

**PUBLIC EMPLOYEES  
RETIREMENT  
ASSOCIATION OF NEW  
MEXICO**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**

atkinson

PRECISE. PERSONAL. PROACTIVE.

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**PUBLIC EMPLOYEES RETIREMENT  
ASSOCIATION OF NEW MEXICO**

*Official Roster  
As of June 30, 2011*

<b>NAME</b>	<b>TITLE</b>
Ms. Nancy Hewitt	State Member, Chair
Mr. Oscar Arevalo	State Member, Vice Chair
Ms. Dianna Duran	Secretary of State
Mr. James B. Lewis	State Treasurer
Mr. Francis Page	State Member
Ms. Annette Martinez-Varela	State Member
Mr. David A. Baca (Died in April 2011 and position is still vacant)	County Member (Deceased)
Ms. Susan Biernacki	Municipal Member
Mr. Gerald Chavez	Municipal Member
Ms. Patricia French	Municipal Member
Mr. John Lucero	Retiree Member
Mr. Victor A. Montoya	Retiree Member



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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 Position and Statements of Changes in Plan Net Position 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, 2011, 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, 2011, 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 2.7 percent and 3.1 percent, respectively, of the related totals. The financial statements of the Deferred Compensation (IRC 457) Fund were audited by other auditors whose reports have 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 U.S. generally accepted auditing standards 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 opinion.

For investments described in Note 6, the financial statements include investments classified as venture capital and alternatives and valued at \$2,580,834,337 (20.6% of plan net position), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners.

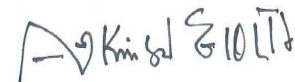
As discussed in Note 1, the financial statements of PERA are intended to present the plan net position and changes in the plan net position of only that portion of the State of New Mexico which are attributable to the transactions of the Funds administered by PERA. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2011, and the changes in its financial position, for the year then ended in conformity with U.S. generally accepted accounting principles.

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 position of PERA as of June 30, 2011, and the respective changes in financial position of its plan net position for the year then ended in conformity with U.S. generally accepted accounting principles. 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 position of each of the individual funds administered by PERA as of June 30, 2011, and the respective changes in the financial position of the plan net position 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, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011, 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 4 through 15 and the Required Supplementary Schedules of Funding Progress and of Contributions from Employers and Other Contributing Entities on pages 55-57 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.

Our audit was conducted for the purpose of forming an opinion 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.



**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 9, 2011

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

This discussion and analysis of the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, the Volunteer Firefighters 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, 2011 and 2010 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 plan net assets (net position) held in trust to pay pension benefits were \$12.5 billion as of June 30, 2011. This amount reflects an increase of \$2 billion from the prior fiscal year. This change is primarily the result of the current year variable earnings investment income due to strong global equity market performance.
- PERA's funding objective is to meet long-term benefit obligations through member and employer contributions and investment earnings.
- Retirement and death benefits paid this year (excluding Deferred Compensation) totaled \$728 million to 29,496 annuitants as compared to \$664 million to 27,972 annuitants for last year. The increase in benefits paid is due to the number of new retirees and cost-of-living allowances.
- Contributions from employers decreased from \$297 million in FY10 to \$289 million in FY11, a difference of \$8 million. The decrease is due to the changes made in the employer contribution rates. Contributions from members decreased from \$262 million in FY10 to \$254 million in FY11, a difference of \$8 million. The decrease is due to the changes made in the member contribution rates. See Note 14 in the notes to the financial statements for further details.
- PERA's investments reported a total return of 22.58% for the current year and 14.32% for last year. This increase was due to continued favorable financial market conditions in 2011. (This percentage does not include the investments administered by the Deferred Compensation Plan's contracted third party.)



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**PERA Highlights**

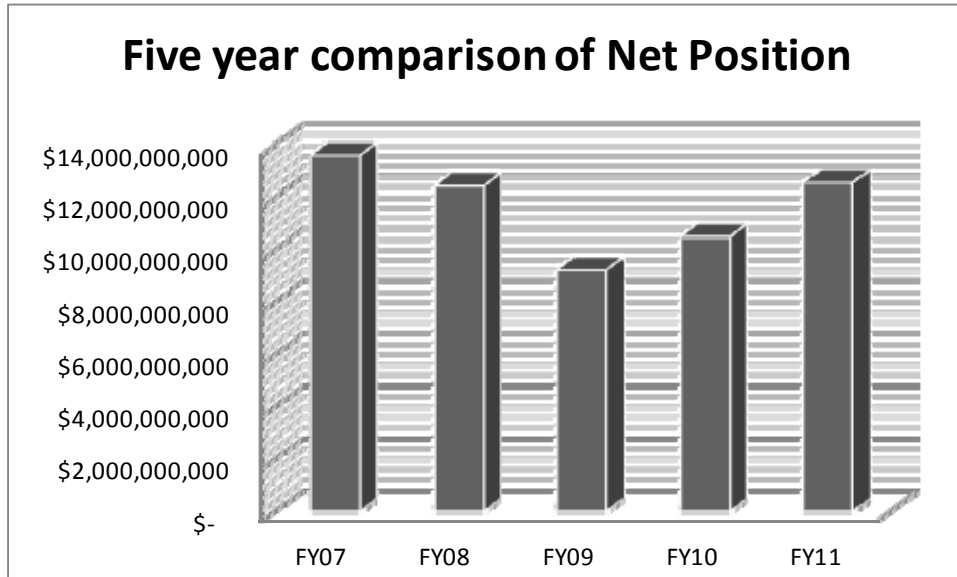
**Overview of Financial Statements**

- The financial statements of the funds of PERA include Statements of Plan Net Position and Statement of Changes in Plan Net Position 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.
- The Statement of Plan Net Position 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 Position 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, derivatives disclosure, investment risk disclosure, investment credit risk, security lending program, commitments and contingencies.
- The required supplementary information schedules include information regarding funding progress for current fiscal year and the previous five years. In addition, employer annual required contributions for current year and previous five years.
- The additional supplementary information includes schedules of administrative, investment and consulting fee expenditures.

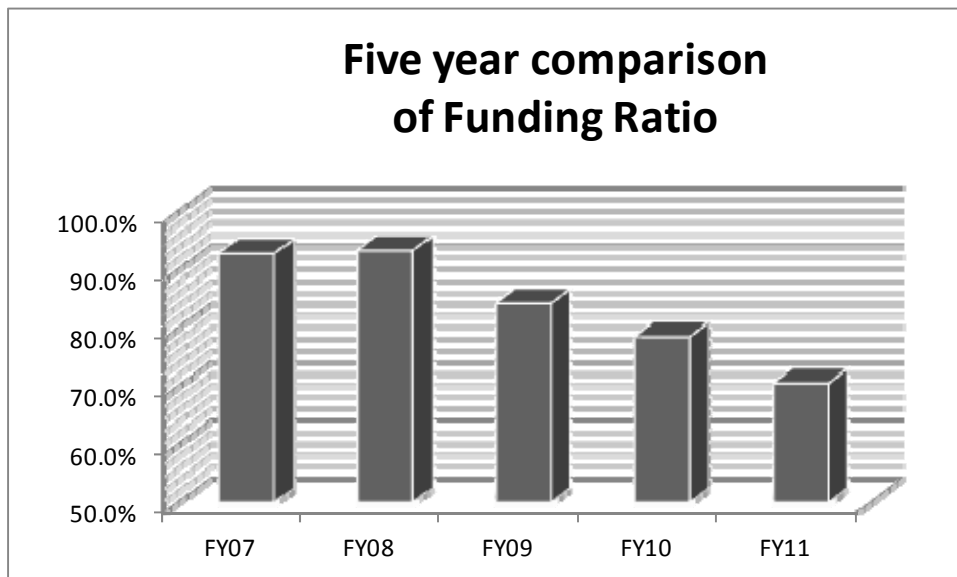
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**Comparative Summary Statements**

The following chart represents the change in total net position for the Public Employees Retirement Association over the last 5 years.



The following chart represents the change in the Funding Ratio for the Public Employees Retirement Association over the last 5 years (the Public Employee Retirement fund only).



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**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 as of June 30, 2011:

**ALL FUNDS:**

	<b>2011</b>	<b>2010</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
<b>Assets</b>	\$ 14,647,129,830	\$ 11,320,424,277	\$ 3,326,705,553	29.39 %
<b>Liabilities</b>	(2,104,476,804)	(840,345,856)	(1,264,130,948)	150.43 %
<b>Net Assets Held in Trust</b>	<u>\$ 12,542,653,026</u>	<u>\$ 10,480,078,421</u>	2,062,574,605	19.68 %
<b>Change in Net Position</b>	<u>\$ 2,062,574,605</u>	<u>\$ 1,267,249,743</u>	795,324,862	62.76 %

The total net assets held by PERA increased during the fiscal year ended June 30, 2011 primarily as a result of the net appreciation 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, 2011 and 2010:

**PUBLIC EMPLOYEES RETIREMENT FUND:**

Statement of Plan Net Position as of June 30, 2011, as compared to June 30, 2010, follows:

	<b>2011</b>	<b>2010</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
<b>Assets:</b>				
Cash & equivalents	\$ 819,503,382	\$ 684,060,618	\$ 135,442,764	19.80 %
Receivables	1,136,740,338	320,229,171	816,511,167	254.98 %
Investments	12,099,399,190	9,823,436,329	2,275,962,861	23.17 %
Capital Assets, Net	15,573,946	18,018,406	(2,444,460)	(13.57) %
<b>Total Assets</b>	<u>14,071,216,856</u>	<u>10,845,744,524</u>	<u>3,225,472,332</u>	29.74 %
<b>Liabilities:</b>				
Accounts Payable	1,519,365,779	414,622,470	1,104,743,309	266.45 %
Other Liabilities	557,396,378	414,630,723	142,765,655	34.43 %
<b>Total Liabilities</b>	<u>2,076,762,157</u>	<u>829,253,193</u>	<u>1,247,508,964</u>	150.44 %
<b>Statement of Net Position</b>	<u>\$ 11,994,454,699</u>	<u>\$ 10,016,491,331</u>	<u>\$ 1,977,963,368</u>	19.75 %

The net assets of the Public Employees Retirement Fund amounts to 95.63% of the total net assets of all funds.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**PUBLIC EMPLOYEES RETIREMENT FUND (continued):**

Statement of Changes in Plan Net Position as of June 30, 2011, as compared to June 30, 2010, is as follows:

	<b>2011</b>	<b>2010</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
<b>Additions:</b>				
Contributions and service credit purchases	\$ 515,843,142	\$ 522,199,164	\$ (6,356,022)	(1.22) %
Net Investment Income	222,858,825	234,450,851	(11,592,026)	(4.94) %
Net Appreciation of Fair Value of Investments	1,963,256,391	1,160,258,769	802,997,622	69.21 %
Other Income	46,316,181	1,224,784	45,091,397	3,681.58 %
<b>Total Additions</b>	<u>2,748,274,539</u>	<u>1,918,133,568</u>	<u>830,140,971</u>	43.28 %
<b>Deductions:</b>				
Benefit Payments	(716,679,792)	(653,727,922)	(62,951,870)	9.63 %
Refunds	(43,107,776)	(32,734,673)	(10,373,103)	31.69 %
Administrative Expenses	(10,523,603)	(10,998,783)	475,180	(4.32) %
<b>Total Deductions</b>	<u>(770,311,171)</u>	<u>(697,461,378)</u>	<u>(72,849,793)</u>	10.44 %
<b>Change in net position</b>	<u>\$ 1,977,963,368</u>	<u>\$ 1,220,672,190</u>	<u>\$ 757,291,178</u>	62.04 %

