



**Public Employees
Retirement Association**
of New Mexico

**PUBLIC EMPLOYEES RETIREMENT
ASSOCIATION
OF
NEW MEXICO
FINANCIAL STATEMENTS**

JUNE 30, 2012



**Public Employees
Retirement Association**
of New Mexico

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**Public Employees
Retirement Association**
of New Mexico

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**Public Employees
Retirement Association**
of New Mexico

***Official Roster
As of June 30, 2012***

<u>NAME</u>	<u>TITLE</u>
Mr. Gerald Chavez	Municipal Member, Chair
Ms. Patricia French	Municipal Member, Vice Chair
Ms. Dianna Duran	Secretary of State
Mr. James B. Lewis	State Treasurer
Ms. Nancy Hewitt	State Member
Ms. Annette Martinez-Varela	State Member
Mr. Roman Jimenez	State Member
Ms. Jackie Kohlasch	State Member
Ms. Susan Biernacki	Municipal Member
Ms. Grace Gonzalez	County Member
Ms. Loretta Naranjo-Lopez	Retiree Member
Mr. Victor A. Montoya	Retiree Member

REPORT OF INDEPENDENT AUDITORS

To the Members of the Retirement Board of the
Public Employees Retirement Association of New Mexico

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, 2012, as listed in the table of contents. We have also audited the Schedule of Revenues, Appropriations and Expenses—Budget to Actual (Non-GAAP) for the Public Employees Retirement Fund shown as supplementary information as of and for the year ended June 30, 2012. These financial statements are the responsibility of the PERA's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Deferred Compensation (IRC 457) Fund, which reflect total assets and additions constituting 3 percent and 8 percent, respectively. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinions.

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, 2012, 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 assets of PERA as of June 30, 2012, and the respective changes in financial position of its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the individual financial statements of each Fund referred to above present fairly, in all material respects the financial position of the plan net assets of each of the individual funds administered by PERA as of June 30, 2012, and the respective changes in the financial position of the plan net assets of the individual funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Schedule of Revenues,

To the Members of the Retirement Board of the
Public Employees Retirement Association of New Mexico

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 9 for the year ended June 30, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012 on our consideration of the Public Employees Retirement Association of New Mexico'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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress, and Schedule of Contributions from Employers and Other Contributing Entities on pages 4 through 15 and 60 through 63, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Employees Retirement Association of New Mexico's basic financial statements. The accompanying Schedule of Administrative and Investment Expenses Public Employees Retirement Fund Only, Schedule of Administrative and Investment Expenses Judicial Retirement Fund Only, Schedule of Administrative and Investment Expenses Magistrate Retirement Fund Only, and Schedule of Administrative and Investment Expenses Volunteer Firefighter Retirement Fund Only are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Mess Adams LLP

Albuquerque, New Mexico
November 29, 2012

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**



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, 2012 and 2011 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.

Fiscal Year Overview

Fiscal year 2012 was a challenging year for PERA. The PERA Board and PERA staff traveled around the state of New Mexico to obtain public input into proposed changes to the PERA pension benefits to improve long-term funding and reduce Unfunded Accrued Liability (UAL). The Board’s proposed benefit changes will be recommended to the 2013 Legislature which convenes in January 2013 for 60 days (See Note 13 for more detailed information). The market environment was still volatile all year (See Note 12), which resulted in the overall earnings for the year to be a negative 0.38%. The Board hired a new Executive Director in April.

The purpose of PERA’s investments are to provide long-term growth, while also ensuring a reliable cash flow that meets the funding requirements of the near term pension payments. To achieve these goals, the investments are allocated to a variety of asset types and strategies in order to meet the current funding needs and future pension liabilities.

Financial Highlights

- The plan net position held in trust to pay pension benefits were \$12.1 billion as of June 30, 2012. This amount reflects a decrease of \$396 million from the prior fiscal year. This change is primarily the result of international equity and hedge fund performance. It is important to note that the change from year to year is not only due to changes in fair value, but also to purchases, sales and redemptions.
- PERA’s funding objective is to meet long-term benefit obligations through member and employer contributions and investment earnings. The funded ratio is the ratio of actuarially determined assets against actuarial liabilities. The funded ratio as of June 30, 2012 is 65.3%.
- Retirement and death benefits paid this year (excluding Deferred Compensation) totaled \$792 million to 31,108 annuitants as compared to \$728 million to 29,496 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 \$289 million in FY11 to \$280 million in FY12, a difference of \$9 million. The decrease is due to the changes made in the employer contribution rates. Contributions from members increased from \$254 million in FY11 to \$284 million in FY12, a difference of \$30 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 negative 0.38% for the current year and positive 22.58% for last year. This decrease was due to continued unfavorable financial market conditions in 2012. (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, 2012**

PERA Highlights

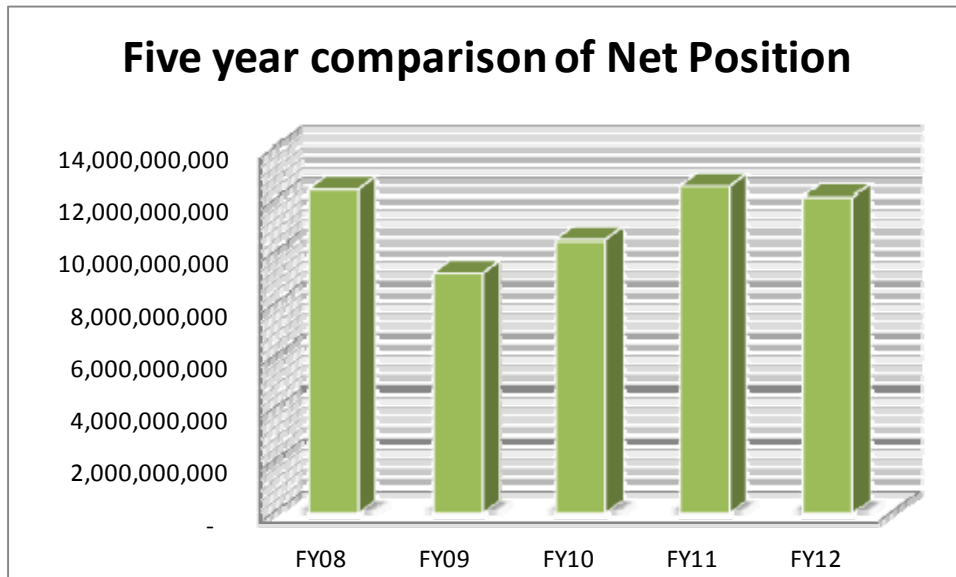
Overview of Financial Statements

- The financial statements of the funds of PERA include Statements of Plan Net Position and Statements 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 Statements 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 Statements 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, it includes employer annual required contributions for current year and previous five years.
- The additional supplementary information includes schedules of administrative, investment and consulting fee expenditures.

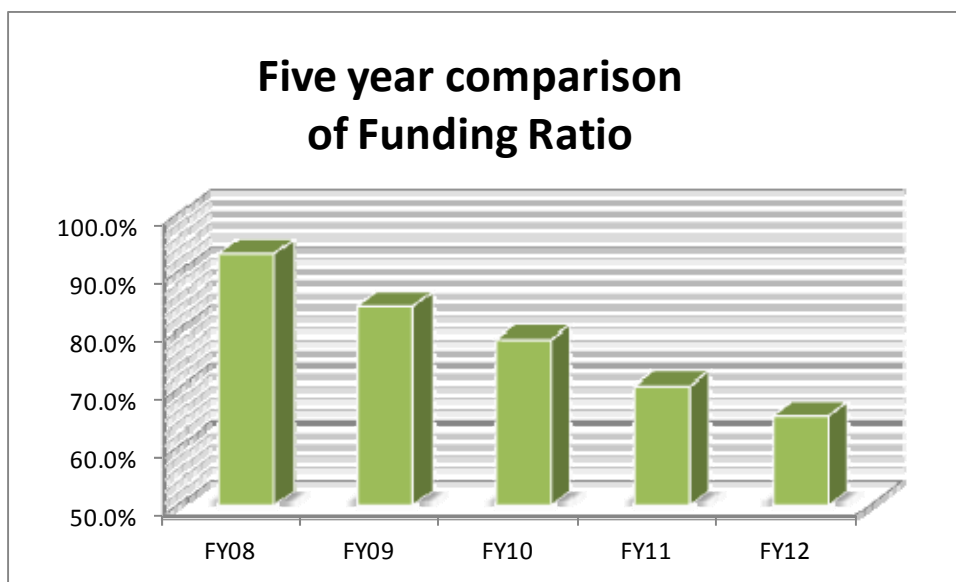
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2012**

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, 2012**

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, 2012:

ALL FUNDS:

	2012	2011	Dollar Change	Percentage Change
Assets	\$ 14,150,904,896	\$ 14,647,129,830	\$ (496,224,934)	(3.39) %
Liabilities	(2,004,484,783)	(2,104,476,804)	99,992,021	(4.75) %
Net Assets Held in Trust	<u>\$ 12,146,420,113</u>	<u>\$ 12,542,653,026</u>	(396,232,913)	(3.16) %
Change in Net Position	<u>\$ (396,232,913)</u>	<u>\$ 2,062,574,605</u>	(2,458,807,518)	(119.21) %

The total net assets held by PERA decreased during the fiscal year ended June 30, 2012 primarily as a result of the net decrease of the fair value of the investment portfolio. All four retirement funds participate in an investment pool and share in investment earnings or losses 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, 2012 and 2011:

PUBLIC EMPLOYEES RETIREMENT FUND:

The overall change in Net Position from FY2011 to FY2012 is a negative 3.29%. This is a result of the net decrease of the change in fair value of investments, especially in regard to international equity and hedge fund investments.

Statement of Plan Net Position as of June 30, 2012, as compared to June 30, 2011, is as follows:

	2012	2011	Dollar Change	Percentage Change
Assets:				
Cash & equivalents	\$ 455,916,817	\$ 819,503,382	\$ (363,586,565)	(44.37) %
Receivables	1,630,184,740	1,136,740,338	493,444,402	43.41 %
Investments	11,478,569,566	12,099,399,190	(620,829,624)	(5.13) %
Capital Assets, Net	13,654,302	15,573,946	(1,919,644)	(12.33) %
Total Assets	<u>13,578,325,425</u>	<u>14,071,216,856</u>	(492,891,431)	(3.50) %
Liabilities:				
Accounts Payable	1,513,462,763	1,519,365,779	(5,903,016)	(0.39) %
Other Liabilities	464,838,673	557,396,378	(92,557,705)	(16.61) %
Total Liabilities	<u>1,978,301,436</u>	<u>2,076,762,157</u>	(98,460,721)	(4.74) %
Statement of Net Position	<u>\$ 11,600,023,989</u>	<u>\$ 11,994,454,699</u>	<u>\$ (394,430,710)</u>	<u>(3.29) %</u>

The net assets of the Public Employees Retirement Fund amounts to 95.50% of the total net assets of all funds.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2012**

PUBLIC EMPLOYEES RETIREMENT FUND (continued):

Statement of Changes in Plan Net Position as of June 30, 2012, as compared to June 30, 2011, is as follows:

	2012	2011	Dollar Change	Percentage Change
Additions:				
Contributions and service credit purchases	\$ 533,126,207	\$ 515,843,142	\$ 17,283,065	3.35 %
Net Investment Income	222,165,881	222,858,825	(692,944)	(0.31) %
Net Appreciation of Fair Value of Investments	(341,656,779)	1,963,256,391	(2,304,913,170)	(117.40) %
Other Income	27,691,349	46,316,181	(18,624,832)	(40.21) %
Total Additions	<u>441,326,658</u>	<u>2,748,274,539</u>	<u>(2,306,947,881)</u>	<u>(83.94) %</u>
Deductions:				
Benefit Payments	(780,144,516)	(716,679,792)	(63,464,724)	8.86 %
Refunds	(45,771,456)	(43,107,776)	(2,663,680)	6.18 %
Administrative Expenses	(9,841,396)	(10,523,603)	682,207	(6.48) %
Total Deductions	<u>(835,757,368)</u>	<u>(770,311,171)</u>	<u>(65,446,197)</u>	<u>8.50 %</u>
Change in net position	<u>\$ (394,430,710)</u>	<u>\$ 1,977,963,368</u>	<u>\$ (2,372,394,078)</u>	<u>(119.94) %</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2012**

JUDICIAL RETIREMENT FUND

The overall change in Net Position from FY2011 to FY2012 is a negative 4.40%. This is a result of the net decrease of the change in fair value of investments, especially in regard to international equity and hedge fund investments.

