06	Incomplete and Inconsistent Member Accounts	Repeated, revised
06-01	Contributions Transaction Cycle – Over and Under Payments	Repeated, revised
07-01	Conversion Data Clean-up and Inconsistent User Roles in the RIO Membership Database	Repeated, revised
07-06	RIO to General Ledger Posting	Repeated

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2009

05-06 Incomplete and Inconsistent Member Accounts

CONDITION

During the course of our audit work in 2005 and updated in 2006, 2007, 2008 and 2009, we noted the following related to member accounts in the membership database:

- There are approximately 57,000 "unmatched" social security numbers in the RIO system.
- The contribution balances or service credit balances related to the unmatched social security numbers are presently unknown. These accounts have no first or last name associated with them.
- There are approximately 2,200 retired employees whose accounts detail positive or negative service credit or contribution balances when they should be zero. Interest has also been added to these accounts for an indeterminable amount of time.
- Twenty-four active members had a negative service credit.

CRITERIA

Good accounting policy requires that accounts be complete and accurate to properly reflect the liability of the entity as this information flows into the required supplementary information in the annual financial statements.

CAUSE

The data cleansing process of the RIO membership database was not completed during or shortly after the conversion of membership databases.

EFFECT

Certain member records are incomplete and inaccurate. As a result, certain records sent to the actuary are incorrect and could affect the liability determination that is reflected in the required supplementary information in the annual financial statements.

RECOMMENDATION

PERA should research each of the unmatched social security numbers to determine if they are valid and should be associated with a particular active or retired member. The service credit balances and contribution balances should then be handled accordingly.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

05-06 Incomplete and Inconsistent Member Accounts (Continued)

RECOMMENDATION (CONTINUED)

PERA should research each of the retiree accounts with balances to determine the correct treatment for each account to get to a zero balance. The RIO system should be updated and all members with incorrect service credit should be corrected. While management has begun working on data clean up issues during the year, we recommend that management continue to emphasize the importance of addressing the items noted in the condition. We also recommend that management create and monitor an action plan detailing and prioritizing each of these and other known problems, timelines for correction of the problems, dedication of resources to correct the problems and roles of responsibility for correction of the problems.

MANAGEMENT RESPONSE

The 57,000 “unmatched” records are old records created prior to 1983, as stated in previously for this prior audit finding. These “unmatched” social security numbers were determined to be one of two things: invalid social security numbers which could not be matched to known members at the time of conversion, or social security numbers with no known name attached to the record.

If a member terminates PERA employment and re-joins PERA, and their social security number matches a social security number in this second category, the service credit can be combined at that time.

The service credit and contribution balances for each of the 57,000 “unmatched” records are very low. Beginning in March 2010, PERA staff will attempt to research these records and correct as many records as possible. Limited staffing and completing day-to-day PERA business have delayed this project.

As for the 2,200 retirees with a service credit balance and/or contributions balance, staff will continuously review this report. There will always be a small number of these occurrences due to posting trailing contributions as members retire. As some of these balances are cleared each month, new ones will appear due to the cycle of new retirees. But, the employer certification that PERA receives at the time of a member’s retirement in almost all cases reflects the current service credit and final rate of pay which are later received with the trailing contributions. Staff will continuously review the report listing retirees with a balance. Staff will take any corrective action necessary for those who are not “new” retirees that appear on the report.

Staff will also review the report listing members with negative service credit and take corrective action.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2008

06-01 Contributions Transaction Cycle - Over and Under Payments and Suspended Records

CONDITION

During our testing of the contributions cycle, we noted that the various employers whose employees belong to the PERA system are responsible for entering the dollar amounts to be credited to each active PERA member. If the employer enters amounts differing from the total submitted, the RIO system creates a receivable or a payable for the difference. There is currently not a process within RIO to properly identify, track and post these items.

CRITERIA

All reconciliations affecting the general ledger should be done on a timely basis. Per Section 126-5. NMSA 1978, any violation of good accounting practice must be reported.

CAUSE

The RIO system does not offer an ability to drill down to the detail level within the over/under dollar amounts. Additionally, there is not a clear audit trail to understand what specific transactions are creating these over/under amounts.

EFFECT

There are unresolved payables and receivables on the general ledger. Because the amounts cannot be individually identified, it is difficult to evaluate the collectability of the receivables and appropriateness of the payables.