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**JUDICIAL RETIREMENT FUND**

Statement of Plan Net Position as of June 30, 2011, as compared to June 30, 2010, is as follows:

	2011	2010	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 5,376,151	\$ 4,408,670	\$ 967,481	21.94 %
Receivables	7,411,441	1,935,993	5,475,448	282.82 %
Investments	79,789,253	65,473,582	14,315,671	21.86 %
<b>Total Assets</b>	<b>92,576,845</b>	<b>71,818,245</b>	<b>20,758,600</b>	<b>28.90 %</b>
<b>Liabilities:</b>				
Accounts Payable	9,907,111	2,636,124	7,270,987	275.82 %
Other Liabilities	3,844,185	2,811,636	1,032,549	36.72 %
<b>Total Liabilities</b>	<b>13,751,296</b>	<b>5,447,760</b>	<b>8,303,536</b>	<b>152.42 %</b>
<b>Statement of Net Position</b>	<b>\$ 78,825,549</b>	<b>\$ 66,370,485</b>	<b>\$ 12,455,064</b>	<b>18.77 %</b>

Statement of Changes in Plan Net Position as of June 30, 2011, as compared to June 30, 2010, is as follows:

	2011	2010	Dollar Change	Percentage Change
<b>Additions:</b>				
Contributions and service credit purchases	\$ 5,142,469	\$ 4,846,753	\$ 295,716	6.10 %
Net Investment Income	1,447,752	1,553,526	(105,774)	(6.81) %
Net Appreciation of Fair Value of Investments	12,730,036	5,705,495	7,024,541	123.12 %
Other Income	299,717	27	299,690	1,109,962.96 %
<b>Total Additions</b>	<b>19,619,974</b>	<b>12,105,801</b>	<b>7,514,173</b>	<b>62.07 %</b>
<b>Deductions:</b>				
Benefit Payments	(7,141,608)	(6,681,580)	(460,028)	6.89 %
Refunds	-	(2,330)	2,330	(100.00) %
Administrative Expenses	(23,302)	(19,033)	(4,269)	22.43 %
<b>Total Deductions</b>	<b>(7,164,910)</b>	<b>(6,702,943)</b>	<b>(461,967)</b>	<b>6.89 %</b>
<b>Change in net position</b>	<b>\$ 12,455,064</b>	<b>\$ 5,402,858</b>	<b>\$ 7,052,206</b>	<b>130.53 %</b>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**MAGISTRATE RETIREMENT FUND**

Statement of Plan Net Position as of June 30, 2011, as compared to June 30, 2010, is as follows:

	2011	2010	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 2,195,847	\$ 1,910,934	\$ 284,913	14.91 %
Receivables	3,055,194	837,174	2,218,020	264.94 %
Investments	33,591,673	28,491,323	5,100,350	17.90 %
<b>Total Assets</b>	<b>38,842,714</b>	<b>31,239,431</b>	<b>7,603,283</b>	<b>24.34 %</b>
<b>Liabilities:</b>				
Accounts Payable	4,046,482	1,142,625	2,903,857	254.14 %
Other Liabilities	1,598,127	1,220,393	377,734	30.95 %
<b>Total Liabilities</b>	<b>5,644,609</b>	<b>2,363,018</b>	<b>3,281,591</b>	<b>138.87 %</b>
<b>Statement of Net Position</b>	<b>\$ 33,198,105</b>	<b>\$ 28,876,413</b>	<b>\$ 4,321,692</b>	<b>14.97 %</b>

Statement of Changes in Plan Net Position as of June 30, 2011, as compared to June 30, 2010, is as follows:

	2011	2010	Dollar Change	Percentage Change
<b>Additions:</b>				
Contributions and service credit purchases	\$ 1,257,874	\$ 1,155,402	\$ 102,472	8.87 %
Net Investment Income	588,247	684,569	(96,322)	(14.07) %
Net Appreciation of Fair Value of Investments	5,368,740	3,451,523	1,917,217	55.55 %
Other Income	129,908	13	129,895	999,192.31 %
<b>Total Additions</b>	<b>7,344,769</b>	<b>5,291,507</b>	<b>2,053,262</b>	<b>38.80 %</b>
<b>Deductions:</b>				
Benefit Payments	(2,954,578)	(2,675,332)	(279,246)	10.44 %
Refunds	(56,446)	-	(56,446)	56,446.00 %
Administrative Expenses	(12,053)	(9,930)	(2,123)	21.38 %
<b>Total Deductions</b>	<b>(3,023,077)</b>	<b>(2,685,262)</b>	<b>(337,815)</b>	<b>12.58 %</b>
<b>Change in net position</b>	<b>\$ 4,321,692</b>	<b>\$ 2,606,245</b>	<b>\$ 1,715,447</b>	<b>65.82 %</b>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**VOLUNTEER FIREFIGHTERS RETIREMENT FUND**

Statement of Plan Net Position as of June 30, 2011, as compared to June 30, 2010, is as follows:

	2011	2010	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 3,269,483	\$ 2,665,245	\$ 604,238	22.67 %
Receivables	4,423,357	1,142,805	3,280,552	287.06 %
Investments	48,266,995	38,412,834	9,854,161	25.65 %
<b>Total Assets</b>	<b>55,959,835</b>	<b>42,220,884</b>	<b>13,738,951</b>	<b>32.54 %</b>
<b>Liabilities:</b>				
Accounts Payable	6,024,966	1,593,659	4,431,307	278.06 %
Other Liabilities	2,293,776	1,688,226	605,550	35.87 %
<b>Total Liabilities</b>	<b>8,318,742</b>	<b>3,281,885</b>	<b>5,036,857</b>	<b>153.47 %</b>
<b>Statement of Net Position</b>	<b>\$ 47,641,093</b>	<b>\$ 38,938,999</b>	<b>\$ 8,702,094</b>	<b>22.35 %</b>

Statement of Changes in Plan Net Position as of June 30, 2011, as compared to June 30, 2010, is as follows:

	2011	2010	Dollar Change	Percentage Change
<b>Additions:</b>				
Appropriations from State of NM	\$ 750,000	\$ 750,000	\$ -	0.00 %
Net Investment Income	859,630	903,198	(43,568)	(4.82) %
Net Appreciation of Fair Value of Investments	7,693,122	3,914,544	3,778,578	96.53 %
Other Income	181,187	168	181,019	107,749.40 %
<b>Total Additions</b>	<b>9,483,939</b>	<b>5,567,910</b>	<b>3,916,029</b>	<b>70.33 %</b>
<b>Deductions:</b>				
Benefit Payments	(781,845)	(665,211)	(116,634)	17.53 %
<b>Total Deductions</b>	<b>(781,845)</b>	<b>(665,211)</b>	<b>(116,634)</b>	<b>17.53 %</b>
<b>Change in net position</b>	<b>\$ 8,702,094</b>	<b>\$ 4,902,699</b>	<b>\$ 3,799,395</b>	<b>77.50 %</b>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**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 1 to the financial statements.

Statement of Plan Net Position as of June 30, 2011, as compared to June 30, 2010, is as follows:

	2011	2010	Dollar Change	Percentage Change
<b>Assets:</b>				
Receivables	\$ 6,493,432	\$ 5,796,913	\$ 696,519	12.02 %
Policyholder-value of life insurance contracts	2,073,725	2,129,198	(55,473)	(2.61) %
Investments	379,966,423	321,475,082	58,491,341	18.19 %
<b>Total Assets</b>	<u>388,533,580</u>	<u>329,401,193</u>	<u>59,132,387</u>	17.95 %
<b>Statement of Net Position</b>	<u>\$ 388,533,580</u>	<u>\$ 329,401,193</u>	<u>\$ 59,132,387</u>	17.95 %

Statement of Changes in Plan Net Position as of June 30, 2011, as compared to June 30, 2010, is as follows:

	2011	2010	Dollar Change	Percentage Change
<b>Additions:</b>				
Contributions and service credit purchases	\$ 35,818,029	\$ 36,664,711	\$ (846,682)	(2.31) %
Change in policyholder value of life insurance contracts	-	34,643	(34,643)	(100.00) %
Net Investment Income	52,977,922	2,456,710	50,521,212	2,056.46 %
Net (Depreciation)/Appreciation of Fair Value of Investments	29,977	18,870,341	(18,840,364)	(99.84) %
<b>Total Additions</b>	<u>88,825,928</u>	<u>58,026,405</u>	<u>30,799,523</u>	53.08 %
<b>Deductions:</b>				
Benefit Payments	(28,583,502)	(23,167,186)	(5,416,316)	23.38 %
Life Insurance Premiums	(122,876)	(135,840)	12,964	(9.54) %
Administrative Expenses	(987,163)	(1,057,628)	70,465	(6.66) %
<b>Total Deductions</b>	<u>(29,693,541)</u>	<u>(24,360,654)</u>	<u>(5,332,887)</u>	21.89 %
<b>Change in net position</b>	<u>\$ 59,132,387</u>	<u>\$ 33,665,751</u>	<u>\$ 25,466,636</u>	75.65 %



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**INVESTMENTS:**

The purpose of the investments is to provide for long-term growth, while also ensuring a reliable cash flow that meets the funding requirements of the current pension obligations. The investments are allocated to a variety of asset types and strategies in order to meet the current funding needs and future growth requirements of the pension liability given reasonable risk levels. Equity related investments are included for their long-term return and growth characteristics, while fixed income and debt related investments are included in the allocation for their ability to control investment risk and provide for a reliable cash flow that meets the funding requirement of current pension payments.

<b>Investment Category</b>	<b>June 30 2011</b>	<b>June 30 2010</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
U.S. Government and Agency Securities	\$ 1,399,668,933	\$ 1,123,597,167	\$ 276,071,766	24.57 %
Municipal Bonds	116,601,135	21,904,917	94,696,218	432.31 %
Fixed Earning Investments (IRC 457)	379,966,423	321,475,082	58,491,341	18.19 %
Corporate Equity Securities	2,996,788,556	3,304,936,693	(308,148,137)	(9.32) %
Corporate Obligations	1,364,197,056	1,216,224,201	147,972,855	12.17 %
International Securities	3,253,088,126	2,189,504,568	1,063,583,558	48.58 %
Venture Capital and Partnerships	1,906,189,029	939,736,307	966,452,722	102.84 %
Alternative Investments	674,645,308	776,460,926	(101,815,618)	(13.11) %
Securities Lending Collateral	536,505,173	372,302,344	164,202,829	44.10 %
Investment in State General Fund	8,438,723	11,146,945	(2,708,222)	(24.30) %
<b>Subtotal Investments</b>	<b>\$ 12,636,088,462</b>	<b>\$ 10,277,289,150</b>	<b>\$ 2,358,799,312</b>	<b>22.95 %</b>
Other Assets (a)	4,925,072			
<b>Total Investments</b>	<b>\$ 12,641,013,534</b>			

(a) Other Assets – this category is for assets that Northern Trust has not transitioned to JP Morgan as the custodial bank for PERA.