Statement of Plan Net Position as of June 30, 2012, as compared to June 30, 2011, is as follows:

	2012	2011	Dollar Change	Percentage Change
Assets:				
Cash & equivalents	\$ 2,923,726	\$ 5,376,151	\$ (2,452,425)	(45.62) %
Receivables	10,419,328	7,411,441	3,007,887	40.58 %
Investments	74,819,297	79,789,253	(4,969,956)	(6.23) %
Total Assets	88,162,351	92,576,845	(4,414,494)	(4.77) %
Liabilities:				
Accounts Payable	9,656,511	9,907,111	(250,600)	(2.53) %
Other Liabilities	3,145,906	3,844,185	(698,279)	(18.16) %
Total Liabilities	12,802,417	13,751,296	(948,879)	(6.90) %
Statement of Net Position	\$ 75,359,934	\$ 78,825,549	\$ (3,465,615)	(4.40) %

Statement of Changes in Plan Net Position as of June 30, 2012, as compared to June 30, 2011, is as follows:

	2012	2011	Dollar Change	Percentage Change
Additions:				
Contributions and service credit purchases	\$ 4,630,650	\$ 5,142,469	\$ (511,819)	(9.95) %
Net Investment Income	1,674,426	1,447,752	226,674	15.66 %
Net Appreciation of Fair Value of Investments	(2,266,423)	12,730,036	(14,996,459)	(117.80) %
Other Income	184,195	299,717	(115,522)	(38.54) %
Total Additions	4,222,848	19,619,974	(15,397,126)	(78.48) %
Deductions:				
Benefit Payments	(7,655,971)	(7,141,608)	(514,363)	7.20 %
Refunds	(9,853)	-	(9,853)	0.00 %
Administrative Expenses	(22,639)	(23,302)	663	(2.85) %
Total Deductions	(7,688,463)	(7,164,910)	(523,553)	7.31 %
Change in net position	\$ (3,465,615)	\$ 12,455,064	\$ (15,920,679)	(127.82) %

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2012**

MAGISTRATE RETIREMENT FUND

The overall change in Net Position from FY2011 to FY2012 is a negative 7.07%. This is a result of the net decrease of the change in fair value of investments, especially in regard to international equity and hedge fund investments.

Statement of Plan Net Position as of June 30, 2012, as compared to June 30, 2011, is as follows:

	2012	2011	Dollar Change	Percentage Change
Assets:				
Cash & equivalents	\$ 1,200,428	\$ 2,195,847	\$ (995,419)	(45.33) %
Receivables	4,252,125	3,055,194	1,196,931	39.18 %
Investments	30,664,135	33,591,673	(2,927,538)	(8.72) %
Total Assets	36,116,688	38,842,714	(2,726,026)	(7.02) %
Liabilities:				
Accounts Payable	3,964,787	4,046,482	(81,695)	(2.02) %
Other Liabilities	1,299,647	1,598,127	(298,480)	(18.68) %
Total Liabilities	5,264,434	5,644,609	(380,175)	(6.74) %
Statement of Net Position	\$ 30,852,254	\$ 33,198,105	\$ (2,345,851)	(7.07) %

Statement of Changes in Plan Net Position as of June 30, 2012, as compared to June 30, 2011, is as follows:

	2012	2011	Dollar Change	Percentage Change
Additions:				
Contributions and service credit purchases	\$ 1,025,909	\$ 1,257,874	\$ (231,965)	(18.44) %
Net Investment Income	702,717	588,247	114,470	19.46 %
Net Appreciation of Fair Value of Investments	(919,397)	5,368,740	(6,288,137)	(117.13) %
Other Income	75,031	129,908	(54,877)	(42.24) %
Total Additions	884,260	7,344,769	(6,460,509)	(87.96) %
Deductions:				
Benefit Payments	(3,218,401)	(2,954,578)	(263,823)	8.93 %
Refunds	-	(56,446)	56,446	56,446 %
Administrative Expenses	(11,710)	(12,053)	343	(2.85) %
Total Deductions	(3,230,111)	(3,023,077)	(207,034)	6.85 %
Change in net position	\$ (2,345,851)	\$ 4,321,692	\$ (6,667,543)	(154.28) %

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2012**

VOLUNTEER FIREFIGHTERS RETIREMENT FUND

The overall change in Net Position from FY2011 to FY2012 is a negative 0.58%. This is a result of the net decrease of the change in fair value of investments, especially in regard to international equity and hedge fund investments.

Statement of Plan Net Position as of June 30, 2012, as compared to June 30, 2011, is as follows:

	2012	2011	Dollar Change	Percentage Change
Assets:				
Cash & equivalents	\$ 1,857,525	\$ 3,269,483	\$ (1,411,958)	(43.19) %
Receivables	6,523,488	4,423,357	2,100,131	47.48 %
Investments	47,098,762	48,266,995	(1,168,233)	(2.42) %
Total Assets	<u>55,479,775</u>	<u>55,959,835</u>	<u>(480,060)</u>	<u>(0.86) %</u>
Liabilities:				
Accounts Payable	6,135,053	6,024,966	110,087	1.83 %
Other Liabilities	1,981,443	2,293,776	(312,333)	(13.62) %
Total Liabilities	<u>8,116,496</u>	<u>8,318,742</u>	<u>(202,246)</u>	<u>(2.43) %</u>
Statement of Net Position	<u>\$ 47,363,279</u>	<u>\$ 47,641,093</u>	<u>\$ (277,814)</u>	<u>(0.58) %</u>

Statement of Changes in Plan Net Position as of June 30, 2012, as compared to June 30, 2011, is as follows:

	2012	2011	Dollar Change	Percentage Change
Additions:				
Appropriations from State of NM	\$ 750,000	\$ 750,000	\$ -	0.00 %
Net Investment Income	1,061,955	859,630	202,325	23.54 %
Net Appreciation of Fair Value of Investments	(1,342,589)	7,693,122	(9,035,711)	(117.45) %
Other Income	109,273	181,187	(71,914)	(39.69) %
Total Additions	<u>578,639</u>	<u>9,483,939</u>	<u>(8,905,300)</u>	<u>(93.90) %</u>
Deductions:				
Benefit Payments	(856,453)	(781,845)	(74,608)	9.54 %
Total Deductions	<u>(856,453)</u>	<u>(781,845)</u>	<u>(74,608)</u>	<u>9.54 %</u>
Change in net position	<u>\$ (277,814)</u>	<u>\$ 8,702,094</u>	<u>\$ (8,979,908)</u>	<u>(103.19) %</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2012**

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.

The overall change in Net Position from FY2011 to FY2012 is a positive 1.10%. This increase was primarily due to interest income on investments earned during the current year.

Statement of Plan Net Position as of June 30, 2012, as compared to June 30, 2011, is as follows:

	2012	2011	Dollar Change	Percentage Change
Assets:				
Receivables	\$ 6,702,327	\$ 6,493,432	\$ 208,895	3.22 %
Policyholder-value of life insurance contracts	1,998,662	2,073,725	(75,063)	(3.62) %
Investments	384,119,668	379,966,423	4,153,245	1.09 %
Total Assets	392,820,657	388,533,580	4,287,077	1.10 %
Statement of Net Position	\$ 392,820,657	\$ 388,533,580	\$ 4,287,077	1.10 %

Statement of Changes in Plan Net Position as of June 30, 2012, as compared to June 30, 2011, is as follows:

	2012	2011	Dollar Change	Percentage Change
Additions:				
Contributions and service credit purchases	\$ 33,868,513	\$ 35,818,029	\$ (1,949,516)	(5.44) %
Net Investment Income	1,456,819	52,977,922	(51,521,103)	(97.25) %
Net (Depreciation)/Appreciation of Fair Value of Investments	(10,935)	29,977	(40,912)	(136.48) %
Total Additions	35,314,397	88,825,928	(53,511,531)	(60.24) %
Deductions:				
Benefit Payments	(29,959,708)	(28,583,502)	(1,376,206)	4.81 %
Life Insurance Premiums	(111,701)	(122,876)	11,175	(9.09) %
Administrative Expenses	(955,911)	(987,163)	31,252	(3.17) %
Total Deductions	(31,027,320)	(29,693,541)	(1,333,779)	4.49 %
Change in net position	\$ 4,287,077	\$ 59,132,387	\$ (54,845,310)	(92.75) %

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2012**

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.

Schedule of invested assets as of June 30, 2012, as compared to June 30, 2011, follows:

Investment Category	June 30 2012	June 30 2011	Dollar Change	Percentage Change
U.S. Government and Agency Securities	\$ 1,190,399,573	\$ 1,399,668,933	\$ (209,269,360)	(14.95) %
Municipal Bonds	41,834,649	116,601,135	(74,766,486)	(64.12) %
Fixed Earning Investments (IRC 457)	384,119,668	379,966,423	4,153,245	1.09 %
Corporate Equity Securities	2,868,486,232	2,996,788,556	(128,302,324)	(4.28) %
Corporate Obligations	1,344,764,636	1,364,197,056	(19,432,420)	(1.42) %
International Securities	3,027,362,501	3,253,088,126	(225,725,625)	(6.94) %
Venture Capital and Partnerships	2,339,930,658	1,906,189,029	433,741,629	22.75 %
Alternative Investments	346,072,783	674,645,308	(328,572,525)	(48.70) %
Securities Lending Collateral	444,837,638	536,505,173	(91,667,535)	(17.09) %
Investment in State General Fund	7,768,878	8,438,723	(669,845)	(7.94) %
Subtotal Investments	\$ 11,995,577,216	\$ 12,636,088,462	\$ (640,511,246)	(5.07) %
Other Assets	19,694,212	4,925,072		
Total Investments	\$ 12,015,271,428	\$ 12,641,013,534		

With the total fund returning a negative 0.38% for the fiscal year ending June 30, 2012, market values declined across most investment categories and at the total investment level. The largest market value decline occurred in the alternative investment category, which is composed of PERA's REIT and TIPS allocations. These two allocations were drawn down steadily over the course of the fiscal year, as planned, to fund private partnership capital calls. Accordingly, the largest increase occurred in the venture capital and partnerships category with private equity, real estate, and real asset partnerships continuing to call capital to fund new investments. In addition, Absolute Return portfolio re-optimization contributed to the higher market value due to net hedge fund manager upsizing.