RECOMMENDATION

PERA should update the RIO system to be able to identify the detail underlying the receivable/payable amounts. PERA should consider modifying the current interface for the RIO system that will alert agencies when there is an inconsistency that has created an under or over payment.

MANAGEMENT RESPONSE

PERA Comptroller submitted a Problem Incident Report (PIR) dated July 2008. EDS/Saber, the RIO maintenance contractor indicated this is a Control Change Request (CCR). As of this time, PERA received a quote and currently lacks funding to make the necessary computer changes.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

07-01 Inconsistent User Roles in the RIO Membership Database

CONDITION

The actuarial data from PERA's membership database flows into the annual financial statements as Required Supplementary Information. The previous membership database (PERIS) migrated to a new database (RIO) during fiscal year 2005. The PERIS to RIO data cleansing and conversion, and subsequent RIO internal control structure resulted in certain deficiencies. We tested the data cleansing efforts and RIO internal control structure in fiscal years 2005, 2006 and 2007 and followed up with management as to the status of the changes to the internal control structure in 2008 and 2009. We noted the following:

- Certain employees have access to verify/correct service credits when their job scope does not require this capability. Other employees have multiple levels of access including edit and review capability which have created "super user" roles.
- As of June 30, 2009, management has not implemented a process to review and identify employees with conflicting roles and capabilities within the RIO system.
- Edit Change Reports are not being consistently produced and reviewed by management.

CRITERIA

Per Section 12-6-5, NMSA 1978, any violation of good accounting practice must be reported.

CAUSE

The new system was not designed with sufficient controls to ensure adequate segregation of duties. Management has not put an emphasis on timely monitoring.

EFFECT

The incompatible roles of users within the database and the lack of review of the edit change reports could result in misappropriation of assets or unauthorized changes to member data.

RECOMMENDATION

In order to strengthen controls and improve the quality of data, employees should only be given edit access to areas that are necessary to perform their job functions. All employee access criteria should be carefully reviewed to ensure that the employees do not have excess capabilities that will impact proper segregation of duties. Management should continue to review the accuracy of member database information for incorrect or missing information.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

07-01 Inconsistent User Roles in the RIO Membership Database (Continued)

MANAGEMENT RESPONSE

As stated in responses to earlier audit findings, each User Role has several associated functions. While a staff member may need only some functions associated with that role, in order to perform their job they must have that User Role. For example, a User Role may have 7 functions but the staff member may only need access to 4 of the 7 functions to perform a job duty. As a result, the user will have all the associated functions.

RIO was not designed so that functions could be added or deleted from a User Role. PERA inquired about the cost to reprogram the RIO system so that functions could be added or deleted from the User Roles but the cost was prohibitive.

Because changing the RIO system was not an option, PERA created a procedure for assigning and updating User Roles. Managers are now required to review the User Roles for each of their staff members at least twice a year to verify that the staff members have the correct roles. User roles may be added or deleted only when requested and approved by their supervisor.

PERA staff reviewed the current User Roles and made the appropriate changes. Written procedures were created to formalize the review process with the assistance of PERA's internal auditor. Staff will now use the User Role Procedures to make changes in the future. Further testing of the User Roles will be done by staff in conjunction with PERA's internal auditor.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

07-06 RIO to General Ledger Posting

CONDITION

Changes made to individual active or retired member accounts as a result of file audits are not posted to SHARE or the parallel general ledger system used by PERA. These changes affect the categories within the net asset balances of each fund. In order for the general ledger to reflect the correct balance, a manual journal entry must be made. Since the changes are not tracked at the individual member level, the entry must be made as a net amount. Since the RIO system does not keep an audit trail for these changes and multiple reports indicate differing balances, there is no way of know which member balances are the correct balances.

Not all transactions are posted from the RIO system into the general ledger interface file in a correct manner. In certain circumstances, members remit unplanned contributions to PERA for items such as purchased service credit. The RIO system automatically posts the receipts into the general ledger; however, these receipts are posted into an asset account instead of a revenue account. The accounting staff must perform a manual adjusting entry for these items in order to correctly record the transaction.

CRITERIA

All transactions occurring in RIO which impact the general ledger should be posted accurately and timely as part of the interface.

CAUSE

When changes are made they are done "under construction/prepare member" and the changes are not captured for proper system posting to the general ledger. Additionally, some transactions are programmed to post to incorrect general ledger accounts.

EFFECT

Some individual general ledger balances, including member and employer reserve balances, are incorrect until a manual change is posted to correct the balances.