The greatest percentage increase was in Municipal Bond, which represented less than 1% of total investments at June 30, 2011. This increase was due to a shift in stock selection strategy by PERA's investment managers. During FY11, the market environment once again preferred risk assets over risk-free securities, such as U.S. Treasuries, and utilizing higher-yielding municipal debt to achieve improved returns was a means to improve portfolio returns with minimal risk.

The second largest percentage increase to invested assets were in Venture Capital and Partnerships and International Securities, which represented 15.08% and 25.73% of the total investments at June 30, 2011, respectively, and collectively increased \$2.0 billion from the previous fiscal year. The increase in international equity securities was due to the search and selection of new investment management in late early 2011. The net increase in venture capital and alternatives is due to PERA continuing to deploy committed funds in order to achieve the strategic long-term target allocation of 20%. The decrease in corporate equity was a result of rebalancing the Fund to the strategic long-term target allocation of 27% from 35%.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**Budget Highlights: Original Budget – Final Budget Comparisons**

There were no budget adjustments from the original budget to the final budget made during fiscal year 2011.

**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:

	<u>Judicial Fund</u>	<u>Magistrate Judges Fund</u>	<u>Volunteer Firefighters Fund</u>	<u>Total</u>
Investment expenses	\$ 152,970	\$62,479	\$93,028	\$308,477
Administrative expenses	<u>23,302</u>	<u>12,053</u>	<u>-</u>	<u>35,355</u>
Total allocated expenses	<u>\$ 176,272</u>	<u>\$74,532</u>	<u>\$93,028</u>	<u>\$343,832</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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2011**

**Capital Assets**

Capital assets, at carrying value, are listed for the years ended June 30, 2011 and 2010:

<b>CAPITAL ASSETS:</b>	2011	2010
Land	\$ 1,548,990	\$ 1,548,990
Capital Assets: Net of Depreciation		
Building	12,189,535	12,611,076
Computer Equipment and Software	1,816,592	3,815,373
Property and Equipment	2,427	24,312
Automobile	16,402	18,655
Total	<u>\$ 15,573,946</u>	<u>\$ 18,018,406</u>

- Depreciation and amortization expense, reported as part of administrative expenses, for the year ended June 30, 2011 was \$2,435,872

**Long-Term Debt**

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

**Currently Known Facts and Conditions**

As discussed in Note 13, during fiscal year 2011 financial markets as a whole increased in values. 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, 2011, investment markets have generally been positive but continue to be volatile. (See Notes 13 and 14.)

The current funding ratio is 71.5% which is a decrease of 12.5%, part of which was affected from reducing the actuarial expected rate of return on investments from 8.00% to 7.75%.

**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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**STATEMENTS OF PLAN NET POSITION**  
**June 30, 2011**

	Public Employees Retirement Fund	Judicial Retirement Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 819,503,382	\$ 5,376,151
Receivables		
Accrued Investment Income	42,523,208	279,994
Accounts Receivable-Brokers	1,066,287,776	6,995,119
Contributions Receivable	27,397,897	136,328
Accounts Receivable - Other	187,617	-
Participant Loans Receivable	-	-
Due from other Agencies	8	-
Interfund Receivable	343,832	-
	<u>1,136,740,338</u>	<u>7,411,441</u>
Investment in State Treasurer Investment Pool	6,726,906	477,541
Investments, at fair value		
U.S. Government and Agency Securities	1,381,394,016	9,062,297
Municipal Bonds	115,078,720	754,946
Variable Earning Investments (IRC 457)	-	-
Stable Value Option & Other (IRC 457)	-	-
Corporate Equity Securities	2,957,660,969	19,402,241
Corporate Obligations	1,346,385,281	8,832,630
International Securities	3,210,613,855	21,062,444
Venture Capital and Partnerships	1,881,300,682	12,341,811
Alternative Investments	665,836,734	4,368,059
Other Assets	4,925,072	-
	<u>11,569,922,235</u>	<u>76,301,969</u>
Securities Lending Collateral Investments	<u>529,476,955</u>	<u>3,487,284</u>
<b>Total Investments</b>	12,099,399,190	79,789,253
Capital Assets, Net	15,573,946	-
Policyholder Account Value of Life Insurance	-	-
<b>Total Assets</b>	<u>\$ 14,071,216,856</u>	<u>\$ 92,576,845</u>
<b>LIABILITIES</b>		
Accounts Payable - Brokers	\$ 1,510,171,659	\$ 9,907,111
Accounts Payable - Other	9,194,120	-
Accrued Expenses	175,005	-
Compensated Absences	319,270	-
Interfund Payable	-	176,272
Securities Lending Liability	556,902,103	3,667,913
	<u>\$ 2,076,762,157</u>	<u>\$ 13,751,296</u>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>		
(A Schedule of Funding Progress for Each Fund is Presented in Note 2)	<u>\$ 11,994,454,699</u>	<u>\$ 78,825,549</u>

*See Accompanying Notes to the Financial Statements.*

Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Deferred Compensation (IRC 457) Fund	Total
\$ 2,195,847	\$ 3,269,483	\$ -	\$ 830,344,863
113,711	169,305	-	43,086,218
2,857,102	4,254,052	-	1,080,394,049
84,381	-	-	27,618,606
-	-	-	187,617
-	-	6,493,432	6,493,432
-	-	-	8
-	-	-	343,832
<u>3,055,194</u>	<u>4,423,357</u>	<u>6,493,432</u>	<u>1,158,123,762</u>
1,172,167	62,109	-	8,438,723
3,701,424	5,511,196	-	1,399,668,933
308,352	459,117	-	116,601,135
-	-	237,985,775	237,985,775
-	-	141,980,648	141,980,648
7,925,739	11,799,607	-	2,996,788,556
3,607,619	5,371,526	-	1,364,197,056
8,602,792	12,809,035	-	3,253,088,126
5,040,917	7,505,619	-	1,906,189,029
1,784,099	2,656,416	-	674,645,308
-	-	-	4,925,072
<u>32,143,109</u>	<u>46,174,625</u>	<u>379,966,423</u>	<u>12,104,508,361</u>
<u>1,448,564</u>	<u>2,092,370</u>	<u>-</u>	<u>536,505,173</u>
33,591,673	48,266,995	379,966,423	12,641,013,534
-	-	-	15,573,946
-	-	2,073,725	2,073,725
<u>\$ 38,842,714</u>	<u>\$ 55,959,835</u>	<u>\$ 388,533,580</u>	<u>\$ 14,647,129,830</u>
\$ 4,046,482	\$ 6,024,966	\$ -	\$ 1,530,150,218
-	-	-	9,194,120
-	-	-	175,005
-	-	-	319,270
74,532	93,028	-	343,832
1,523,595	2,200,748	-	564,294,359
<u>\$ 5,644,609</u>	<u>\$ 8,318,742</u>	<u>\$ -</u>	<u>\$ 2,104,476,804</u>
<u>\$ 33,198,105</u>	<u>\$ 47,641,093</u>	<u>\$ 388,533,580</u>	<u>\$ 12,542,653,026</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**STATEMENTS OF CHANGES IN PLAN NET POSITION**  
**For the Year Ended June 30, 2011**

	Public Employees Retirement Fund	Judicial Retirement Fund
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 283,376,829	\$ 3,823,546
Member	216,940,922	1,216,453
Appropriations from State of New Mexico - Fire Protection Fund	-	-
Service Credits Purchased	15,525,391	102,470
<b>Total Contributions</b>	<u>515,843,142</u>	<u>5,142,469</u>
Investment Income		
Interest	100,244,093	686,675
Dividends	135,203,065	876,273
Net appreciation in Fair Value of Investments	1,963,256,391	12,730,036
Other Investment Income	4,925,072	-
Securities Lending Income	5,989,699	38,995
	<u>2,209,618,320</u>	<u>14,331,979</u>
Securities Lending Expenses	(185,451)	(1,221)
Other Investment Expenses	(23,317,653)	(152,970)
	<u>2,186,115,216</u>	<u>14,177,788</u>
<b>Net Investment Income</b>		
Other Income	46,316,181	299,717
<b>Total Additions</b>	<u>2,748,274,539</u>	<u>19,619,974</u>
<b>DEDUCTIONS</b>		
Benefit Payments	716,679,792	7,141,608
Refunds to Terminated Employees	43,107,776	-
Life Insurance Premiums	-	-
Administrative Expenses	10,523,603	23,302
<b>Total Deductions</b>	<u>770,311,171</u>	<u>7,164,910</u>
<b>Increase In Net Assets</b>	1,977,963,368	12,455,064
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of Year	<u>10,016,491,331</u>	<u>66,370,485</u>
<b>End of Year</b>	<u>\$ 11,994,454,699</u>	<u>\$ 78,825,549</u>

*See Accompanying Notes to the Financial Statements.*

<u>Magistrate Retirement Fund</u>	<u>Volunteer Firefighters Retirement Fund</u>	<u>Deferred Compensation (IRC 457) Fund</u>	<u>Total</u>
\$ 894,644	\$ -	\$ -	\$ 288,095,019
363,230	-	35,818,029	254,338,634
-	750,000	-	750,000
-	-	-	15,627,861
<u>1,257,874</u>	<u>750,000</u>	<u>35,818,029</u>	<u>558,811,514</u>
277,309	391,947	2,734,696	104,334,720
357,410	537,890	-	136,974,638
5,368,740	7,693,122	29,977	1,989,078,266
-	-	50,243,226	55,168,298
16,514	23,554	-	6,068,762
<u>6,019,973</u>	<u>8,646,513</u>	<u>53,007,899</u>	<u>2,291,624,684</u>
(507)	(733)	-	(187,912)
<u>(62,479)</u>	<u>(93,028)</u>	<u>-</u>	<u>(23,626,130)</u>
<u>5,956,987</u>	<u>8,552,752</u>	<u>53,007,899</u>	<u>2,267,810,642</u>
129,908	181,187	-	46,926,993
<u>7,344,769</u>	<u>9,483,939</u>	<u>88,825,928</u>	<u>2,873,549,149</u>
2,954,578	781,845	28,583,502	756,141,325
56,446	-	-	43,164,222
-	-	122,876	122,876
12,053	-	987,163	11,546,121
<u>3,023,077</u>	<u>781,845</u>	<u>29,693,541</u>	<u>810,974,544</u>
4,321,692	8,702,094	59,132,387	2,062,574,605
<u>28,876,413</u>	<u>38,938,999</u>	<u>329,401,193</u>	<u>10,480,078,421</u>
<u>\$ 33,198,105</u>	<u>\$ 47,641,093</u>	<u>\$ 388,533,580</u>	<u>\$ 12,542,653,026</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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 1(c). 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 1(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, 2011**

**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

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

\* This fund is 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, 2011**

**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, 2011 was determined by the actuary to be \$775,571.

Effective July 1, 2010, the retirement age and service credit requirements for normal retirement for PERA state and municipal general members first hired on or after July 1, 2010 will increase established in State statute under Chapter 10, Article 11, NMSA 1978. Under the new requirements, general members will be eligible to retire at any age with 30 or more years of service credit. General members hired on or before June 30, 2010 remain eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, municipal juvenile detention officers and municipal police and firefighters in Plans 3, 4 and 5 will not be affected by the new age and service requirements. Police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 20 or more years of service credit. State police and adult correctional officers and municipal juvenile detention officers will remain in 25-year retirement plans where service credit is enhanced by 20%. In addition to retiring at any age with 30 or more years of service credit, general members in the new plans can retire at any age if the sum of the member's age and years of service credit equals at least 80 or at age 67 with 5 or more years of service credit. No changes were made to pension factors, employee or employer contribution percentages or to the computation of final average salary.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

**C. Description of the Funds (Continued)**

**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 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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

**C. Description of the Funds (Continued)**

**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 2011 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.

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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

**D. Membership**

At June 30, 2011, the number of participating government employers were:

Public Employees Retirement Fund	
State Agencies	126
Cities	88
Counties	33
Special Districts and Councils of Government	40
Housing Authorities	16
Hospitals	2
Other	<u>5</u>
Totals	<u><u>310</u></u>
Judicial Retirement Fund	16
Magistrate Retirement Fund	9
Volunteer Firefighters Retirement Fund	363

At June 30, 2011, membership in the plans was as follows:

	<u>PERA*</u> <u>Retirement</u> <u>Fund</u>	<u>Judicial</u> <u>Retirement</u> <u>Fund</u>	<u>Magistrate</u> <u>Retirement</u> <u>Fund</u>	<u>VFF</u> <u>Retirement</u> <u>Fund</u>
Retirees and beneficiaries receiving benefits	28,691	118	78	609
Terminated plan members not yet receiving benefits	9,186	21	16	783
Active plan members	48,163	114	45	5,867

\*Note: PERA Retirement Fund includes the Legislative Fund

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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.