Municipal bonds and U.S. Government and agency securities declined over the previous fiscal year-end due to over \$1 billion in core fixed income assets being transitioned to new managers. These bond sector shifts were a direct fall-out from the shift in active sector weights from the terminated managers to the newly funded managers. The largest contributor to the decline in international securities was the 12.92% decline in Non-U.S. equity composite for the year. Despite a positive return in U.S. equities, corporate equity securities were used as the source of funds to cover beneficiary payments, thus contributing to the decline in market value for this investment category.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2012**

INVESTMENTS (Continued):

The decline in securities lending collateral was caused by the continued wind-down of this program. As Deferred Compensation participants continued to contribute to their retirement savings plans, the fixed income investments (IRC 457) category rose slightly.

Budget Highlights: Original Budget – Final Budget Comparisons

There were six budget adjustments from the original budget to the final budget made during fiscal year 2012, for an increase of \$5,396,000 from the original budget. These increases were primarily due to increasing the budget for payment to investment managers and to conduct additional actuarial testing for the Board to reexamine changes to the pension funds. See Note 13 for an explanation of proposed upcoming changes to the pension plans.

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	\$ 159,639	\$ 64,853	\$99,775	\$324,267
Administrative expenses	<u>22,639</u>	<u>11,710</u>	<u>-</u>	<u>34,349</u>
Total allocated expenses	<u>\$ 182,278</u>	<u>\$76,563</u>	<u>\$99,775</u>	<u>\$358,616</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, 2012**

Capital Assets

Capital assets, at carrying value, are listed for the years ended June 30, 2012 and 2011:

CAPITAL ASSETS:	2012	2011
Land	\$ 1,548,990	\$ 1,548,990
Capital Assets: Net of Depreciation		
Building	11,767,996	12,189,535
Computer Equipment and Software	322,726	1,816,592
Property and Equipment	3,111	2,427
Automobile	11,480	16,402
Total	<u>\$ 13,654,303</u>	<u>\$ 15,573,946</u>

- Depreciation and amortization expense, reported as part of administrative expenses, for the year ended June 30, 2012 was \$1,988,385.

Long-Term Debt

The only long-term liability activity relates to compensated absences reported in Note 7.

Currently Known Facts and Conditions

During fiscal year 2012, financial markets as a whole decreased 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, 2012, investment markets have generally continued to be volatile, including the continued high unemployment rates, the debt crisis in Europe, and political unrest in the Middle East (See Note 12).

The current funding ratio is 65.3%, which is a decrease of 5.2%. The return on the actuarial value of assets was 0.44% due primarily to the recognition of approximately \$1.27 billion in combined investment losses deferred from the 2009 and 2012 plan years. As a result of the changes to the employee contribution shift for State employees, the actuarial liabilities decreased by \$1.8 million.

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
STATEMENT OF PLAN NET POSITION
JUNE 30, 2012

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
ASSETS			
Cash and Cash Equivalents	\$ 455,916,817	\$ 2,923,726	\$ 1,200,428
Receivables			
Accrued Investment Income	44,398,966	284,023	116,616
Accounts Receivable-Brokers	1,556,835,358	9,983,748	4,099,144
Contributions Receivable	28,488,758	151,239	36,234
Accounts Receivable - Other	98,727	-	-
Participant Loans Receivable	-	-	-
Due from other Agencies	4,315	318	131
Interfund Receivable	358,616	-	-
	<u>1,630,184,740</u>	<u>10,419,328</u>	<u>4,252,125</u>
Investment in State Treasurer Investment Pool	5,691,373	1,257,980	454,956
Investments, at fair value			
U.S. Government and Agency Securities	1,174,983,661	7,534,991	3,093,729
Municipal Bonds	41,292,882	264,805	108,724
Variable Earning Investments (IRC 457)	-	-	-
Stable Value Option & Other (IRC 457)	-	-	-
Corporate Equity Securities	2,831,338,762	18,156,944	7,454,909
Corporate Obligations	1,327,347,778	8,512,976	3,495,589
International Securities	2,988,157,551	19,162,599	7,867,812
Venture Capital and Partnerships	2,309,628,088	14,811,293	6,081,246
Alternative Investments	341,591,071	2,190,572	899,409
Other Assets	19,439,168	124,660	51,183
	<u>11,039,470,334</u>	<u>72,016,820</u>	<u>29,507,557</u>
Securities Lending Collateral Investments	439,099,232	2,802,477	1,156,578
	<u>11,478,569,566</u>	<u>74,819,297</u>	<u>30,664,135</u>
Total Investments	11,478,569,566	74,819,297	30,664,135
Capital Assets, Net	13,654,302	-	-
Policyholder Account Value of Life Insurance	-	-	-
	<u>13,654,302</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 13,578,325,425</u>	<u>\$ 88,162,351</u>	<u>\$ 36,116,688</u>
LIABILITIES			
Accounts Payable - Brokers	\$ 1,505,806,983	\$ 9,656,511	\$ 3,964,787
Accounts Payable - Other	7,655,780	-	-
Accrued Expenses	197,871	-	-
Compensated Absences	292,104	-	-
Interfund Payable	-	182,278	76,563
Securities Lending Liability	464,348,698	2,963,628	1,223,084
	<u>\$ 1,978,301,436</u>	<u>\$ 12,802,417</u>	<u>\$ 5,264,434</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 11,600,023,989</u>	<u>\$ 75,359,934</u>	<u>\$ 30,852,254</u>

See Accompanying Notes to the Financial Statements.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
STATEMENT OF PLAN NET POSITION (CONTINUED)
JUNE 30, 2012

	Volunteer Firefighters Retirement Fund	Deferred Compensation (IRC 457) Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,857,525	\$ -	\$ 461,898,496
Receivables			
Accrued Investment Income	180,447	-	44,980,052
Accounts Receivable-Brokers	6,342,956	-	1,577,261,206
Contributions Receivable	-	-	28,676,231
Accounts Receivable - Other	-	-	98,727
Participant Loans Receivable	-	6,702,327	6,702,327
Due from other Agencies	85	-	4,849
Interfund Receivable	-	-	358,616
	<u>6,523,488</u>	<u>6,702,327</u>	<u>1,658,082,008</u>
Investment in State Treasurer Investment Pool	364,569	-	7,768,878
Investments, at fair value			-
U.S. Government and Agency Securities	4,787,192	-	1,190,399,573
Municipal Bonds	168,238	-	41,834,649
Variable Earning Investments (IRC 457)	-	240,968,529	240,968,529
Stable Value Option & Other (IRC 457)	-	143,151,139	143,151,139
Corporate Equity Securities	11,535,617	-	2,868,486,232
Corporate Obligations	5,408,294	-	1,344,764,637
International Securities	12,174,538	-	3,027,362,500
Venture Capital and Partnerships	9,410,031	-	2,339,930,658
Alternative Investments	1,391,732	-	346,072,784
Other Assets	79,200	-	19,694,211
	<u>45,319,411</u>	<u>384,119,668</u>	<u>11,570,433,790</u>
Securities Lending Collateral Investments	1,779,351	-	444,837,638
	<u>47,098,762</u>	<u>384,119,668</u>	<u>12,015,271,428</u>
Capital Assets, Net	-	-	13,654,302
Policyholder Account Value of Life Insurance	-	1,998,662	1,998,662
	<u>-</u>	<u>1,998,662</u>	<u>1,998,662</u>
Total Assets	<u>\$ 55,479,775</u>	<u>\$ 392,820,657</u>	<u>\$ 14,150,904,896</u>
LIABILITIES			
Accounts Payable - Brokers	\$ 6,135,053	\$ -	\$ 1,525,563,334
Accounts Payable - Other	-	-	7,655,780
Accrued Expenses	-	-	197,871
Compensated Absences	-	-	292,104
Interfund Payable	99,775	-	358,616
Securities Lending Liability	1,881,668	-	470,417,078
	<u>\$ 8,116,496</u>	<u>\$ -</u>	<u>\$ 2,004,484,783</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 47,363,279</u>	<u>\$ 392,820,657</u>	<u>\$ 12,146,420,113</u>

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
STATEMENT OF CHANGES IN PLAN NET POSITION
For the Year Ended June 30, 2012

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
ADDITIONS			
Contributions			
Employer	\$ 274,905,978	\$ 3,266,203	\$ 676,073
Member	248,069,863	1,348,107	349,836
Appropriations from State of New Mexico - Fire Protection Fund	-	-	-
Service Credits Purchased	10,150,366	16,340	-
Total Contributions	<u>533,126,207</u>	<u>4,630,650</u>	<u>1,025,909</u>
Investment Income			
Interest	112,835,270	954,136	399,621
Dividends	135,833,175	860,560	359,870
Net Depreciation in Fair Value of Investments	(341,656,779)	(2,266,423)	(919,397)
Other Investment Income	(4,925,072)	-	-
Securities Lending Income	3,391,594	21,686	8,944
	<u>(94,521,812)</u>	<u>(430,041)</u>	<u>(150,962)</u>
Securities Lending Expenses	(349,688)	(2,317)	(864)
Other Investment Expenses	(24,619,398)	(159,639)	(64,854)
Net Investment Income	<u>(119,490,898)</u>	<u>(591,997)</u>	<u>(216,680)</u>
Other Income	27,691,349	184,195	75,031
Total Additions	<u>441,326,658</u>	<u>4,222,848</u>	<u>884,260</u>
DEDUCTIONS			
Benefit Payments	780,144,516	7,655,971	3,218,401
Refunds to Terminated Employees	45,771,456	9,853	-
Life Insurance Premiums	-	-	-
Administrative Expenses	9,841,396	22,639	11,710
Total Deductions	<u>835,757,368</u>	<u>7,688,463</u>	<u>3,230,111</u>
Increase/(Decrease) in Net Assets	(394,430,710)	(3,465,615)	(2,345,851)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS			
Beginning of Year	<u>11,994,454,699</u>	<u>78,825,549</u>	<u>33,198,105</u>
End of Year	<u>\$ 11,600,023,989</u>	<u>\$ 75,359,934</u>	<u>\$ 30,852,254</u>

See Accompanying Notes to the Financial Statements.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
STATEMENT OF CHANGES IN PLAN NET POSITION (CONTINUED)
For the Year Ended June 30, 2012

	Volunteer Firefighters Retirement Fund	Deferred Compensation (IRC 457) Fund	Total
ADDITIONS			
Contributions			
Employer	\$ -	\$ -	\$ 278,848,254
Member	-	33,868,513	283,636,319
Appropriations from State of New Mexico - Fire Protection Fund	750,000	-	750,000
Service Credits Purchased	-	-	10,166,706
Total Contributions	<u>750,000</u>	<u>33,868,513</u>	<u>573,401,279</u>
Investment Income			
Interest	602,519	2,497,085	117,288,631
Dividends	546,991	-	137,600,596
Net Depreciation in Fair Value of Investments	(1,342,589)	(10,935)	(346,196,123)
Other Investment Income	-	(1,040,266)	(5,965,338)
Securities Lending Income	13,729	-	3,435,953
	(179,350)	1,445,884	(93,836,281)
Securities Lending Expenses	(1,509)	-	(354,378)
Other Investment Expenses	(99,775)	-	(24,943,666)
Net Investment Income	<u>(280,634)</u>	<u>1,445,884</u>	<u>(119,134,325)</u>
Other Income	109,273	-	28,059,848
Total Additions	<u>578,639</u>	<u>35,314,397</u>	<u>482,326,802</u>
DEDUCTIONS			
Benefit Payments	856,453	29,959,708	821,835,049
Refunds to Terminated Employees	-	-	45,781,309
Life Insurance Premiums	-	111,701	111,701
Administrative Expenses	-	955,911	10,831,656
Total Deductions	<u>856,453</u>	<u>31,027,320</u>	<u>878,559,715</u>
Increase/(Decrease) in Net Assets	(277,814)	4,287,077	(396,232,913)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS			
Beginning of Year	<u>47,641,093</u>	<u>388,533,580</u>	<u>12,542,653,026</u>
End of Year	<u>\$ 47,363,279</u>	<u>\$ 392,820,657</u>	<u>\$ 12,146,420,113</u>

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012



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, 2012

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. All assets accumulated for the payment of benefits may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. 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. Generally, the amount of normal retirement pension is based on final average salary, which is defined as the average of salary for the 36 consecutive months

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

C. Description of the Funds (Continued)

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. Benefits for duty and non-duty death and disability and for post retirement survivors' annuities are also available.