RECOMMENDATION

We recommend that the interface between RIO and PERA's general ledger be modified to automatically and correctly post changes to the general ledger and to track the detail of the changes so that they can be monitored via an edit report.

MANAGEMENT RESPONSE

PERA submitted a computer change request to PERA's third party administrator of the RIO system, EDS/Saber, in March 2008 for the RIO to the general ledger interface. Currently part of the task has been completed, but reconciliation of the changes still cannot be verified. PERA is still waiting for EDS to compile reports to verify the amounts being transferred via the RIO interface file into the general ledger.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

09-01 Member Account Interest

CONDITION

During our testwork of the interest paid on refundable member contributions posted to member accounts, we noted one out of 18 member accounts tested for which interest was incorrectly calculated by the system. The system did not post interest to the member's account for one fiscal year. This member's account is understated by approximately \$7,600 as a result of the miscalculated interest.

CRITERIA

New Mexico Administrative Code Title 2, Chapter 80, 2100.8 (D) states that "interest on member contributions shall be posted annually effective June 30 of each year at the rate of 5.25%." NMAC 2.80.2100.8 (E) further states that "a refund of member contributions includes interest on those contributions as provided in this Rule."

CAUSE

Due to the RIO system's treatment of certain member accounts, interest on member contributions is not being posted as required. Per inquiry of management, this appears to be occurring on certain accounts that have been suspended at anytime during membership.

EFFECT

There is an increased likelihood that a member, upon receiving a refund of the member contributions made, will not receive the interest on those contributions as required by the New Mexico Administrative Code.

RECOMMENDATION

We recommend that the programming within the interest calculation module of RIO be re-examined and corrected to ensure that interest is correctly posted on all member accounts as required by the New Mexico Administrative Code.

MANAGEMENT RESPONSE

The existing RIO code related to interest postings has been tested and verified to be working correctly. The way the system works is as follows: If a member has an unposted wage and contribution record at the time the annual interest job runs, the member does not receive an interest posting. When the member no longer has any unposted wage and contribution records, there is a screen within the user interface that allows interest to be calculated and posted on a member-by-member basis.

PERA is looking at improving the process in two ways. First, by becoming current and staying current with posting member wage and contribution records and, secondly, by working with our RIO support vendor to explore potential code changes that might further automate the interest posting for members once their accounts become current.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

09-02 Compliance with IRS Regulations

CONDITION

During our audit, it came to our attention that PERA is not in compliance with all Internal Revenue Service regulations. We noted that the RIO system is not set up to allow plan members to roll their accounts into Roth IRA plans, as allowed for under the IRS regulations.

CRITERIA

26 CFR Parts 1 and 602 contains the final regulations for sections 402A and sections 408A of the IRS regulations which allow for the rollover of defined benefit plans to Roth IRA accounts. These regulations allow members of defined benefit plans to roll their accounts into Roth IRA plans as of January 1, 2008.

CAUSE

The RIO system has not been updated to allow for current IRS rules regarding rollover options.

EFFECT

PERA is not able to comply with current IRS regulations regarding rollovers for Roth IRA accounts.

RECOMMENDATION

We recommend that the programming within the rollover module of RIO be updated to comply with IRS regulations. Additionally, we recommend that a process be implemented to identify new regulations affecting the agency and to make system changes where necessary to ensure compliance with new regulations as they become effective.

MANAGEMENT RESPONSE

PERA submitted a computer change request to PERA's third party administrator of the RIO system, EDS/Saber, in March 2008 for the Roth IRAs. Test work has been done, but currently this change request still has not been completed.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

09-03 IRS Reporting and 1099R Errors

CONDITION

During our audit, it came to our attention that PERA is not using consistent information to report to the IRS. The 945 reporting does not reconcile to the 1099R reporting. The 945 reporting reconciles to the monthly disbursements made to retired members; however, the total amounts reported via the 1099R reporting does not reconcile to the 945 reporting. While the unreconciled amounts are not a material amount, there should be no unlocated differences between the two reports.

It was self-reported by PERA management that there were three retirees' 2008 1099Rs which reported incorrect amounts of taxable income. These individuals had amounts withheld from their gross retirement benefit in order to repay earlier overpayments by PERA (in previous years). The amounts received in previous years had been taxed and included as taxable income on previous 1099Rs. In all three cases, the amounts reported on the 1099R were higher than the actual amount of taxable benefits paid by \$6,407, \$12,375 and \$200, respectively.