***Receivables due to PERA:*** Per Article IV, Section 32 of the New Mexico Constitution, no obligation or liability will be exchanged, transferred, remitted, released, postponed or in any way diminished by the legislature, nor shall any such obligation or liability be extinguished except by the payment thereof into the proper treasury or by proper proceeding in court. Per 2.80.800.8 NMAC, The Board directs the Executive Director to make all reasonable efforts to collect any pension overpayment made for any reason.

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

Stocks traded on a national or international exchange are reported at current quoted market values.

Bonds are primarily reported at fair values obtained from independent pricing services.

Real estate partnerships are reported at values provided by general partners in conjunction with management and investment advisors. The valuation assumptions are based upon both market and property specific inputs which involve expert judgment.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

Private equity and absolute return strategy investments are reported at fair value as determined by the general partners in conjunction with management and investment advisors. The valuation assumptions are based on the nature of the investment and the underlying business. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment.

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) in the investment pool at June 30, 2011, are as follows:

Public Employees Retirement Fund	98.69%
Magistrate Retirement Fund	0.27
Judicial Retirement Fund	0.65
Volunteer Firefighters Retirement Fund	<u>0.39</u>
<b>Total</b>	<u><u>100.00%</u></u>

**Capital Assets.** Capital assets costing \$5,000 or more (12-6-10 NMSA 197B) 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 50 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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

*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.

*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 2011 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 2011 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.

Net Position balances as of June 30, 2011 are as follows:

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Members Contribution Fund	\$ 2,154,574,096	\$ 9,046,618	\$ 3,002,793
Employers Accumulation Fund	3,668,414,921	48,936,888	22,362,478
Retirement Reserve Fund	6,171,465,682	20,842,043	7,832,834
<b>Total</b>	<u><u>\$ 11,994,454,699</u></u>	<u><u>\$ 78,825,549</u></u>	<u><u>\$ 33,198,105</u></u>



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

***Deferred Compensation Plan*** - At June 30, 2011, PERA had \$69,521 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 \$69,521 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, 2011, 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 position.

***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. The retirement funds use 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

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

unfunded 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 4.0% 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 fund divisions as of the most recent actuarial valuation date.

The funded status of the retirement plans and divisions as of June 30, 2011 are as follows:

<b>Plan</b>	<b>Actuarial Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded (Overfunded) Actuarial Accrued Liability</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</b>
	<b>(a)</b>	<b>(b)</b>	<b>(b) – (a)</b>	<b>(a)/(b)</b>	<b>(c)</b>	<b>((b-a)/c)</b>
PERA	\$ 11,855,217,373	\$ 16,826,392,409	\$ 4,971,175,036	70.50%	\$ 1,935,013,761	256.9%
Legislative	23,508,201	26,347,359	2,839,158	89.20%	N/A**	N/A**
Judicial	78,199,003	139,709,488	61,510,485	56.00%	12,266,852	501.4%
Magistrate	33,121,149	55,429,165	22,308,016	59.80%	3,405,121	655.1%
Volunteer Fire	47,004,974	27,108,848	(19,896,126)	173.39%	N/A**	N/A**

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

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

The actuarial methods and significant assumptions as of June 30, 2011 are as follows:

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Valuation date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percent, open	Level percent, open	Level percent, open	Level dollar, open
Amortization period	30 years	30 years <sup>^^</sup>	30 years <sup>^^</sup>	30 years <sup>#</sup>
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*	7.75%	7.75%	7.75%	7.75%
Projected salary increases	4.00 - 19.00%	4.75%	4.25%	N/A+
Post retirement benefit Increases	3.00%	3.00%	3.00%	N/A+
* Includes inflation at	3.50%	3.50%	3.50%	3.50%

Notes:

+ 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.

<sup>^^</sup>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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

**Deposits**

Investment balances reported in the Statements of Plan Net Position 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	\$ 6,647,750	\$ 6,647,750
Deferred Compensation Operating Account	79,156	79,156
Judicial Retirement Fund	477,541	477,541
Magistrate Retirement Fund	1,172,167	1,172,167
Volunteer Firefighters Retirement Fund	62,109	62,109
Total deposits at State Treasurer's Office	<u>\$ 8,438,723</u>	<u>\$ 8,438,723</u>

Cash and cash equivalent balances reported in the Statements of Plan Net Position consist of amounts held by the investment custodian. Cash equivalents held by the investment custodian (JP Morgan) 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**  
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**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 minimal risk that PERA will not be able to recover the value of its investments or collateral securities held by a Counterparty.

The Custodian (under the oversight of PERA's management) 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.

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

PERA's investments (summarized) at June 30, 2011 and its exposure to custodial credit risk are as follows:

<b>Asset Type</b>	<b>Held in the name of the Fund by the Fund's Custodian Bank</b>	<b>Custody arrangements contracted by fund manager</b>	<b>Total</b>
U.S. Government Bonds and Agency Securities	\$ 467,886,395		\$ 467,886,395
International Government Bonds & Agency Securities	324,910,251		324,910,251
U.S. Municipal Bonds	45,694,922		45,694,922
Mutual Bonds	70,906,213		70,906,213
Corporate Bonds	868,829,932		868,829,932
International Corporate Bonds	48,698,831		48,698,831
U.S. Government MBS	606,872,287		606,872,287
Commercial MBS	103,801,370		103,801,370
Asset Backed Securities	194,391,325		194,391,325
International Asset Backed Securities	4,217,271		4,217,271
Non-government C.M.O.	138,212,273		138,212,273
International Non-government C.M.O.	6,046,054		6,046,054
<b>Total Fixed Income Investments</b>	<b>\$ 2,880,467,124</b>		<b>\$ 2,880,467,124</b>
International Common Stock	\$ 3,138,358,368		\$ 3,138,358,368
Domestic Common Stock	2,791,840,832		2,791,840,832
US Venture Capital & Partnerships	1,903,516,235		1,903,516,235
International Venture Capital & Partnerships	2,672,794		2,672,794
Alternatives	674,645,308		674,645,308
International Preferred Stock	72,038,898		72,038,898
Domestic Preferred Stock	10,308,019		10,308,019
Domestic American Depository Receipt (ADR)	51,287,560		51,287,560
International American Depository Receipt (ADR)	672,036		672,036
Domestic Global Depository Receipt (GDR)	1,866,683		1,866,683
International Global Depository Receipt (GDR)	20,948,867		20,948,867
Domestic Real Estate Investment Trust (REIT)	130,999,745		130,999,745
International Real Estate Investment Trust (REIT)	13,673,338		13,673,338
Exchange Traded Fund	3,544,212		3,544,212
Domestic Rights/Warrants	6,941,505		6,941,505
International Rights/Warrants	7,396,619		7,396,619
<b>Total Equities</b>	<b>\$ 8,830,711,019</b>	<b>-</b>	<b>\$ 8,830,711,019</b>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

PERA's investments (summarized) at June 30, 2011 and its exposure to custodial credit risk are as follows: (Continued)

<b>Subtotal Equities and Fixed Income</b>	\$ 11,711,178,143	\$ -	\$ 11,711,178,143
Assets with Northern Trust		4,925,072	4,925,072
Securities Lending Collateral Investments		\$ 536,505,173	536,505,173
<b>Total Investments as presented above</b>			\$ 12,252,608,388
IRC 457 fund investments directed by participants			379,966,423
Investments in State General Fund Investment Pool			8,438,723
Total Investments per the Statement of Plan Net Position:			\$ 12,641,013,534

**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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS (CONTINUED)**

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**  
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**JUNE 30, 2011**

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

A summary of PERA's investments at June 30, 2011 and its exposure to credit risk are as follows:

<b>Type</b>	<b>S &amp; P Ratings</b>	<b>Market Value</b>	<b>% of Portfolio</b>
Government Bonds:	AAA	\$ 64,802,878	2.25%
	A	2,988,556	0.10%
	BBB+	1,220,572	0.04%
	BBB	3,165,778	0.11%
	BBB-	4,128,296	0.14%
	BB+	3,784,771	0.13%
	BB	1,578,675	0.05%
	Not Rated	711,127,120	24.69%
Municipal Agencies:	AA+	101,606	0.00%
	AA	367,606	0.01%
	AA-	1,165,530	0.04%
	A+	3,749,758	0.13%
	A	270,963	0.01%
	A-	4,654,464	0.16%
	Not Rated	106,291,208	3.69%
	Corporate Bonds:	AA+	20,064,207
AA		11,801,659	0.41%
AA-		23,205,074	0.81%
A+		21,207,653	0.74%
A		96,963,477	3.37%
A-		54,844,896	1.90%
BBB+		89,542,043	3.11%
BBB		67,674,611	2.35%
BBB-		72,309,313	2.51%
BB+		13,286,205	0.46%
BB		18,556,838	0.64%
BB-		21,217,533	0.74%
B+		11,495,543	0.40%
B		13,317,062	0.46%
B-		9,975,741	0.35%

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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**NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS (CONTINUED)**

Type	S & P Ratings	Market Value	% of Portfolio
Corporate Bonds:	CCC+	12,299,103	0.43%
	CCC	3,098,583	0.11%
	CCC-	2,270,281	0.08%
	D	9	0.00%
	Not rated	354,398,932	12.30%
Government MBS:	AAA	163,064,445	5.66%
	Not Rated	443,807,842	15.43%
Commercial MBS:	AAA	21,347,749	0.74%
	AA+	1,720,972	0.06%
	A+	892,245	0.03%
	A	3,572,057	0.12%
	A-	3,771,096	0.13%
	BBB+	4,816,454	0.17%
	BBB	2,374,495	0.08%
	BBB-	2,156,867	0.07%
	Not Rated	63,149,435	2.19%
Asset Backed Securities:	AAA	49,441,331	1.72%
	AA+	4,697,254	0.16%
	AA	11,648,362	0.40%
	AA-	3,031,195	0.11%
	A+	2,902,932	0.10%
	A	4,135,537	0.14%
	A-	1,053,648	0.04%
	BBB+	7,960,937	0.28%
	BBB	5,006,274	0.17%
	BBB-	623,509	0.02%
	BB+	2,865,021	0.10%
	BB	2,766,635	0.10%