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.

State Legislative Fund is a cost-sharing defined benefit pension plan that is a division accounted for under the Public Employees Fund. Eligibility for membership in the State Legislative Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, Section 43 and 43.5, NMSA 1978). State Legislators and lieutenant governors must elect to be a member no later than 180 days after first taking office to be covered under the State Legislative Plan.

Member contributions are \$500 for each year of service credit prior to 2012 session, \$600 for each year of service credit beginning with the 2012 legislative session. Legislative service credit is earned each calendar year during which the member fulfills the obligations of the position of legislator for more than six months of the calendar year, including the legislative session. Legislators are not required to make a member contribution until after the legislative session has ended and PERA verifies service credit. PERA will invoice legislative members for \$600 to cover member contributions for each legislative session after the session ends, which is normally July or August.

State funding for the State Legislative Fund is defined in Sections 10-11-43 and 10-11-43.5, NMSA 1978. The state is required to contribute sufficient amounts to finance the membership of members under state legislator coverage plan 2 on an actuarial reserve basis. The total actuarial determined

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

C. Description of the Funds (Continued)

amount for the State Legislative Fund for the fiscal year ended June 30, 2012 was determined by the actuary to be \$682,187. Regarding the source of funding, Section 7 -1-6.43 of the Tax Administration Act states "A distribution pursuant to Section 7-1-6.1 NMSA 1978 shall be made to the legislative retirement fund in an amount equal to two hundred thousand dollars (\$200,000) a month or, if larger, one-twelfth of the amount necessary to pay out the retirement benefits due under state legislator member coverage plan 2 and Paragraph (2) of Subsection C of Section 10-11-42 NMSA 1978 for the calendar year."

Age and service requirements for normal retirement are age 65 or older with 5 or more years of service credit or any age with 10 or more years of service credit. Legislative members who meet retirement eligibility requirements receive annual pensions equal in any calendar year to 11% of the per diem rate in effect, pursuant to Section 2-1-8, NMSA 1978, on the first day of the calendar year that the legislator or lieutenant governor retires multiplied by 60 and further multiplied by credited service as a legislator or lieutenant governor. The per diem rate for January 1, 2012 is \$154.

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. All assets accumulated for the payment of benefits may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of the Judicial Retirement plan.

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.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

C. Description of the Funds (Continued)

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. All assets accumulated for the payment of benefits may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of the Magistrate Retirement plan.

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

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

Volunteer Firefighters Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan with a special funding situation. Eligibility for membership in the Volunteer Firefighters Retirement Fund is set forth in NMSA 1978 10-11A-2. Any volunteer non-salaried firefighter who is listed as an active member on the rolls of a fire department and who meets certain age and service credit requirements set forth in the statute is eligible for membership in the Volunteer Firefighters Retirement Fund, unless specifically excluded. Benefits are available at age 55 or older to any member having served as a volunteer fire fighter for a minimum of 10 years. Benefits are \$100 per month with at least 10 but less than 25 years of service or \$200 per month with 25 or more years of service. Benefits for post retirement surviving spouse annuities are also available. Members of the Volunteer Firefighters Retirement Fund do not make contributions. State statutes required that the State Treasurer transfer \$750,000 during the 2012 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

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

C. Description of the Funds (Continued)

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

D. Membership

At June 30, 2012, the number of participating government employers were as follows:

Public Employees Retirement Fund	
State Agencies	125
Cities	88
Counties	33
Special Districts and Councils of Government	40
Housing Authorities	16
Hospitals	2
Other	5
Totals	<u>309</u>
Judicial Retirement Fund	16
Magistrate Retirement Fund	9
Volunteer Firefighters Retirement Fund	363

At June 30, 2012, membership in the plans was as follows:

	PERA* Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	VFF Retirement Fund	Totals
Retirees and beneficiaries receiving benefits	30,229	127	85	667	31,108
Terminated plan members not yet receiving benefits	6,577	18	13	906	7,514
Active plan members	48,594	118	42	5,065	53,819

*Note: PERA Retirement Fund includes the Legislative Fund

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 conformity 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 exchanges 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, 2012

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, 2012, are as follows:

Public Employees Retirement Fund	98.71%
Magistrate Retirement Fund	0.26
Judicial Retirement Fund	0.63
Volunteer Firefighters Retirement Fund	<u>0.40</u>
Total	<u><u>100.00%</u></u>

Capital Assets. Capital assets costing \$5,000 or more (12-1-10 NMSA 1978) 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, 2012

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.

Cost of Living Adjustment (COLA). The Cost-of-Living Adjustments (COLA) are made to eligible retirees and beneficiaries. Retirees of the PERA, Legislative, Magistrate and Judicial fund receive a COLA yearly after retirement of two full-calendar years (January 1 through December 31). The 3% Cost-of-Living Adjustment (COLA) will therefore be effective July 1 of the following year after the two full calendar years and will be compounded for each fiscal year thereafter. COLA recipients receive a notification letter each July advising them of the increase in their pension payments. The total annual COLA payments for FY12 were \$1,742,741.

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 2012 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 2012 was 5.25% of member account balances to the Member Contribution Fund. For fiscal year 2013, the interest rate will be 2%. The remaining balance of the Income Fund was distributed to the Retirement Reserve Fund.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Required Reserves (continued)

Net Position balances as of June 30, 2012 are as follows:

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighter Retirement Fund
Members Contribution Fund	\$ 2,171,595,610	\$ 9,430,314	\$ 3,014,932	\$ -
Employers Accumulation Fund	3,762,314,099	51,184,339	22,676,626	-
Retirement Reserve Fund	5,666,114,280	14,745,281	5,160,696	47,363,279
Total	\$ 11,600,023,989	\$ 75,359,934	\$ 30,852,254	\$ 47,363,279

Deferred Compensation Plan. At June 30, 2012, PERA had \$97,475 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 \$97,475 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, 2012, 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.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funding Policy (continued)

The funded status of the retirement plans and divisions as of June 30, 2012 are as follows:

Plan	Actuarial Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
	(a)	(b)	(b) – (a)	(a)/(b)	(c)	((b-a)/c)
PERA	\$ 11,612,047,019	\$ 17,788,043,847	\$ 6,175,996,828	65.30%	\$ 1,994,280,107	309.7%
Legislative	25,168,813	27,429,263	2,260,450	91.80%	N/A**	N/A**
Judicial	75,506,702	147,922,843	72,416,141	51.00%	12,690,503	570.6%
Magistrate	30,878,948	58,037,075	27,158,127	53.20%	3,213,712	845.1%
Volunteer Fire	17,382,330	28,219,348	(10,837,018)	167.90%	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
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The actuarial methods and significant assumptions as of June 30, 2012 are as follows:

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Valuation date	June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012
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 ^{^^}	30 years ^{^^}	30 years [#]
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market	4 year smoothed market
Rate of return on investment of present and future assets*	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 is amortized over 30 years and applied as a credit to determine the required contribution.

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

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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	\$ 5,593,919	\$ 5,593,919
Deferred Compensation Operating Account	97,454	97,454
Judicial Retirement Fund	1,257,980	1,257,980
Magistrate Retirement Fund	454,956	454,956
Volunteer Firefighters Retirement Fund	364,569	364,569
Total deposits at State Treasurer's Office	<u>\$ 7,768,878</u>	<u>\$ 7,768,878</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
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

Custodial Credit Risk (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.

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

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

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

PERA's investments (summarized) at June 30, 2012 and its exposure to custodial credit risk are as follows:

Asset Type	Held in the name of the Fund by the Fund's custodian bank	Custody arrangements contracted by fund manager	Total
U.S. Government Bonds and Agency Securities	\$ 587,542,311	\$	587,542,311
International Government Bonds & Agency Securities	341,314,179		341,314,179
U.S. Municipal Bonds	41,834,649		41,834,649
Mutual Bonds	92,051,389		92,051,389
Corporate Bonds	1,009,359,163		1,009,359,163
International Corporate Bonds	45,250,755		45,250,755
U.S. Government MBS	510,805,874		510,805,874
Commercial MBS	123,111,166		123,111,166
Asset Backed Securities	111,141,766		111,141,766
International Asset Backed Securities	3,325,161		3,325,161
Non-government C.M.O.	101,152,541		101,152,541
International Non-government C.M.O.	721,518		721,518
Total Fixed Income Investments	\$ 2,967,610,472	\$	2,967,610,472
International Common Stock	\$ 2,484,073,248	\$	2,484,073,248
Domestic Common Stock	2,657,576,242		2,657,576,242
US Venture Capital & Partnerships	2,339,930,658		2,339,930,658
International Venture Capital & Partnerships	48,803,250		48,803,250
Alternatives	346,072,783		346,072,783
International Preferred Stock	50,210,277		50,210,277
Domestic Preferred Stock	13,403,029		13,403,029
Domestic American Depository Receipt (ADR)	39,483,304		39,483,304
International American Depository Receipt (ADR)	1,277,184		1,277,184
Domestic Global Depository Receipt (GDR)	7,889,108		7,889,108
International Global Depository Receipt (GDR)	7,654,587		7,654,587
Domestic Real Estate Investment Trust (REIT)	138,018,346		138,018,346
International Real Estate Investment Trust (REIT)	13,627,403		13,627,403
Exchange Traded Fund	1,478,150		1,478,150
Domestic Rights/Warrants	10,638,052		10,638,052
International Rights/Warrants	56,533		56,533
Other Assets	50,742,618		50,742,618
Total Equities	\$ 8,210,934,772	-	\$ 8,210,934,772
Subtotal Equities and Fixed Income	\$ 11,178,545,244	\$ -	\$ 11,178,545,244

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

PERA's investments (summarized) at June 30, 2012 and its exposure to custodial credit risk are as follows (continued):