We were unable to determine if there were other retirees whose 1099Rs were incorrectly calculated as the RIO system does not have the capacity to generate a report of individuals who are repaying previous benefits that were incorrectly received.

CRITERIA

The IRS requires an explanation or reconciliation of any differences between the distributions reported on the 945 reports and the 1099R reporting. Amounts reported on the 1099R statements should be an accurate reflection of actual taxable benefits paid during the calendar year.

CAUSE

The 945 reporting is generated using the monthly benefit payment register. The 1099R reporting is done based on a query from the RIO system. There appears to be differences in the data used to produce the two reports.

Additionally, certain individuals had additional withholdings during the year by PERA to repay previous overpayments. The system erroneously included the entire gross benefit on the 1099R as taxable.

EFFECT

PERA is not able to reconcile the differences between the 945 reporting and the 1099R reporting. This inability to reconcile the differences between the two reports results in an inability to comply with IRS reporting requirements. In addition, certain individuals paid taxes on the same earnings twice, but in different calendar years. PERA will be required to issue amended 1099Rs for these individuals and the individuals will need to file amended tax returns.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

09-03 IRS Reporting and 1099R Errors (Continued)

RECOMMENDATION

We recommend that PERA utilize the same data to generate the 1099R reports that is used to generate the 945 reports for the IRS.

PERA should re-evaluate the methodology used to account for benefit repayments to ensure that earnings are not taxed twice. Additionally, we recommend that PERA implement a process to identify and track individuals who have been overpaid in the past and are repaying benefit amounts to PERA in order to properly monitor the transactions on their accounts and to ensure that their 1099Rs are manually audited, if necessary.

MANAGEMENT RESPONSE

PERA submitted a computer change request to PERA's third party administrator of the RIO system, EDS/Saber, in January 2008 and February 2009 for the 1099 issue. The issue regarding the reporting of the earnings twice has been resolved by EDS/Saber and this will be double checked when 1099Rs are ran for calendar year 2009. The reconciliation process is still being addressed. At this time, PERA cannot run quarterly 1099 reports to do the reconciliation quarterly so numerous manual processes are being utilized to try and reconcile RIO and the IRS 945 reports due to the fact that PERA staff cannot get the information readily out of RIO.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

09-04 Cash Receipt and Accounts Receivable Processes

CONDITION

During our audit, it was brought to our attention that certain transactions resulting in account receivable balances are not being reported within the RIO system. Although not material to the financial statements, transactions involving members who have been overpaid and are required to repay PERA are not currently recorded as receivables within the RIO system. When members remit payments to PERA, there is no receivable balance to credit. This was noted during our review of the "disability retirement" transaction cycle.

CRITERIA

Per Section 126-5, NMSA 1978, any violation of good accounting practice must be reported.

CAUSE

The current process does not include the creation of an account receivable for members that have been overpaid.

EFFECT

When receipts for reimbursement of benefit overpayments are received, there is no account receivable balance to credit. There is no clear process to track these receivable balances to determine if payments are being received. As a result, PERA may not be receiving all amounts owed.

RECOMMENDATION

When overpayments are identified and it is determined that a member owes funds to PERA, a receivable should be created and be reflected on the general ledger. Additionally, these receivable balances should be regularly monitored for payment activity and PERA should consider sending regular statements to these individuals. This will also assist in ensuring that all cash receipts are applied appropriately.

MANAGEMENT RESPONSE

PERA will be submitting a computer change request to PERA's third party administrator of the RIO system, EDS/Saber, for the issue regarding cash receipts. RIO currently cannot accommodate the changes that need to be made to the system to handle the proper reporting and accounting for this problem.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
EXIT CONFERENCE
June 30, 2009**

We discussed the recommendations contained in this letter during the exit conference held November 10, 2009. The exit conference was attended by the following individuals:

Public Employees Retirement Association

Terry Slattery	Executive Director
Kurt Weber	Deputy Director
Mary Frederick	Deputy Director
Susan Pittard	Director of Legal Division
Renaë Herndon	Comptroller

Annette Martinez-Varela	State Member
Oscar Arevalo	State Member
Francis Page	State Member
Patricia French	Municipal Member
Susan Biernacki	Municipal Member
David Baca	County Member
John Lucero	Retiree Member
Mary Herrera	Ex-Officio Member

Moss Adams LLP

Scott Eliason	Audit Partner
James Cox	Audit Senior