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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**NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS (CONTINUED)**

Type	S & P Ratings	Market Value	% of Portfolio
Asset Backed Securities:	B	1,285,280	0.04%
	B-	6,093	0.00%
	CCC	216,920	0.01%
	CC	16,781	0.00%
	D	103,623	0.00%
	Not Rated	100,847,264	3.50%
Non government Backed C.M.O.:	AAA	28,019,252	0.97%
	AA+	1,709,282	0.06%
	AA	875,399	0.03%
	AA-	122,294	0.00%
	BB+	101,230	0.00%
	BB	745,502	0.03%
	BB-	43,658	0.00%
	B+	243,352	0.01%
	B	6,564	0.00%
	B-	2,326,576	0.08%
	CCC	9,620,045	0.33%
	CC	320,607	0.01%
	Not Rated	100,124,566	3.49%
		<b>\$ 2,880,467,124</b>	<b>100.00%</b>

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

A summary of PERA's investments and its respective maturities at June 30, 2011 and its exposure to interest rate risk are as follows:

<b>Bond Category</b>	<b>WAM* in years</b>	<b>Market Value</b>	<b>Percentage of Fixed Income Portfolio</b>
Corporate Bonds	9.169	\$ 917,528,763	31.85%
Government MBS	26.845	606,872,287	21.07%
Asset Backed Securities	20.395	198,608,596	6.90%
Government Bonds	7.069	792,796,646	27.52%
Commercial MBS	29.793	103,801,370	3.60%
Non-Government Backed C.M.O.s	29.177	144,258,327	5.01%
Municipal and Mutual Bonds	26.528	116,601,135	4.05%
Subtotal Fixed Income Investments		\$ 2,880,467,124	100.00%
Fixed Income Derivatives		416,837,247	
TOTAL Fixed Income Investments		\$ 3,297,304,371	
Short Term Bills & Notes reported as Cash and Cash Equivalents	0.417	76,766,204	
Total Investments Subject to Interest Rate Risk		\$ 3,374,070,575	

\* Weighted Average Maturity

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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**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, 2011, PERA had one investment with a concentration of greater than 5% of total investments.

5.93% 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 has risk exposure through direct investments in international equities, international fixed income and international private equity investments.

PERA's investment managers responsible for investing in non-U.S. equities 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, 2011.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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**NOTE 3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS (CONTINUED)**

Non-U.S. dollar denominated investments and cash and cash equivalents at June 30, 2011 are as follows:

<b>Market Value (included in investments)</b>						
	<b>Currency</b>	<b>Equity</b>	<b>Fixed Income</b>	<b>Venture Capital &amp; Partnerships</b>	<b>Total</b>	<b>Deposits</b>
AED	UAB Dirham	\$ 691,619	\$ -	\$ -	\$ 691,619	\$ 29,615
AUD	Australian Dollar	168,944,068	65,447,059	-	234,391,127	2,913,403
BGN	Bulgarian New Lev	93,920	-	-	93,920	-
BRL	Brazilian Real	85,657,419	5,675,491	84	91,332,994	939,125
BWP	Botswana Pula	1,098,035	-	-	1,098,035	35,992
CAD	Canadian Dollar	163,530,889	12,107,386	357,832	175,996,107	1,626,100
CHF	Swiss Franc	166,637,717	-	-	166,637,717	1,168,259
CLP	Chilean Peso	13,224,706	-	239	13,224,945	107,165
CNY	Chinese Renminbi	-	-	20,428	20,428	-
COP	Columbian Peso	6,450,113	-	-	6,450,113	64,415
CZK	Czech Koruna	6,008,051	-	-	6,008,051	73,121
DKK	Danish Krone	26,663,008	-	-	26,663,008	123,478
EGP	Egyptian Pound	4,552,712	-	-	4,552,712	90,834
EUR	Euro	630,808,130	1,568,015	35,627,459	668,003,604	9,567,384
GBP	British Pound Sterling	450,475,937	14,353,580	-	464,829,517	2,745,521
GHS	New Ghana Cedi	846,841	8,488,214	-	9,335,055	30,575
HKD	Hong Kong Dollar	151,053,716	-	-	151,053,716	1,402,640
HRK	Croatia Kuna	1,267,701	-	-	1,267,701	50,878
HUF	Hungarian Forint	6,890,146	25,849,104	-	32,739,250	106,414
IDR	Indonesian Rupiah	18,856,148	17,660,784	-	36,516,932	11,931,167
ILS	New Israeli Shekel	13,318,120	-	-	13,318,120	20,028,980
INR	Indian Rupee	43,038,721	936,906	-	43,975,627	692,578
JPY	Japanese Yen	431,796,966	-	-	431,796,966	5,307,361
KES	Kenyan Shilling	1,639,450	-	-	1,639,450	72,526
KRW	South Korean Won	94,676,714	71,656,779	-	166,333,493	1,484,035
LTL	Lithuanian Litas	1,589	-	-	1,589	12,925
LVL	Latvia Lats	552,054	-	-	552,054	2,836
MAD	Moroccan Dirham	3,753,624	-	-	3,753,624	94,046
MUR	Mauritian Rupee	1,913,606	-	-	1,913,606	52,679
MXN	Mexican Peso	31,967,413	25,220,879	-	57,188,292	1,162,755
MYR	Malaysian Ringgit	23,383,579	46,705,118	-	70,088,697	1,068,151
NGN	Nigerian Naira	1,221,028	-	-	1,221,028	30,724
NOK	Norwegian Krone	26,433,997	4,849,774	-	31,283,771	375,263
NZD	New Zealand Dollar	1,701,385	11,533,966	-	13,235,351	418,660
PEN	Peruvian Nuevo Sol	960,734	-	-	960,734	-

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

<u>Market Value (included in investments)</u>						
	<u>Currency</u>	<u>Equity</u>	<u>Fixed Income</u>	<u>Venture Capital &amp; Partnerships</u>	<u>Total</u>	<u>Deposits</u>
PHP	Philippine Peso	6,273,245	4,463,710	-	10,736,955	58,890
PKR	Pakistan Rupee	1,433,823	-	-	1,433,823	11,447
PLN	Polish Zloty	16,110,977	31,587,295	-	47,698,272	116,617
RON	New Romanian Leu	1,754,905	-	-	1,754,905	189
RUB	Russian Ruble	643,134	-	-	643,134	-
SEK	Swedish Krona	62,720,362	4,763,955	-	67,484,317	823,838
SGD	Singapore Dollar	32,185,393	8,987,753	-	41,173,146	237,310
THB	Thai Baht	15,687,906	-	-	15,687,906	129,551
TRY	Turkish Lira	12,132,348	-	-	12,132,348	84,816
TWD	New Taiwan Dollar	67,100,633	-	-	67,100,633	176,775
UAH	Ukrainian Grivna	-	7,527,473	-	7,527,473	-
ZAR	South African Rand	51,546,261	-	-	51,546,261	677,988
		<u>\$ 2,847,698,843</u>	<u>\$ 369,383,241</u>	<u>\$ 36,006,042</u>	<u>\$ 3,253,088,126</u>	<u>\$ 66,127,026</u>
					27%	8%

**Securities and Portable Alpha that have the characteristic of a derivative:**

**Government Agency Mortgage-backed Securities** - As of June 30, 2011, the Funds' investment portfolios, excluding securities lending collateral investments, included mortgage-backed securities issued by agencies of the United States government of \$934,327,239 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, 2011, the Funds' investment portfolio, excluding securities lending collateral investment, included corporate asset-backed securities with a fair value of \$198,608,596. 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.

**Portable Alpha** - PERA began a Portable Alpha program in 2007. The program is comprised of equal weighting to a beta component, S&P500 futures, and an alpha component, 17 hedge funds. The Portable Alpha program is reported within PERA's large cap domestic equity composite and designed to reduce risk while adding incremental excess returns to the equity composite. The Portable Alpha program returned 41.35% for the fiscal year ending June 30, 2011; the program's inception-to-date return is (8.21)%.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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**NOTE 4. DERIVATIVES**

This disclosure relates to PERA’s investment derivative instruments measured at fair value on the Statements of Plan Net Position and Statements of Changes in Plan Net Position. PERA hold no hedging derivatives at June 30, 2011.

Derivatives are generally defined as contracts whose value depend on, or derive from, the value of an underlying asset, reference rate, or financial index. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2011 financial statements are as follows:

Type	Change in Fair Value		Fair Value		Notional Amount	Unit of Value
	Classification	Amount	Classification	Amount		
Equity derivatives - futures	Investment Revenue	\$ 19,150,585	Investments	\$ 618,668,039	591,010	\$ 891,366,097
Commodity Futures	Investment Revenue	(11,382,722)	Investments	230,696,385	2,279,765	242,079,107
Fixed Income derivatives - futures	Investment Revenue	(949,185)	Investments	418,174,891	358,800,000	386,591,101
Fixed Income derivatives - options	Investment Revenue	32,764	Investments	(647)	(11,444,920)	(94,564)
Fixed Income derivatives - swaps	Investment Revenue	(1,336,997)	Investments	(1,336,997)	172,600,000	-
Forward Currency Contracts	Investment Revenue	(4,724,187)	Investments	(4,967,026)	\$ (242,839)	(242,839)

For accounting and financial reporting purposes, these derivative instruments are considered investment derivative instruments. Accordingly, the accumulated changes in fair value of these derivative instruments as of June 30, 2011, are reported within the “Net appreciation in Fair Value of Investments” on the Statement of Changes in Plan Net Position.

**Derivatives Counterparty Credit Risk**

PERA enters into various types of derivative transactions to which the counterparty credit risk of PERA non-exchange traded investment derivatives instruments outstanding are subject to loss exposure at June 30, 2011. Credit ratings of these counterparties range from AAA to not rated and include currency forward contracts, commodity futures, equity futures, and fixed income futures.

**Derivatives Custodial Credit Risk**

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement 40. At June 30, 2011, all of PERA’s investments in derivative instruments are held in PERA’s name and/or are not exposed to custodial credit risk as of June 30, 2011.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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**NOTE 4. DERIVATIVES (CONTINUED)**

**Derivative 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. Derivative exposure to foreign currency were in the markets of the Australian Dollar, Canadian Dollar, Euro, Hong Kong Dollar, Japanese Yen, Pound Sterling, and South African Rand. Note disclosure 3 describes in more detail foreign currency risk.

**Equity Futures:**

Equity futures are exchange-traded futures contracts used to replicate the performance of an underlying stock market index. PERA's index futures held by managers are for long-term exposure (non-hedging), and they are carried at fair value. Indices for futures include well-established indices such as S&P, FTSE, DAX, CAC40 and other G12 country indices. PERA utilizes stock market index futures within the Portable Alpha program.

**Fixed Income Futures:**

Fixed income futures contracts are also exchange-traded derivatives. The exchange's clearing house acts as counterparty on all contracts, sets margin requirements, and also provides a mechanism for settlement. Futures typically have interim partial settlements, or "true-ups", in margin requirements. A futures contract gives the holder the obligation to make or take delivery under the terms of the contract. To exit the commitment prior to the settlement date, the holder of a futures position has to offset position by either selling a long position or buying back (covering) a short position, effectively closing out the futures position and its contract obligations. PERA permits limited use of fixed income futures within the fixed income portfolio.