Asset Type	Held in the name of the Fund by the Fund's custodian bank	Custody arrangements contracted by fund manager	Total
Securities Lending Collateral Investments		\$ 444,837,638	444,837,638
Total Investments as presented above		\$ 11,623,382,882	11,623,382,882
IRC 457 fund investments directed by participants			384,119,668
Investments in State General Fund Investment Pool			7,768,878
Total Investments per the Statement of Plan Net Position		\$ 12,015,271,428	12,015,271,428

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
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

A summary of PERA's investments at June 30, 2012 and its exposure to credit risk are as follows:

Type	S & P Ratings	Market Value	% of Portfolio
Government Bonds:	AAA	\$ 101,283,110	3.49%
	A	2,551,948	0.09%
	A-	5,791,590	0.20%
	AA-	1,246,400	0.04%
	BBB+	584,806	0.02%
	BBB	1,806,636	0.06%
	BBB-	1,272,435	0.04%
	BB+	275,769	0.01%
	BB	585,063	0.02%
	Not Rated	820,420,805	28.27%
Municipal Agencies:	AA+	646,007	0.02%
	AA	674,384	0.02%
	AA-	1,329,110	0.05%
	A+	805,031	0.03%
	A-	3,891,326	0.13%
	Not Rated	34,947,245	1.20%
Corporate Bonds:	AA+	22,799,818	0.79%
	AA	7,962,334	0.27%
	AA-	13,122,452	0.45%
	A+	17,679,841	0.61%
	A	80,106,460	2.76%
	A-	40,189,991	1.39%
	BBB+	70,771,517	2.44%
	BBB	59,185,175	2.04%
	BBB-	71,618,070	2.47%
	BB+	15,217,612	0.52%
	BB	13,377,919	0.46%
	BB-	20,061,754	0.69%
	B+	11,757,373	0.41%
	B	8,650,026	0.30%
	B-	7,832,713	0.27%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

Type	S & P Ratings	Market Value	% of Portfolio
Corporate Bonds:	CCC+	5,356,616	0.18%
	CCC	7,464,468	0.26%
	CCC-	1,533,771	0.05%
	Not rated	595,313,522	20.52%
Government MBS:	AAA	151,948,927	5.24%
	Not Rated	360,733,479	12.45%
Commercial MBS:	AAA	25,226,660	0.87%
	AA+	1,168,126	0.04%
	AA	3,941,668	0.14%
	AA-	2,780,643	0.10%
	A+	10,146,283	0.35%
	A	7,273,831	0.25%
	A-	5,339,503	0.18%
	BBB+	4,414,029	0.15%
	BBB	4,316,029	0.15%
	Not Rated	58,977,885	2.03%
Asset Backed Securities:	AAA	13,058,692	0.45%
	AA+	2,440,265	0.08%
	AA	3,700,754	0.13%
	AA-	2,949,140	0.10%
	A+	597,645	0.02%
	A	1,565,991	0.05%
	A-	705,900	0.02%
	BBB+	6,779,651	0.23%
	BBB	808,332	0.03%
	BB+	2,685,727	0.09%
	BB	3,118,900	0.11%
	B-	6,013	0.00%
	CCC	202,742	0.01%
	Not Rated	76,074,978	2.62%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

Type	S & P Ratings	Market Value	% of Portfolio
Non government Backed C.M.O.:	AAA	13,880,462	0.48%
	AA	1,798,768	0.06%
	A-	762,305	0.03%
	B	5,114	0.00%
	CCC	892,226	0.03%
	CC	215,733	0.01%
	Not Rated	84,570,067	2.93%
		<u>\$ 2,901,199,565</u>	<u>100.00%</u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. 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 four 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 two year or 20% of the duration of the applicable portfolio benchmark. Such limitations are contained in the Plan's investment guidelines for fixed income managers.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

A summary of PERA's investments and its respective maturities at June 30, 2012 and its exposure to interest rate risk are as follows:

Bond Category	Weighted Average Maturity in Years	Market Value plus Accrued Income	Percentage of Fixed Income Portfolio
Corporate Bonds	9.66	\$ 1,072,566,836	35.46%
Government MBS	24.54	637,625,474	21.07%
Asset Backed Securities	16.17	114,124,187	3.77%
Government Bonds	6.81	932,769,471	30.83%
Commercial MBS	31.56	123,535,817	4.08%
Non-Government Backed C.M.O.s	26.06	102,695,219	3.39%
Municipal and Mutual Bonds	30.85	42,293,103	1.40%
Subtotal Fixed Income Investments		\$ 3,025,610,107	100.00%
Fixed Income Derivatives		<u>2,858,115</u>	
TOTAL Fixed Income Investments		\$ 3,028,468,222	
Short Term Bills & Notes reported as Cash and Cash Equivalents	1.66	<u>50,915,031</u>	
Total Investments Subject to Interest Rate Risk		<u>\$ 3,079,383,253</u>	

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, PERA had no investment with a concentration of greater than 5% of total investments.

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 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.

The following table presents a summary of the PERA's investments exposed to foreign currency risk by currency and the respective values at June 30, 2012.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
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JUNE 30, 2012

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

Non-U.S. dollar denominated investments and cash and cash equivalents at June 30, 2012 are as follows:

Market Value (included in investments)						
	Currency	Equity	Fixed Income	Venture Capital & Partnerships	Total	Deposits
AED	UAB Dirham	\$ 2,359,236	\$ -	\$ -	\$ 2,359,236	\$ 12,377
AUD	Australian Dollar	147,943,368	51,932,873	-	199,876,241	(7,529,718)
BGN	Bulgarian New Lev	35,322	-	-	35,322	-
BRL	Brazilian Real	61,543,340	3,465,245	-	65,008,585	1,901,804
BWP	Botswana Pula	943,097	-	-	943,097	43,253
CAD	Canadian Dollar	139,468,241	10,946,851	-	150,415,092	5,476,698
CHF	Swiss Franc	150,339,468	-	-	150,339,468	(3,337,922)
CLP	Chilean Peso	12,237,925	-	-	12,237,925	28,854,338
CNY	Chinese Renminbi	-	-	-	-	26,983,504
COP	Columbian Peso	7,121,250	-	-	7,121,250	134,581
CZK	Czech Koruna	4,373,626	-	-	4,373,626	118,001
DKK	Danish Krone	27,411,693	-	-	27,411,693	72,640
EGP	Egyptian Pound	3,893,947	-	-	3,893,947	217,751
EUR	Euro	492,770,784	40,825,337	48,803,250	582,399,371	(189,814,869)
GBP	British Pound Sterling	439,455,695	-	-	439,455,695	10,016,925
GHS	New Ghana Cedi	514,014	8,702,369	-	9,216,383	167,211
HKD	Hong Kong Dollar	147,053,922	-	-	147,053,922	397,640
HRK	Croatia Kuna	775,395	-	-	775,395	52,158
HUF	Hungarian Forint	4,577,568	25,179,514	-	29,757,082	727,983
IDR	Indonesian Rupiah	17,103,787	27,907,830	-	45,011,617	576,024
ILS	New Israeli Shekel	8,216,107	-	-	8,216,107	12,858,700
INR	Indian Rupee	34,084,851	434,608	-	34,519,459	16,278,547
JPY	Japanese Yen	432,085,372	-	-	432,085,372	(72,200,031)
KES	Kenyan Shilling	1,708,941	-	-	1,708,941	41,993
KRW	South Korean Won	82,545,864	69,122,162	-	151,668,026	13,068,401
LTL	Lithuanian Litas	3,075	-	-	3,075	37,999
LVL	Latvia Lats	324,338	-	-	324,338	5,052
MAD	Moroccan Dirham	3,059,033	-	-	3,059,033	219,523
MUR	Mauritian Rupee	1,464,420	-	-	1,464,420	4,363
MXN	Mexican Peso	32,093,561	31,350,395	-	63,443,956	9,920,185
MYR	Malaysian Ringgit	21,603,769	20,420,097	-	42,023,866	40,593,238
NGN	Nigerian Naira	1,570,421	-	-	1,570,421	35,239
NOK	Norwegian Krone	24,798,743	4,769,023	-	29,567,766	9,987,714
NZD	New Zealand Dollar	3,365,554	16,286,412	-	19,651,966	(15,864,023)
PEN	Peruvian Nuevo Sol	1,367,565	-	-	1,367,565	32,313

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

Market Value (included in investments)						
	Currency	Equity	Fixed Income	Venture Capital & Partnerships	Total	Deposits
PHP	Philippine Peso	6,937,459	9,744,644	-	16,682,103	26,265,171
PKR	Pakistan Rupee	1,376,422	-	-	1,376,422	61,527
PLN	Polish Zloty	11,728,805	33,326,101	-	45,054,906	16,610,813
RON	New Romanian Leu	1,097,900	-	-	1,097,900	22,150
RSD	Servia & Montenegro Dinar	-	1,715,983	-	1,715,983	415,825
RUB	Russian Ruble	537,335	-	-	537,335	123,776
SEK	Swedish Krona	56,949,779	7,920,472	-	64,870,251	46,672,940
SGD	Singapore Dollar	32,425,525	9,570,522	-	41,996,047	41,091,316
THB	Thai Baht	18,809,187	-	-	18,809,187	310,512
TRY	Turkish Lira	13,430,990	-	-	13,430,990	(52,359)
TWD	New Taiwan Dollar	61,691,654	-	-	61,691,654	1,343,274
UAH	Ukraine Hryvnia	-	6,890,792	-	6,890,792	-
UYU	Uruguayan New Pesos	-	8,957,254	-	8,957,254	7,467,968
VND	Vietnam Dong	1,097,817	-	-	1,097,817	20,765
ZAR	South African Rand	42,603,065	1,143,129	-	43,746,194	444,272
		\$ 2,556,899,230	\$ 390,611,613	\$ 48,803,250	\$ 2,996,314,093	\$ 30,887,542
	% of total investments or cash and cash equivalents				26%	7%

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, 2012, PERA had a total market value of \$1,587,951,364 of assets invested in Absolute Return.

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

ALTERNATIVE INVESTMENTS (CONTINUED)

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.

As of June 30, 2012, PERA had committed \$886,381,000 to Private Equity limited partnerships and funded only a portion of the total commitment for a market value of \$466,801,226.

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.

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

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

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

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

ALTERNATIVE INVESTMENTS (CONTINUED)

As of June 30, 2012, PERA had committed \$315,683,000 to Real Estate limited partnerships and funded only a portion of the total commitment for a market value of \$360,308,373, including the REIT allocations.

As of June 30, 2012, PERA had committed \$464,246,533 to Real Assets partnerships and funded only a portion of the total commitment for a market value of \$318,968,112, including the TIPS and Commodity allocations.

Government Agency Mortgage-backed Securities. As of June 30, 2012, the Funds' investment portfolios, excluding securities lending collateral investments, included mortgage-backed securities issued by agencies of the United States government of \$510,805,874 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, 2012, the Funds' investment portfolio, excluding securities lending collateral investment, included corporate asset-backed securities with a fair value of \$114,466,927. 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 capture S&P 500 beta returns while porting a portfolio of funds over the beta returns that are expected to generate returns in excess of 3% over the equity index. The Portable Alpha program returned 4.28% for the fiscal year ending June 30, 2012; the program's inception-to-date return is a negative 4.69%.