**Commodity Futures:**

Commodities futures, or futures contracts, are agreements to buy or sell a set amount of a commodity at a predetermined price and date. Buyers use these to avoid the risks associated with the price fluctuations of the product or raw material, while sellers try to lock in a price for their products. Futures are the obligation of the purchase or sale of the underlying asset. PERA utilizes commodity futures within the real asset segment of the alternative assets allocation.

**Fixed Income Option:**

An option is a derivative financial instrument that specifies a contract between two parties for a future transaction on an asset at a reference price. The buyer of the option gains the right, but not the obligation, to engage in that transaction, while the seller incurs the corresponding obligation to fulfill the transaction. The price of an option derives from the difference between the reference price and the value of the underlying asset (commonly a stock, a bond, a currency or a futures contract) plus a premium based on the time remaining until the expiration of the option. The nature of credit risk is default or non-performance of the counterparty to fulfill its contractual obligations.

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**NOTE 4. DERIVATIVES (CONTINUED)**

**Fixed Income Swap:**

A swap is a derivative in which counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument. The benefits in question depend on the type of financial instruments involved. Specifically, the two counterparties agree to exchange one stream of cash flows against another stream. The swap agreement defines the dates when the cash flows are to be paid and the way they are calculated. The nature of credit risk is default or non-performance of the counterparty to fulfill its contractual obligations.

**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. The maximum potential loss is the aggregate face value at the time the contract was opened. Management believes the likelihood of such loss is remote. At June 30, 2011, the Funds had outstanding forward exchange currency contracts to purchase foreign currencies of \$252,578,820 and to sell foreign currencies of \$252,821,660. The fair values of these outstanding contracts at June 30, 2011, were to purchase foreign currencies of \$253,637,820 and to sell foreign currencies of \$258,604,847, respectively. The fair values of the contracts are reflected in the Statement of Plan Net Position. Gains and losses on forward currency may occur to the extent that the fair value of the contracts varies from the actual contract amount and are recorded as incurred in the Statement Changes in Plan Net Position.

**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 uncategorized in the preceding schedule in Note 3. PERA and/or its securities lending agent 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. PERA manages its market risk by recording investments at market value daily and maintaining the value of the collateral held in excess of the value of the securities loaned. As of June 30, 2011, the fair value of securities on loan was \$437,759,983. The associated collateral was \$564,463,969, of which \$465,771,381 was cash collateral

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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**NOTE 5. SECURITIES LENDING (CONTINUED)**

and \$98,692,588 was securities. The cash collateral has been reinvested in other instruments which had a fair value of \$536,505,173 as of June 30, 2011 and the securities lending obligations were \$564,294,359.

The unrealized loss in invested cash collateral on June 30, 2011 was \$27,789,186 which is reflected in the Statement of Changes in Plan Net Position, "Net appreciation in fair value of investments."

As of June 30, 2011, no borrowers' defaults have occurred. PERA and the borrowers maintain the right to terminate all securities lending transactions on demand. 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.

**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 2006 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. The PERA Board adopted an allocation to Alternative Investments in calendar year 2006 and revised the total allocation to alternative investments in June 2010 to 20%: 9% to Absolute Return (hedge funds), 5% to Private Equity, 3% to Real Estate, and 3% 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 such strategies as: Market Neutral, Credit, Distressed, Event Driven, Equity Long/Short, Global Macro and Multistrategy.

As of June 30, 2011, PERA had a total market value of \$1,604,766,090 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 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 in such strategies as: Buyouts, Venture Capital, and Distressed Debt.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 6. ALTERNATIVE INVESTMENTS (CONTINUED)**

As of June 30, 2011, PERA had committed \$771,381,000 to Private Equity limited partnerships and funded only a portion of the total commitment for a market value of \$373,968,119.

**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.

As of June 30, 2011, PERA had committed \$418,676,000 to Real Estate limited partnerships and funded only a portion of the total commitment for a market value of \$306,030,007.

As of June 30, 2011, PERA had committed \$602,000,000 to Real Assets and funded only a portion of the total commitment for a market value of \$278,694,106.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 7. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2011, is as follows:

	Balance June 30, 2010	Reclass (a)	Additions	Deletions	Balance June 30, 2011
Capital assets at cost:					
Land	\$ 1,548,990				\$ 1,548,990
Building	12,646,204				12,646,204
Property and equipment	60,836			(24,820)	36,016
Computer equipment and software	14,961,178		8,455	(572,224)	14,397,409
Automobile	91,337			(11,230)	80,107
	<u>\$ 29,308,545</u>	<u>\$ -</u>	<u>\$ 8,455</u>	<u>\$ (608,274)</u>	<u>\$ 28,708,726</u>
Accumulated depreciation:					
Building	\$ (35,128)		\$ (421,540)		\$ (456,668)
Property and equipment	(36,524)	(2,334)	(3,832)	9,101	(33,589)
Computer equipment and software	(11,145,805)		(2,005,912)	570,900	(12,580,817)
Automobile	(72,682)	2,667	(4,921)	11,230	(63,706)
	<u>\$ (11,290,139)</u>	<u>\$ 333</u>	<u>\$ (2,436,205)</u>	<u>\$ 591,231</u>	<u>\$ (13,134,780)</u>
Total	<u>\$ 18,018,406</u>	<u>\$ 333</u>	<u>\$ (2,427,750)</u>	<u>\$ (17,043)</u>	<u>\$ 15,573,946</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 \$2,435,872.
- Reclassification was done during 2011 in which furniture was removed from the building cost and the automobiles were separately allocated.
- (a) In FY10, the current year depreciation for an ATV was counted for twice - once in equipment and once in automobile. The accumulated depreciation for the ATV was in automobile when it should have been in equipment.

**NOTE 8. COMPENSATED ABSENCES**

The following represents changes in long-term liabilities for the year ended June 30, 2011.

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Compensated absences	<u>\$ 352,086</u>	<u>366,878</u>	<u>(399,694)</u>	<u>\$ 319,270</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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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.

The PERA Board voted in October 2010 to sue Wachovia for breach of contract and breach of fiduciary duty alleging mismanagement of state investments that were supposed to be low-risk.

PERA is exposed to various risks of loss for which PERA carries insurance (Auto; Employee Fidelity Bond; General Liability; Civil Rights and Foreign Jurisdiction; Money and Securities; Property; and Workers' Compensation) with the State of New Mexico Risk Insurance Program. Coverage's are designed to satisfy the requirements of the State tort claims. Also, any claims are processed through RMD. There are no pending or threatened legal proceedings at year-end other than those noted in the preceding paragraph.

**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.
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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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](http://www.pera.state.nm.us).

**Funding Policy.** For fiscal year 2010 and 2011, plan members are required to contribute 8.92% 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). For fiscal year 2010 and 2011, PERA is required to contribute 15.09% 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, 2011, 2010, and 2009, were \$602,122, \$633,426, and \$691,372, respectively, equal to the amount of the required contributions from the employer for each year. In addition, the employees contributed an additional \$355,926, \$374,430, and \$309,221 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.

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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

*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](http://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 as of July 1, 2010 to contribute 1.666% of each participating employee's annual salary; each participating employee is required to contribute .833% of their salary. Prior to July 1, 2010, employers contributed 1.3% and employees contributed 0.65%. 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, 2011, 2010, and 2009 were \$67,095, \$54,532, and \$54,601 for employer contributions and \$33,547, \$27,266, and \$27,301 in employee contributions, respectively, which equal the required contributions for each year.

**NOTE 13. MARKET VOLATILITY**

Subsequent to June 30, 2011, the capital markets were significantly influenced by two factors: the U.S. Congress's contentious budget negotiation/debt ceiling deadline and the expanding Euro Zone sovereign and banking credit crisis. On August 2, the U.S. Congress came to a sub-optimal budget agreement and narrowly avoided the government shut down that the inadequate debt ceiling would have initiated. But, as a result, Standard and Poor's downgraded U.S. sovereign debt to AA+ from AAA on August 5, citing divisive political governance and a growing debt burden as drivers of the decision. The European Central Bank, the European Monetary Union, and the International Monetary Fund worked out short-term solutions for the distressed Greek government but so far have been unable to impede the credit crisis from spreading to Italy, Spain and Portugal. The capital markets have experienced extreme volatility in the first three months of fiscal year 2012, with consensus estimates that volatility will continue through at least December 2011.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 14. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 9, 2011 (the date the financial statements were available to be issued) to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2011. Management believes no material subsequent events have arisen that would require adjustment or disclosure, in addition to those reported in Note 14.

**DFA accounts receivable and payable reconciliation:**

During fiscal year 2010, Department of Finance and Administration (DFA) resolved unposted transactions for old payrolls that had not been reconciled as far back as 2005. The result of posting these transactions was the creation of a net receivable of approximately \$333,934, based on the PERA reconciliation of the payroll files and monetary remittances sent by DFA to PERA. The PERA Board decided that this receivable should be recorded in the PERA financial statements, with the understanding that DFA disputes this receivable and DFA would not allow this receivable to be posted in SHARE. During fiscal year 2011, limited review was done on resolving the reconciliation of these receivables by DFA. During fiscal year 2012, DFA and PERA will continue researching and reconciling these items to determine any amounts owed by either party.

**Contribution Rate Changes for State Plan 3, State Hazardous Duty Plan 2, and State Police and Adult Correctional Officers Plan 1:**

From July 1, 2009 through June 30, 2013, for members whose annual salary is greater than twenty thousand dollars (\$20,000), the employer contribution rate will decrease by 1.5% and the employee contribution rate will increase by 1.5%.

An additional contribution was approved from July 1, 2011 through June 30, 2013, for members whose annual salary is greater than twenty thousand dollars (\$20,000), the employer contribution rate will decrease by 1.75% and the employee contribution rate will increase by 1.75%.

For fiscal year 2012 and 2013, this will be a combined contribution swap of 3.25% between employee and employer.

PERA was successful in getting language added to the legislation bill to conduct an actuarial study to determine any negative actuarial impact to the PERA Fund caused by the contribution shifts. PERA can then request a supplemental appropriation during the 2014 legislative session if the fund is negatively affected.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 14. SUBSEQUENT EVENTS (CONTINUED)**

**PERA “Ideal Plan”:**

The PERA Board continued to address fund solvency issues resulting from investment losses incurred during the 2008-2009 market down turn. During the 2011 regular legislative session, the PERA Board proposed legislation creating a second tier of benefits for both uniformed and non-uniformed members commonly referred to as “The Ideal Plan”. This proposal would extend retirement eligibility, lower pension factors and reduce COLAs for new hires. By lowering the Normal Cost for retirement going forward, the Ideal Plan is projected to extend the solvency of the PERA fund by 8 to 10 years. However, various stakeholder groups lobbied against the implementation of the Ideal Plan and prevented its passage during the legislative session. During the past year the PERA Board has worked closely with these stakeholder groups to build consensus on a revised Ideal Plan which will be introduced in the 2012 regular legislative session.

**Post-Employment Benefits (New Mexico Retiree Healthcare Association):**

Effective July 1, 2011, the required employer and employee contribution levels have been increased per 10-7C-15 NMSA 1978. The employer will contribute 1.834% and the employee will contribute 0.917%. Then effective July 1, 2012, the employer will be required to contribute 2.00% and the employee will contribute 1.00%.