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 held no hedging derivatives at June 30, 2012.

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, 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2012 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	\$ 27,150,020	Investments	\$539,830,163	839,299	\$ 837,852,764
Commodity Futures	Investment Revenue	4,801,631	Investments	110,454,108	1,179,613	105,652,477
Fixed Income derivatives - futures	Investment Revenue	(69,226)	Investments	251,475,144	608,500,000	818,755,991
Fixed Income derivatives - options	Investment Revenue	(515,586)	Investments	324,400	23,364,317	647,654
Fixed Income derivatives - swaps	Investment Revenue	3,627,189	Investments	3,627,189	1,548,259,763	-
Forward Currency Contracts	Investment Revenue	(19,670)	Investments	229,730	2,900,000	249,400
Other Derivatives	Investment Revenue	146,907	Investments	(1,192,131)	(93,600,000)	(1,339,038)

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, 2012, 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, 2012. 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, 2012, all of PERA's investments in derivative instruments are held in PERA's name and are not exposed to custodial credit risk as of June 30, 2012.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
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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, Brazilian Real, Canadian Dollar, Euro, British Pound Sterling, Hong Kong Dollar, Japanese Yen and South African Rand. Detailed below are derivatives with foreign currency risk. These derivatives are included in the totals for Note disclosure 3, which also describes in more detail foreign currency risk.

<u>Currency</u>	<u>Description</u>	<u>Market Value</u>
AUD	Fixed Income derivatives - futures	\$ 18,978,061
	Equity derivatives - futures	2,478,286
BRL	Fixed Income derivatives - swaps	1,336,025
CAD	Fixed Income derivatives - futures	(7,961,652)
	Equity derivatives - futures	3,345,155
	Fixed Income derivatives - swaps	251,325
EUR	Fixed Income derivatives - options	324,400
	Fixed Income derivatives - futures	(14,072,416)
	Equity derivatives - futures	6,545,345
	Fixed Income derivatives - swaps	(30,068)
HKD	Equity derivatives - futures	2,255,904
JPY	Fixed Income derivatives - futures	7,235,461
	Equity derivatives - futures	4,292,303
	Fixed Income derivatives - swaps	(30,606)
GBP	Fixed Income derivatives - futures	7,052,533
	Equity derivatives - futures	5,491,599
	Fixed Income derivatives - swaps	(40,715)
ZAR	Equity derivatives - futures	<u>1,037,007</u>
Total Derivative Foreign Currency Risk		<u>\$ 38,487,947</u>

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 and in the index accounts managed by NTGI and SsgA to a very limited extent to equitize small cash balances.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4. DERIVATIVES (CONTINUED)

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.

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.

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, 2012, the Funds had outstanding forward exchange currency contracts to purchase foreign currencies of \$310,429,801 and to sell foreign currencies of \$310,429,801. The fair values of these outstanding contracts at June 30, 2012, were to purchase foreign currencies of \$304,024,509 and to sell foreign currencies of \$303,406,342, 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.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 short term 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. The securities lending agent is restricted to a maximum loan value of \$600,000,000, inclusive of all loaned securities. 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, 2012, the fair value of securities on loan was \$444,750,071. The associated collateral was \$468,885,317, of which \$24,135,246 was cash collateral, \$386,822,370 was short term (maturing in one business day) US Treasury securities and \$57,927,701 was collateral invested in varied legacy securities maintained from a previous securities lending agent. The cash collateral has been reinvested in other instruments which had a fair value of \$444,837,637 as of June 30, 2012 and the securities lending obligations were \$470,091,719. The unrealized loss in invested cash collateral on June 30, 2012 was \$25,579,441 which is reflected in the Statement of Changes in Plan Net Position, "Net Appreciation in fair value of investments."

All open security loans can be terminated on demand by either the Fund or the borrower. To insure liquidity, all collateral is invested in overnight US Treasury investments with a Weighted Average Maturity of one business day. The Weighted Average Maturity of legacy investments (investments made prior to retaining JP Morgan as Agent) was 789 days as of June 30, 2012. The total portion of collateral made up of these legacy assets was 17.75% as of June 30, 2012. All loans were open loans. There were no direct matching loans.

As of June 30, 2012, 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.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2012, is as follows:

	Balance				Balance
	June 30, 2011	Reclass	Additions	Deletions	June 30, 2012
Capital assets @ cost:					
Land	\$ 1,548,990				\$ 1,548,990
Building	12,646,204				12,646,204
Property and equipment	36,016				36,016
Computer equipment and software	14,397,409		68,742	(505,370)	13,960,781
Automobile	80,107				80,107
	<u>\$ 28,708,726</u>	\$ -	<u>\$ 68,742</u>	<u>\$(505,370)</u>	<u>\$ 28,272,098</u>
Accumulated depreciation:					
Building	\$ (456,668)		\$ (421,540)		\$ (878,208)
Property and equipment	(33,589)	\$ 1,017	(333)		(32,905)
Computer equipment and software	(12,580,817)	(1,017)	(1,561,591)	505,370	(13,638,055)
Automobile	(63,706)		(4,921)		(68,627)
	<u>\$ (13,134,780)</u>	<u>\$ -</u>	<u>\$(1,988,385)</u>	<u>\$ 505,370</u>	<u>\$ (14,617,795)</u>
Total	<u>\$ 15,573,946</u>	<u>\$ -</u>	<u>\$(1,919,643)</u>	<u>\$ -</u>	<u>\$ 13,654,303</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 \$1,919,644.
- Reclassification was done during 2012 in which a scanner was moved from property and equipment into the computer equipment classification.
- During FY12, some computer assets were disposed of.

NOTE 7. COMPENSATED ABSENCES

The following represents changes in long-term liabilities for the year ended June 30, 2012.

	Balance			Balance
	June 30, 2011	Additions	Deletions	June 30, 2012
Compensated absences	<u>\$ 319,270</u>	<u>366,878</u>	<u>(394,044)</u>	<u>\$ 292,104</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, 2012

NOTE 8. 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 in the securities lending program that were supposed to be low-risk. As of June 2012, the lawsuit is still on-going.

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 Worker's Compensation) with the State of New Mexico Risk Insurance Program. Coverage are designed to satisfy the requirements of the State tort claims. Also, any claims are processed through Risk Management Division. There are no pending or threatened legal proceedings at year-end other than those noted in the preceding paragraph.

NOTE 9. 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, 2012

NOTE 10. RETIREMENT PLANS

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

Funding Policy. For fiscal year 2012, plan members are required to contribute 10.67% of their gross salary. For fiscal year 2009 through 2011, plan members were 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 2012, PERA is required to contribute 13.34% of the gross covered salary. For fiscal year 2009 through 2011, PERA was 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, 2012, 2011, and 2010, were \$473,261, \$602,122, and \$633,426, respectively, equal to the amount of the required contributions from the employer for each year. In addition, the employees contributed an additional \$378,538, \$355,926, and \$374,430 respectively, equal to the amount of the required contributions from employees for each year.

NOTE 11. 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.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)

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

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

The Retiree Health Care Act (Section 10-7C-15, NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer as of July 1, 2011 to contribute 1.834% of each participating employee's annual salary; each participating employee is required to contribute 0.917% of their salary. Prior to July 1, 2011, the statute requires each participating employer contribute 1.666% of each participating employee's annual salary; each participating employee is required to contribute 0.833% 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, 2012, 2011, and 2010 were \$ 64,480, \$67,095, and \$54,532, for employer contributions and \$32,240, \$33,547, and \$27,266 in employee contributions, respectively, which equal the required contributions for each year.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12. MARKET VOLATILITY

Mixed domestic economic news contributed to uneven and divergent markets while uncertainty in Europe continued to linger. The ISM manufacturing index indicated the first contraction on manufacturing since July 2009. Job growth, after starting the year strongly, was meager toward the end of June 30, 2012. Construction spending increased in May, led by strong private residential outlays. Consumer credit and light-vehicle sales were also up. The Federal Reserve revised down their inflation and GDP projections, citing moderating inflation and elevated unemployment. The maturity extension program known as “Operation Twist” was extended in an effort to maintain long-term interest rates at historically low levels and bolster the economy.

The future of the European monetary union continued to dominate headlines as global growth slowed. Finance ministers in the Euro agreed to directly inject 100 billion into a weakened Spanish banking system in an effort to recapitalize beleaguered banks without increasing government debt loads. Brazil and China concerned over diminishing growth prospects at home and abroad, cut their primary interest rates in an effort to reinvigorate their economies. The Bank of Japan stepped up its bond buying programs in order to fight against ongoing deflationary pressures.

NOTE 13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 29, 2012 (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, 2012. 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 2012, 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 \$338,923, 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 2012, limited review was done on resolving the reconciliation of these receivables by DFA. During fiscal year 2013, DFA and PERA will continue researching and reconciling these items to determine any amounts owed by either party.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 13. SUBSEQUENT EVENTS (CONTINUED)

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, 2012, 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, 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.

Interest Rate Changes. Effective July 1, 2012 (FY13), the interest changes from 5.25% to 2% that is charged to all active and refunding members.

PERA Refines Pension Reform Legislative Proposals. The PERA Board of Trustees recently adopted minor modification to strengthen PERA's proposed pension-reform plan. The modifications were presented to the Investments and Pensions Oversight Subcommittee on Public Safety Pension Plans on October 2, 2012. These proposed modifications to the PERA benefit will ensure that PERA is able to provide a safe and secure retirement benefit for current and future generations of public employees.

The modified proposal that the Board supports for the Legislative Session in January 2013 is as follows:

ACTIVE MEMBERS

Graduated Cost-of-Living Adjustment (COLA) eligibility period for active employees

Include a graduated seven full-calendar year eligibility period to receive a COLA for active employees:

- Active employees who retire before June 30, 2014: no change to current two full-calendar years after retirement to receive a COLA;
- Active employees who retire between July 1, 2014 and June 30, 2015: implement a three full-calendar year eligibility period to receive a COLA;
- Active employees who retire between July 1, 2015 and June 30, 2016: implement a four full-calendar year eligibility period to receive a COLA; and
- Active employees who retire after July 1, 2016: implement a seven full-calendar year eligibility period to receive a COLA.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 13. SUBSEQUENT EVENTS (CONTINUED)

NEW MEMBERS

New Benefits Tier

The Board approved a new tier for members hired after July 1, 2010 with plan benefit changes for both general and public safety members.

General Members

- .5% reduction in the benefit multiplier
- Five-year final average salary calculation
- Retirement eligibility Rule of 85 or age 65 with 10 years of service
- Eight-year vesting period
- 90% benefit accrual cap
- 2% Cost-of-Living Adjustment (COLA)
- Seven full-calendar year eligibility period to receive a COLA

Public Safety Plan Members

- .5% reduction in the benefit multiplier
- Five-year final average salary calculation
- Retirement eligibility Rule of 75 or age 60 with 10 years of service
- Six-year vesting period
- 90% benefit accrual cap
- 2% Cost-of-Living Adjustment (COLA)
- Seven full-calendar year eligibility period to receive a COLA

RETIREES

Cost-of-Living Adjustment (COLA) Reduction for Current / Future Retirees

The Board approved a 2% compounding COLA for all current and future retirees effective July 1, 2013.