**NOTE 15. INVESTMENT PLACEMENT AGENTS**

Placement agents are entities who act 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 2% 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 during 2009 in a New York scandal that has rippled into 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 has rewritten its internal Investment Policy 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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS  
Year Ended June 30, 2011**

**SCHEDULE OF FUNDING PROGRESS:**

PERA uses the aggregate funding method, which does not identify or separately amortize unfunded actuarial liabilities. Below is a schedule of funding progress using the individual entry age normal funding method to approximate the funding status. 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.

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Liability (AAL) Entry 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)
<b><u>PUBLIC EMPLOYEES RETIREMENT FUND</u></b>						
June 30, 2007	12,032,214,874	12,962,480,229	930,265,355	92.8	1,908,519,615	48.7
June 30, 2008	12,816,218,012	13,740,335,321	924,117,309	93.3	1,965,064,160	47.0
June 30, 2009	12,553,985,916	14,908,279,200	2,354,293,284	84.2	2,081,259,498	113.1
June 30, 2010	12,243,712,850	15,601,461,460	3,357,748,610	78.5	1,993,516,921	168.4
June 30, 2011	11,855,217,373	16,826,392,409	4,971,175,036	70.5	1,935,013,761	256.9
<b><u>LEGISLATIVE RETIREMENT FUND (A)</u></b>						
June 30, 2007	17,142,953	19,591,914	2,448,961	87.5	N/A	N/A
June 30, 2008	19,999,435	21,414,312	1,414,877	93.4	N/A	N/A
June 30, 2009	21,156,210	24,345,140	3,188,930	86.9	N/A	N/A
June 30, 2010	22,125,806	26,675,356	4,549,550	82.9	N/A	N/A
June 30, 2011	23,508,201	26,347,359	2,839,158	89.2	N/A	N/A
<b><u>JUDICIAL RETIREMENT FUND</u></b>						
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
June 30, 2010	79,644,583	130,135,898	50,491,315	61.2	13,041,980	387.1
June 30, 2011	78,199,003	139,709,488	61,510,485	56.0	12,266,852	501.4
<b><u>MAGISTRATE RETIREMENT FUND</u></b>						
June 30, 2007	37,241,627	36,964,449	(277,178)	100.7	3,464,587	(8.0)
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	388.6
June 30, 2010	34,651,696	52,676,816	18,025,120	65.8	3,519,570	512.1
June 30, 2011	33,121,149	55,429,165	22,308,016	59.8	3,405,121	655.1
<b><u>VOLUNTEER FIREFIGHTERS RETIREMENT FUND (A)</u></b>						
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	48,192,255	19,869,273	(28,322,982)	242.5	N/A	N/A
June 30, 2010	47,346,417	20,465,920	(26,880,497)	231.3	N/A	N/A
June 30, 2011	47,004,974	27,108,848	(19,896,126)	173.4	N/A	N/A

(A) Legislative and 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, 2011**

<b>Fiscal Year Ended</b>	<b>Public Employees Retirement Fund (3)</b>		<b>Judicial Retirement Fund</b>	
	<b>Annual Required Contribution</b>	<b>% Contributed</b>	<b>Annual Required Contribution</b>	<b>% Contributed</b>
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	100.0	4,690,274	115.6
June 30, 2010	328,202,821	100.0	5,658,174	85.7
June 30, 2011	356,050,092	100.0	5,784,453	88.9

<b>Fiscal Year Ended</b>	<b>Magistrate Retirement Fund</b>		<b>Volunteer Firefighters Retirement Fund (1)</b>	
	<b>Annual Required Contribution</b>	<b>% Contributed</b>	<b>Annual Required Contribution</b>	<b>% Contributed(2)</b>
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
June 30, 2010	1,698,108	68.0	0	750.0
June 30, 2011	2,013,684	62.5	0	750.0

(1) Contributions are appropriated from the State of New Mexico Fire Protection Fund

(2) Using the high end of the range for the calculation

(3) Public Employees Retirement Fund includes Legislative.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**Year Ended June 30, 2011**

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Valuation date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percent, open	Level percent, open	Level percent, open	Level dollar, open
Amortization period	30 years	30 years <sup>^^</sup>	30 years <sup>^^</sup>	30 years <sup>#</sup>
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*	7.75%	7.75%	7.75%	7.75%
Projected salary increases	4.00 - 19.00%	4.75%	4.25%	N/A+
Post retirement benefit Increases	3.00%	3.00%	3.00%	N/A+
* Includes inflation at	3.50%	3.50%	3.50%	3.50%

Notes:

+ 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.

<sup>^^</sup>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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues and Appropriations				
Other state funds:				
Interest income	\$ 32,475,600	\$ 32,475,600	\$ 100,244,093	\$ 67,768,493
Deferred Comp Plan Income	108,700	108,700	49,376	(59,324)
<b>Total Revenue</b>	<u>\$ 32,584,300</u>	<u>\$ 32,584,300</u>	<u>\$ 100,293,469</u>	<u>\$ 67,709,169</u>
 Expenditures				
Administration				
Contractual services	25,305,400	25,305,400	24,812,474	492,926
Personnel services and benefits	5,951,500	5,951,500	5,190,007	761,493
Other operating costs	1,327,400	1,327,400	1,083,633	243,767
<b>Total Expenditures</b>	<u>\$ 32,584,300</u>	<u>\$ 32,584,300</u>	<u>\$ 31,086,114</u>	<u>\$ 1,498,186</u>
 <b>Change in net assets, budget items</b>			69,207,355	
 <b>Non-budget revenues and expenses:</b>				
Investment earnings and change in fair value			2,109,188,776	
Depreciation Expense			(2,435,872)	
Compensated Absences			(319,270)	
Contributions from members and employers			515,843,142	
Other Income			46,266,805	
Benefit payments to retirees and beneficiaries			(716,679,792)	
Refunds to terminated employees			<u>(43,107,776)</u>	
 <b>Increase (Decrease) in plan net assets</b>			1,977,963,368	
 <b>Net Position held in trust for pension benefits</b>				
Balance - beginning of year			<u>10,016,491,331</u>	
 Balance - end of year			<u>\$ 11,994,454,699</u>	

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**OTHER SUPPLEMENTAL SCHEDULES**  
**SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES**  
**Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Investment Expenses:</b>		
Investment Manager Fees	\$ 17,806,880	\$ 15,085,510
Consultant Fees	5,251,267	4,128,283
Legal Fees	259,506	363,292
Total Investment Expenses	\$ 23,317,653	\$ 19,577,085
<b>Administrative Expenses:</b>		
<b>Other Contractual Services:</b>		
Information Technology Services	985,737	1,031,952
Legal Fees	25,269	11,828
Audit Fees	104,277	127,181
Medical Services	46,455	45,228
Other Professional Services	326,505	472,649
Total Other Contractual Services	1,488,243	1,688,838
<b>Other Administrative Services:</b>		
Personnel Services and Benefits	5,088,908	5,482,376
Other Operating Costs	1,108,154	1,178,202
Deferred Compensation Plan expenses	83,156	1,057,628
Compenstated Absences	319,270	352,086
Depreciation Expense	2,435,872	2,326,244
Total Other Administrative Services	9,035,360	10,396,536
Total Administrative Expenses	\$ 10,523,603	\$ 12,085,374
<b>Total Investment and Administrative Expenses</b>	<b>\$ 33,841,256</b>	<b>\$ 31,662,459</b>



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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 *GOVERNMENT 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 Position and Statements of Changes in Plan Net Position 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, 2011, and have issued our report thereon dated November 9, 2011. 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, 2011, 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

Management of PERA is responsible for establishing and maintaining effective internal control over financial control. 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.

*A deficiency in internal control exists* when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses as items 06-01 and 07-06 to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

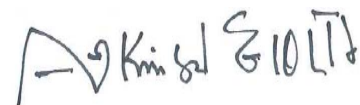
#### Compliance and Other Matters

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

We noted certain matters that are required to be reported under section 12-6-5 NMSA 1978 which are described in the accompanying schedule of findings and responses as items 09-01, 09-04, 10-02, 11-01, 11-02 and 11-03.

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.



**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 9, 2011

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2011**

**SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS**

06-01	Contributions Transaction Cycle – Over and Under Payments	Repeated, revised Significant Deficiency
07-06	RIO to General Ledger Posting	Repeated Significant Deficiency
09-01	Member Account Interest	Repeated, revised
09-03	IRS Reporting and 1099R Errors	Resolved
09-04	Cash Receipt and Accounts Receivable Processes	Repeated, revised
10-01	Investment File Documentation	Resolved
10-02	Performance Appraisals	Repeated

**SCHEDULE OF CURRENT YEAR AUDIT FINDINGS**

11-01	Deceased Member Overpayments
11-02	Service Credit Price Quote Error
11-03	Employer Contributions Receivable

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2011**

**06-01 Contributions Transaction Cycle - Over and Under Payments/Suspended Records -  
Significant Deficiency**

**CONDITION**

During our testing of the contributions cycle, we noted that the various employers whose employees belong to the PERA system are responsible for providing the dollar amounts to be credited to each active PERA member. If the employer provides amounts differing from the total cash submitted, the RIO system creates a receivable or a payable for the difference after 100% of the records have posted. Furthermore, RIO only looks to see that the amount of cash assigned to the report equals the amount of cash required for the report, regardless of the original intended pay period date(s) for the check(s). Specifically, unless checks for one pay period that were allocated to a different pay period's report are reversed and re-allocated, the original reconciliation attempt was invalid. We determined there was 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. For 2011, the balance in the suspense account increased by approximately \$14 million (from \$16 million to over \$30 million).

**CAUSE**

The reconciliation process that were attempted never produced valid results since management was trying to compare the check for a given pay period to the amount that PERA staff chose to allocate to the report which was not a valid comparison. 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. Previously, the amounts could still be individually identified and it was difficult to evaluate the collectability of the receivables and appropriateness of the payables. There is no automated solution to straighten out the human caused issues with allocating payments to reports. The new manual process using the recently developed "Super Screen" is intended to provide a powerful tool to simplify the correction of the allocations. Previous reconciliation efforts were comparing the sum of an employer's check(s) for a given pay period to the amount that Accounting had chosen to allocate to the employer's report for that pay period. In some cases either all, none, or portions of the check were applied to the report for the same pay period.

**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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2011**

**MANAGEMENT RESPONSE**

The "Super Screen" that was deployed into Production in June 2011 allows Contribution Accounting to review on one screen all the financial information related to any employer report at any time, and to match up the existing payables, receivables, and unallocated check amounts to resolve issues with reports that either had too little or too much cash allocated to them. The super screen works because it separates cash coming in and matches it to specific reporting dates. The other analysis that was provided by EDS/Saber (HP) was valid for looking at the allocated check amounts as well as the payables and receivables that were based on them, and at this time no further analysis by HP is pending or planned. Once Contribution Accounting has completed the "Super Screen" level review of the employer reporting financial information, all issues related to this audit finding are expected to be resolved.