COLA Suspension for Return-to-Work Retirees

Suspend the Cost-of-Living Adjustment (COLA) for return-to-work retirees while they are re-employed.

Post-Employment Benefits (New Mexico Retiree Healthcare Association). Effective July 1, 2012, the required employer and employee contribution levels have been increased per 10-7C-15 NMSA 1978. The employer will contribute 2.00% and the employee will contribute 1.00%.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 14. 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.

NOTE 15. CASH RECONCILIATION

General Fund Investment Pool Not Reconciled. In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management REporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's (DFA) website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is Current State Diagnostic of Cash Control. The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury. As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the PERA's balances at the business unit/fund level is not possible. DFA is the agency responsible for the reconciliation pursuant to state law.

PERA believes the cash invested in the State Treasurer Overnight Pool is represented fairly and with no material misstatements due to the reconciliation done by PERA. PERA has established internal control procedures applying the State of New Mexico Manual of Model Accounting Practices (MAP). These procedures are designed to implement necessary and mandatory controls to avert accounting errors and violations of state and federal law and rules related to financial matters. In addition, PERA ensures that any disbursement of funds does not exceed the unencumbered funds at its disposal. Incorporating the State's financial software system (SHARE) and monthly internal reporting and reconciliation throughout the fiscal year, PERA maintains optimum fiscal safeguards. This ensures that the cash balances in SHARE are correct to the extent that PERA has control (i.e., collection, depositing, reconciling, and documentation of outstanding items) of the cash, its receipts and transfers to the state general fund and

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 15. CASH RECONCILIATION (CONTINUED)

other state agencies pursuant to state statute. Each deposit, payment voucher, investment, and any other item that affects cash is verified monthly against SHARE to ensure the amount was posted correctly into the State's general ledger system. Any discrepancies are noted immediately to the Department of Finance and Administration and State Treasurer Office.

Interest in the General Fund Investment Pool. State law (Section 8-6-3 NMSA 1978) requires the Department's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Department consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office. At June 30, 2012 the Department had the following invested in the General Fund Investment Pool: General Fund Investment Pool \$7,768,878.

Interest Rate Risk - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit risk - The New Mexico State Treasurer pools are not rated. For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

PERA believes the cash invested in the State Treasurer Overnight Pool is represented fairly and with no material misstatements due to the reconciliation done by PERA. Each deposit, payment voucher, investment, and any other item that affects cash is verified monthly against SHARE to ensure the amount was posted correctly into the State's general ledger system. Any discrepancies are noted immediately to the Department of Finance and Administration and State Treasurer Office.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
Year Ended June 30, 2012

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)
<u>PUBLIC EMPLOYEES RETIREMENT FUND</u>						
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
June 30, 2012	11,612,047,019	17,788,043,847	6,175,996,828	65.3	1,994,280,107	309.7
<u>LEGISLATIVE RETIREMENT FUND (A)</u>						
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
June 30, 2012	25,168,813	27,429,263	2,260,450	91.8	N/A	N/A
<u>JUDICIAL RETIREMENT FUND</u>						
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
June 30, 2012	75,506,702	147,922,843	72,416,141	51.0	12,690,503	570.6
<u>MAGISTRATE RETIREMENT FUND</u>						
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
June 30, 2012	30,878,948	58,037,075	27,158,127	53.2	3,213,712	845.1

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
Year Ended June 30, 2012**

SCHEDULE OF FUNDING PROGRESS (CONTINUED)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued 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)
<i><u>VOLUNTEER FIREFIGHTERS RETIREMENT FUND (A)</u></i>						
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
June 30, 2012	47,382,330	28,219,348	(19,162,982)	167.9	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, 2012**

Fiscal Year Ended	Public Employees Retirement Fund (3)		Judicial Retirement Fund	
	Annual Required Contribution	% Contributed	Annual Required Contribution	% Contributed
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%
June 30, 2012	466,835,061	100.0%	5,834,621	79.1%

Fiscal Year Ended	Magistrate Retirement Fund		Volunteer Firefighters Retirement Fund (1)	
	Annual Required Contribution	% Contributed	Annual Required Contribution	% Contributed (2)
June 30, 2007	943,884	127.8%	0 - 446,000	168.2%
June 30,2008	1,029,865	132.6%	-	750.0%
June 30, 2009	1,151,061	86.9%	-	750.0%
June 30, 2010	1,698,108	68.0%	-	750.0%
June 30, 2011	2,013,684	62.5%	-	750.0%
June 30, 2012	1,793,261	57.2%	-	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, 2012

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Valuation date	June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012
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 ^{^^}	30 years ^{^^}	30 years [#]
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market	4 year smoothed market
Rate of return on investment of present and future assets*	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.

^{^^}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, 2012

	<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	\$ 29,552,100	\$ 34,948,100	\$ 112,835,269	\$ 77,887,169
Deferred Comp Plan Income	107,900	107,900	61,706	(46,194)
Total Revenue	<u>\$ 29,660,000</u>	<u>\$ 35,056,000</u>	<u>\$ 112,896,975</u>	<u>\$ 77,840,975</u>
Expenditures				
Administration				
Contractual services	23,208,700	28,478,700	26,417,364	2,061,336
Personnel services and benefits	5,408,300	5,257,307	4,626,658	630,649
Other operating costs	1,043,000	1,319,993	1,136,283	183,710
Total Expenditures	<u>\$ 29,660,000</u>	<u>\$ 35,056,000</u>	<u>\$ 32,180,305</u>	<u>\$ 2,875,695</u>
Change in net assets, budget items			80,716,670	
Non-budget revenues and expenses:				
Investment earnings and change in fair value			(207,706,769)	
Depreciation Expense			(1,988,385)	
Compensated Absences			(292,104)	
Contributions from members and employers			533,126,207	
Other Income			27,629,643	
Benefit payments to retirees and beneficiaries			(780,144,516)	
Refunds to terminated employees			<u>(45,771,456)</u>	
Increase (Decrease) in plan net assets			(394,430,710)	
Net Position held in trust for pension benefits				
Balance - beginning of year			<u>11,994,454,699</u>	
Balance - end of year			<u>\$ 11,600,023,989</u>	

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
OTHER SUPPLEMENTAL SCHEDULES
SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES
PUBLIC EMPLOYEES RETIREMENT FUND ONLY
Years Ended June 30, 2012 and 2011

	2012	2011
Investment Expenses:		
Investment Manager Fees	\$ 19,742,383	\$ 17,806,880
Consultant Fees	4,677,295	5,251,267
Information Technology Services	27,469	26,267
Legal Fees	172,251	259,506
Total Investment Expenses	\$ 24,619,398	\$ 23,343,920
Administrative Expenses:		
Other Contractual Services:		
Information Technology Services	1,207,626	959,470
Legal Fees	32,705	25,269
Audit Fees	106,405	104,277
Medical Services	49,455	46,455
Other Professional Services	401,776	326,505
Total Other Contractual Services	1,797,967	1,461,976
Other Administrative Services:		
Personnel Services and Benefits	4,553,790	5,088,908
Other Operating Costs	1,128,204	1,108,154
Deferred Compensation Plan expenses	80,946	83,156
Compenstated Absences	292,104	319,270
Depreciation Expense	1,988,385	2,435,872
Total Other Administrative Services	8,043,429	9,035,360
Total Administrative Expenses	\$ 9,841,396	\$ 10,497,336
Total Investment and Administrative Expenses	\$ 34,460,794	\$ 33,841,256

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
OTHER SUPPLEMENTAL SCHEDULES
SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES
JUDICIAL RETIREMENT FUND ONLY
Years Ended June 30, 2012 and 2011

	2012	2011
Investment Expenses:		
Investment Manager Fees	\$ 158,344	\$ 151,095
Consultant Fees	-	-
Information Technology Services	178	172
Legal Fees	1,117	1,703
Total Investment Expenses	159,639	152,970
Administrative Expenses:		
Other Contractual Services:		
Information Technology Services	3,518	2,871
Legal Fees	95	74
Audit Fees	310	304
Medical Services	144	135
Other Professional Services	1,170	951
Total Other Contractual Services	5,237	4,335
Other Administrative Services:		
Personnel Services and Benefits	14,116	15,753
Other Operating Costs	3,286	3,214
Deferred Compensation Plan expenses	-	-
Compenstated Absences	-	-
Depreciation Expense	-	-
Total Other Administrative Services	17,402	18,967
Total Administrative Expenses	\$ 22,639	\$ 23,302
Total Investment and Administrative Expenses	\$ 182,278	\$ 176,272

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
OTHER SUPPLEMENTAL SCHEDULES
SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES
MAGISTRATE RETIREMENT FUND ONLY
Years Ended June 30, 2012 and 2011

	2012	2011
Investment Expenses:		
Investment Manager Fees	\$ 64,328	\$ 61,714
Consultant Fees	-	-
Information Technology Services	72	70
Legal Fees	454	695
Total Investment Expenses	\$ 64,854	\$ 62,479
Administrative Expenses:		
Other Contractual Services:		
Information Technology Services	1,819	1,485
Legal Fees	49	38
Audit Fees	160	157
Medical Services	75	70
Other Professional Services	605	492
Total Other Contractual Services	2,708	2,242
Other Administrative Services:		
Personnel Services and Benefits	7,302	8,148
Other Operating Costs	1,700	1,663
Deferred Compensation Plan expenses	-	-
Compenstated Absences	-	-
Depreciation Expense	-	-
Total Other Administrative Services	9,002	9,811
Total Administrative Expenses	\$ 11,710	\$ 12,053
Total Investment and Administrative Expenses	\$ 76,564	\$ 74,532

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
OTHER SUPPLEMENTAL SCHEDULES
SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES
VOLUNTEER FIREFIGHTER RETIREMENT FUND ONLY
Years Ended June 30, 2012 and 2011

	2012	2011
Investment Expenses:		
Investment Manager Fees	\$ 98,966	\$ 91,888
Consultant Fees	-	-
Information Technology Services	111	105
Legal Fees	698	1,035
Total Investment Expenses	\$ 99,775	\$ 93,028
Administrative Expenses:		
Other Contractual Services:		
Information Technology Services	-	-
Legal Fees	-	-
Audit Fees	-	-
Medical Services	-	-
Other Professional Services	-	-
Total Other Contractual Services	-	-
Other Administrative Services:		
Personnel Services and Benefits	-	-
Other Operating Costs	-	-
Deferred Compensation Plan expenses	-	-
Compenstated Absences	-	-
Depreciation Expense	-	-
Total Other Administrative Services	-	-
Total Administrative Expenses	\$ -	\$ -
Total Investment and Administrative Expenses	\$ 99,775	\$ 93,028

**REPORT OF INDEPENDENT AUDITORS 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, 2012, and have issued our report thereon dated November 29, 2012. We have also audited the Schedule of Revenues, Appropriations and Expenses – Budget and Actual (Non-GAAP) for the Public Employees Retirement Fund presented as supplementary information for the year ended June 30, 2012, 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

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

not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses as item 12-01 to be significant deficiency 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, 10-02, 12-02, and 12-03.

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 responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Members of PERA's Retirement Board, the Audit & Budget 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.