**07-06 RIO to General Ledger Posting - Significant Deficiency**

**CONDITION**

Changes made to individual active 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 to 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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2011**

**MANAGEMENT RESPONSE**

PERA's software vendor completed its compilation of reports, which verified the amounts being transferred via the RIO interface file into the general ledger, that satisfied the computer change request submitted in 2008 to eliminate manual journal entries. Changes are now tracked and allow RIO to interface with the general ledger at the individual member level. All necessary changes to the RIO system have been tested and implemented by PERA, and with the completion of that work in July of 2011, all issues related to this audit finding have been resolved.

**09-01 Member Account Interest**

**CONDITION**

During our audit, we identified six member accounts out of forty-one tested whose total life-to-date interest was incorrect due to the omission of interest and compound interest thereon early in the member account's history. One member's account is overstated by approximately \$417 as a result of the miscalculated interest. These errors were caused by one of several reasons; either use of an overstated interest rate (not the PERA Rule stated rate of interest of 5.25%) in years 1989-1992, suspended records or refund requests precluding calculation for a given year, and/or pro-rated interest pre-RIO which now gives credit for interest to a member for part of a year before the law change giving credit to a person for a fraction of a year. In addition, management has self reported that the total compounded interest error may be understated by \$102,161. The solution implemented by management does not address the loss of compound interest on member accounts that had previously not had interest properly calculated.

**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 compounded 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 PERA rectify errors in compounding of interest and accrual of previous year's interest since RIO does not rectify historical inaccuracies to ensure that interest is correctly posted on all member accounts as required by the New Mexico Administrative Code. PERA has made final revisions to certain transaction codes in the system to eliminate the use of and the previous process which was to override interest within a member's account.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2011**

**MANAGEMENT RESPONSE**

PERA is improving this process in two ways. First, by successfully bringing current the posting of member wage and contribution records and, second, by creating a new interest recalculation job process in RIO that will run each year and update the interest posted to member accounts so that it is accurately adjusted for any retroactive changes to the members account balance. PERA is in the final stages of testing this interest recalculation job process in RIO and expects it to be fully implemented by December of 2011.

**09-04 Cash Receipt and Accounts Receivable Processes**

**CONDITION**

During our audit, it came to our attention that certain member's retirement payments are often sent to after they have died resulting in account receivable balances are not being reported within the RIO system nor the general ledger. When a member dies and their individual bank account has received payments from PERA after death and then ceases, PERA has a policy to attempt to recover the money. However neither the amounts owed to PERA or a related allowance account are recorded for accounting purposes. Receivables related to overpayments to deceased participants are tracked manually outside of the RIO system.

PERA has been keeping track of all the receivables offline from the general ledger using an Excel spreadsheet since the capability was not in RIO or SHARE to give credit for repayments from members. This occurs because when members remit payments to PERA, there is no receivable balance to credit.

**CRITERIA**

The New Mexico State Constitution article IV section 32 prohibits PERA from forgiving a receivable to the entity. However, NMAC 2.80.800.8 states that a reasonable effort in attempt to recover the monies is sufficient.

**CAUSE**

The current process does not include the creation of an account receivable in RIO for members that have been overpaid. The practice in the past was to either receive a check either back from the bank or member's trust account or reduce the next check to the beneficiary until payment was made in full (or if it was a refund to reduce the refund amount). These transactions were occurring but were not being shown in RIO other than the notes. Therefore, there is not a proper matching of overpayment to recovered receipts in the RIO system.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2011**

**EFFECT**

The amount owed is not recorded on the books along with a related allowance account. PERA pursues member overpayments receivables as required per NMAC 2.80.800.8, which requires a reasonable attempt to collect a debt owed to a state agency. However, it makes only three attempts as required by the Administrative Code. 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 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. Also it is possible that the 1099Rs for these transactions could have been incorrect due the assumption that the beneficiary was the spouse and therefore a joint return.

**RECOMMENDATION**

PERA should track all known receivables and an offsetting allowance account, as valued based on the receivables that have not been recovered after a reasonable effort and are deemed not to be collectible in the future. 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. This will also assist in ensuring that all cash receipts are applied appropriately.

**MANAGEMENT RESPONSE**

Previously, the RIO system could not accommodate changes necessary to reconcile cash receipts for death and disability payments received from members or provide proper reporting and accounting of all receivables within RIO as well as ensuring all 1099Rs were correct for the individuals involved. PERA's software vendor implemented programming changes to support this added functionality, these changes to the RIO system were tested and implemented by PERA, and with the completion of that work in September of 2011, all issues related to this audit finding have been resolved.

**10-02 Performance Appraisals**

**CONDITION**

During our audit, we became aware that the PERA did not provide a timely performance evaluation on approximately eight employees out of twenty-five.

**CRITERIA**

Performance appraisals shall be completed on at least an annual basis per 1.7.9.9 B NMAC by the employee's anniversary date.

**CAUSE**

The performance appraisal was not completed due to oversight.

**EFFECT**

Career employees are not receiving timely performance feedback, which relates to increased quality performance benefits for both the employee and the Board.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2011**

**RECOMMENDATION**

The performance appraisal should be completed and the evaluation schedule reaffirmed.

**MANAGEMENT RESPONSE**

The Board will comply with standards set forth in 1.7.9.9 B NMAC.

**11-01 Deceased Member Overpayments**

**CONDITION**

During our audit, we became aware that member checks continue to be paid after a member's death for up to three months, which resulted in an average of \$1,288 in overpayments sample tested in ten members out of twenty-five. In addition, management self-reported that one member who did not have a beneficiary designated, had sent monthly checks in error for seventeen months to an erroneous beneficiary. The total amount of overpayment from the participant's death was approximately \$19,768.

**CRITERIA**

PERA's current internal control process relies heavily on use of information provided on the Berwyn report, which updates social security numbers on the recently deceased, to know when to stop payment on behalf a member's retirement account. On management's self reported matter, based on PERA's errors and omission statute (NMSA 1978, Section 10-11-4.2(A)(1997)) they are only able to seek remission of overpaid funds for the past year.

**CAUSE**

PERA currently receives the Berwyn report on a quarterly basis. Based upon the timing of a deceased member's death during any given quarter, a deceased member (or deceased member's beneficiary) will still continue to receive a retirement check for up to three months after date of death. On the average, payments continue for between one to two months and generally do not go longer than three months. On management's self-reported member who did not have a beneficiary designated, PERA was able to reclaim the only twelve months or \$14,045 of the \$19,768 that was owed.

**EFFECT**

Increasing the frequency of reviewing the Berwyn report to monthly and improving the timeliness of stopping deceased member's (or their beneficiaries) retirement checks more closely to date of death will significantly reduce overpayments to members. While it appears overpayments are recaptured by PERA, amounts are still outstanding. Also, PERA was unable to recover \$5,723 in erroneous payments made to the one member who was paid for seventeen months.

**RECOMMENDATION**

We recommend PERA change its policy to receive the Berwyn report each month instead of its current process to receive the Berwyn report each quarter in order to improve timeliness of stopping overpayments to retirees and their beneficiaries.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2011**

**MANAGEMENT RESPONSE**

As a result of discussions with the auditor during field work, a request to receive the Berwyn report monthly instead of quarterly was approved at the beginning of August 2011. An amended contract was sent to the Berwyn Group on August 8, 2011, which has been signed. PERA is now waiting on the approval from State Purchasing to begin utilizing Berwyn on a monthly basis. Management expects to begin to access Berwyn on a monthly basis by November 2011.

**11-02 Service Credit Price Quote Error**

**CONDITION**

During our audit, it came to our attention that the service credit price quote was calculated using an incorrect member status for one participant out of thirty-two. A software program change caused by the participant's account status being listed as inactive while he was still active and employed by the state, resulting in that member's one year service credit purchase price being approximately \$2,000 too low. The manual control intended to catch this change failed; resulting in that member's service credit price charged was too low by approximately \$2,000.

**CRITERIA**

Per section 10-11-7, NMSA1978, the member should pay the full actuarial present value of the amount of the increase in the employee's pension as a consequence of the purchase as determined by the association.

**CAUSE**

A software program designed to change the status of participants who are no longer employed by the State from 'active' to 'inactive' occasionally inactivates the accounts of employed participants. This situation can occur when an employer is behind more than three months with their reporting (an automated job runs periodically which changes the account status from active to inactive if a member has not had a wage and contribution record posted within three months), and can also occasionally occur inadvertently through the course of regular employer reporting and the day-to-day business of the agency. PERA staff is now aware of this issue and have mitigating manual controls in place to catch such instances. In the transaction tested, the mitigating control failed to identify that the participant's account was incorrectly labeled as inactive.

**EFFECT**

PERA undercharged the participant by approximately \$2,000. Once management became aware of the issue, the employees calculating and reviewing the service credit price quotes were altered to check the status on each account that they work on. Other departments were also notified to be on the lookout for accounts with an incorrect inactive status and report any instances to appropriate personnel for correction. The software program which caused the issue is no longer being used.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2011**

**RECOMMENDATION**

Based on discussions with management, we recognize that PERA is working toward getting employer reporting up to date and have also implemented procedure changes to verify the participant's account status is correct prior to calculating service credit price quotes. As a result of discussions with the auditor, we identified all members who at one time had an inactive status and also at one time had purchased air time and compared each and every person on the list and found no other cases where any other member was undercharged. PERA is also actively pursuing the outstanding uncollected amount and performing a search of its database for similar situations.

**MANAGEMENT RESPONSE**

PERA has completed the search of its database and has identified no other members who were undercharged, and once the outstanding uncollected amount has been obtained from the aforementioned member, all issues related to this audit finding will have been resolved.

**11-03 Employer Contributions Receivable**

**CONDITION**

During our audit, we noted that contribution receivables were not currently being monitored in an efficient manner in which to tell which employers are behind in sending contribution payments to PERA. In August 2011, the City of Cuba Housing Authority submitted payments for March 2010 to July 2011 in the amount of \$3,986.

**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**

PERA does not have a reliable electronic control or manual protocol to determine completeness of entity reports on an annual basis. From RIO there was no report listing that this employer had been behind in payments.

**EFFECT**

This can cause contributions receivable from employers to go unreported and unaccrued for months or years.

**RECOMMENDATION**

We recommend PERA obtain a report driven by date of cash receipt and employer count to notify management if an employer has not submitted payment timely. This can be done by using a sort function in an Excel spreadsheet by entity so that at a minimum management can determine if an employer has made 12 payments. In addition, this approach can assist in identifying employers as non performing as having missing or low contribution amounts on a monthly basis, which can help identify a problem without any programming change.

**MANAGEMENT RESPONSE**

PERA has many existing reports related to employer reporting, and will work to quickly identify and create any additional reports on trying to get a report to show the aging status of accounts receivable that may be needed to fully resolve this issue.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
EXIT CONFERENCE  
June 30, 2011**

The Financial Statements were prepared by PERA.  
We discussed the recommendations contained in this letter during the exit conference held October 11, 2011. 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
Michael Hansen	Internal Auditor
Rena Herndon	Comptroller
Carolyn Spidle	User Administration Supervisor

Nancy Hewitt	State Member
Oscar Arevalo	State Member
Annette Martinez-Varela	State Member
Jackie Kohlasch	State Member
Patricia French	Municipal Member
Susan Biernacki	Municipal Member
Gerald Chavez	Municipal Member
Grace Gonzalez	County Member
Victor Montoya	Retiree Member

**Atkinson & Co., Ltd.**

Martin Mathisen	Audit Director
Clarke Cagle	Audit Senior Manager
Chris Henderson	Audit On-Site Supervisor

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