Mess Adams LLP

Albuquerque, New Mexico
November 29, 2012

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2012**

06-01	Contributions Transaction Cycle – Over and Under Payments	Resolved
07-06	RIO to General Ledger Posting	Resolved
09-01	Member Account Interest	Repeated, revised
09-03	IRS Reporting and 1099R Errors	Resolved
09-04	Cash Receipt and Accounts Receivable Processes	Resolved
10-01	Investment File Documentation	Resolved
10-02	Performance Appraisals	Repeated, revised
11-01	Deceased Member Overpayments	Resolved
11-02	Service Credit Price Quote Error	Resolved
11-03	Employer Contributions Receivable	Resolved

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012**

A. FINDINGS - FINANCIAL STATEMENT AUDIT

12-01 Participant Enrollment Forms – Significant Deficiency

12-01 Participant Enrollment Forms – Significant Deficiency

CONDITION

During our testing of participant data and walkthrough's of the Plan's internal controls over contributions, we observed that the following in certain instances: When a new employee is hired by a participating cost share employer an application for PERA Membership is completed by the new participant and the cost share employer. Certain employers return this application to the Plan on a timely basis; however other employers do not return the applications on a timely basis and the Plan does not regularly follow-up with employers if an application is not submitted. The application for PERA Membership clearly indicates that an original form must be completed in its entirety and returned to the Plan. The application contains important member information such as the member's date of birth, gender, employer information, salary information, position, identification of which plan the member is enrolled, and employment start date. It is our understanding that management relies upon each cost share employer for the accuracy of information about the participants entered into the RIO system and may correct inaccurate participant data when certain reviews are performed and applications are requested for instances that either service credits are purchased or application is made for retirement. However, these reviews may occur well after a member has been enrolled in the Plan.

CRITERIA

Enrollment applications should be reviewed to ensure the accuracy of participant data and maintained for future reference.

CAUSE

Management has not effectively enforced its requirement that all cost share employers send in the application for new members.

EFFECT

Applications for PERA Membership are considered to be an essential piece of documentation for ensuring that participant data is accurate. The lack of supporting documentation increases the risk that inaccurate records with regard to participant data resides in the Plan's database. Information about the Plan's participants forms the basis of actuarial valuations which are considered significant disclosures for the Plan's financial statements. Additionally, basic participant information is used for processing contributions and for determining benefit payments to retirees.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2012**

12-01 Participant Enrollment Forms (continued)

RECOMMENDATION

We recommend that Applications for PERA Membership be remitted by each employer to ensure participant data is properly recorded and on a timely basis within the Plan's records. For example, Management might consider implementing a policy that PERA Membership forms be submitted within 30 days of a member's hire date and then follow-up with employers for forms not remitted within this time frame. Management also might consider whether PERA Membership forms can be submitted electronically, for instance in a pdf format, to expedite the collection of forms. Each application should be reviewed by PERA and agreed against the member data entered by the cost share employer.

MANAGEMENT RESPONSE

Management agrees with this finding. The RIO system was originally designed so that employers electronically submitted the information on Member Applications when an employee was hired and employee and employer contributions were made. Information was meant to bridge over from data input electronically by the employer and populates fields in the member's file.

PERA receives approximately 600 Member Applications a month. PERA management is reviewing options for ensuring that the information on Member Applications is entered into RIO. PERA will schedule additional employer training focusing on the necessity of member files being complete. PERA is also reviewing the need to allocate additional staff resources to focus on inputting the thousands of Member Applications, Survivor and Refund Beneficiary Forms and Change Forms for addresses, etc. that PERA receives each month. Given that PERA is reliant on employers inputting correct information, as well as processing forms correctly, it is unlikely that PERA will achieve 100% accuracy in all member accounts; however, management's goal is to insure as much accuracy in this area as possible.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012**

**B. OTHER FINDINGS, AS REQUIRED BY NEW MEXICO STATE STATUTE, SECTION
12-6-5, NMSA 1978**

09-01 Member Account Interest

CONDITION

It was noted in prior audits that certain member's accounts were not being applied the correct amount of compound interest per annum in accordance with the New Mexico Administrative Code (NMAC). In the current year audit, management self-reported that there were continuing instances of member interest being calculated incorrectly. Examples of accounts being applied incorrect interest were provided to us indicating that in certain instances interest was being applied to member accounts in amounts much greater than the approved interest rate amount for a given year. We also noted that interest for the current audit period had not yet been allocated as of the time of the audit due to related system errors. We understand that management is aware of the issue and has contracted a third-party IT expert to determine the reasons for the system errors.

CRITERIA

NMAC Title 2, Chapter 80, 2100.8 (D) indicates that interest on member contributions should be posted annually.

CAUSE

Due to the RIO system's treatment of certain member accounts, interest compounded on member contributions is not being posted in accordance with state statutes.

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 identify and resolve the RIO system errors that result in interest being posted to member accounts in a manner that is not in accordance with the NMAC.

MANAGEMENT RESPONSE

Interest not being applied to member accounts is generally the result of either a system issue or the result of the course of normal business operations, such as accounts being under construction or lags in employer reporting.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2012**

09-01 Member Account Interest (continued)

PERA is working with Hewlett Packard to develop a global solution comprised of two steps – one to recalculate interim interest (interest paid on refunds) and one to recalculate regular interest (annual interest paid on member account balances). These two tasks are designed to be run in combination once a year, in sequence for each fiscal year since the inception of RIO (FY05).

PERA Management places a high priority on resolving this issue and has made progress in completing the necessary testing to identify remaining issues and correctly post interest going forward. The test will be ready to be run by the end of December 2012.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012**

10-02 Performance Appraisals

CONDITION

For the year ended June 30, 2012, the auditors became aware of eighteen instances of evaluations not done in a timely manner.

CRITERIA

Performance appraisals shall be completed on at least an annual basis per New Mexico State Personnel Board Rules and Regulations, 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.

RECOMMENDATION

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

MANAGEMENT RESPONSE

Management agrees with this finding and will ensure compliance with standards set forth in 1.7.9.9 B NMAC going forward.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2012**

12-02 Administrative Payroll Procedures—Segregation of Duties

CONDITION

During our consideration of administrative payroll internal controls we noted that SHARE was updated for a payroll system update during September 2011. Before this update, the payroll records for each pay period were reviewed and approved by the Deputy Director. However, after the update no review or approval of administrative payroll was performed. Additionally, we observed that the administrative payroll and human resource functions are combined. We believe there is a lack of segregation of duties within the administrative payroll process. The same personnel have access to the payroll records necessary for processing administrative payroll and have access to add employees, change pay rates, or update master employee data.

CRITERIA

The separation of duties is a powerful internal control used to ensure that duties are assigned to individuals in a manner so that no one individual can control an entire process from start to finish. With regards to the processing of payroll, segregating the duties of hiring employees, reviewing timecards, preparing payroll calculations, distributing payroll, and oversight review of payroll records limits the opportunity for unauthorized increases in wages or bonuses may be paid.

CAUSE

Since the payroll system update, management has not added back the previous review and approval process.

EFFECT

This lack of segregation of duties in the administrative payroll function, coupled with the lack of a review by the Deputy Director for each pay period increases the risk that an error or irregularity could occur and go undetected.

RECOMMENDATION

We recommend that another management employee, such as the personnel manager, perform some of the procedures in the payroll process in order to improve internal controls in this area.

MANAGEMENT RESPONSE

Management agrees with this finding. Going forward either the PERA Deputy Director or the Administrative Services Director will perform the task of providing additional internal controls in this area.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012

12- 03 Improve Information Technology Controls

CONDITION

During our review of the surrounding IT controls, we noted the following:

- (a) PERA has not updated its disaster and recovery plans. Without an updated written disaster recovery plan to provide guidance, management may be unable to effectively manage the recovery effort. A written disaster recovery plan should be comprehensive in scope covering staff roles and responsibilities, system recovery steps, data restoration procedures, and how to maintain business operations.
- (b) The password for the Domain Controller that controls members' logins to the retirement system is currently not set to expire. In addition, other parameters such as password length, complexity requirement, etc. are not set up in the system.
- (c) With regard to the RIO system, we noted that users have the ability to export and email reports outside PERA. This privilege should be restricted to very select employees based on a need to know basis.
- (d) In the RIO system, there were over fifty accounts that were assigned to a group or to a role that had the ability to change members' contribution rates. Most of these accounts were intended to update other fields such as name, addresses and other information but contribution rate is embedded to the role.

CRITERIA

Per State of NM Statewide Guideline "Enterprise IT Security Policy", S-GUIDE-00.003, "the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality privacy, accessibility, availability, and integrity.

In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) 4.1 framework (DS4), to ensure continuous service, a Disaster Recovery Plan needs to be developed and tested to reduce impact of a major disruption on key business functions and processes. The plans should be based on risk understanding of potential business impacts and address requirements for resilience, alternative processing and recovery capability of all critical IT services. They should also cover usage guidelines, roles and responsibilities, procedures, communication processes, and the testing approach.

In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) framework, to ensure system security (DS5), password policies need to be adequate for appropriate authentication of users to the system. Policies are reinforced through system settings and include minimum length, strength characteristics, regular changes, and lockouts. Industry best practices include minimum of 7 to 8 characters, password age of 60 to 120 days and complexity requirement being enforced.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2012**

12- 03 Improve Information Technology Controls (continued)

CAUSE

PERA is in the process of updating its disaster recovery plan. PERA made significant progress and changes on IT security and will continue to improve its existing controls. During the year, a penetration and security assessment was performed by an outside vendor.

EFFECT

The lack of updated Disaster Recovery Plan and absence of testing may pose question as to PERA's ability to respond and recover its critical data and applications in the event of an unforeseen disaster. Without strong internal controls over the PERA's IT infrastructure and the RIO system, there is the potential for the confidentiality, integrity, and/or availability of data to be compromised.

RECOMMENDATION

We recommend the following:

- (a) PERA update its Disaster Recovery Plan on a regular basis, as soon as significant changes have been made to the network and applications. It would be prudent for PERA to test the disaster recovery plan to ensure the viability of the plan and the timeliness of its execution. PERA has an obligation to its members and the people it serves to ensure that it has a plan for continued business operations. System recovery testing and backup tape restoration should be conducted periodically and the tests should be documented and formalized to be included with PERA's overall business continuity planning. Doing so will prepare PERA for continuing operations in the event of an unforeseen disaster.
- (b) Adopt and implement industry best practices as far as password management is concerned.
- (c) Restrict report generation capability in the RIO system to ensure that only select employees have such privilege. It can also explore other mechanism on this process in order to protect members' data.
- (d) Review the users' access control listing for RIO system to ensure proper access, especially for those that have the ability to change contribution rates. PERA needs to consider working with the vendor how to restrict access to the contribution rate fields or implement other procedure to mitigate the risk of unauthorized or unintended changes on contribution rates.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012**

12- 03 Improve Information Technology Controls (continued)

MANAGEMENT RESPONSE

a) PERA will update the Disaster Recovery Plan. PERA currently has a full Business Continuity/Disaster Recovery system for the mission critical Retirement Information Online (RIO) system that is in the Albuquerque Data Center. This system is tested every 4 to 6 weeks but the existing Disaster Recovery Plan needs to be updated to document the process in the event of a disaster.

b) PERA will change the properties on the Self Service domain controller to require that passwords expire after 120 days. The passwords will also be required to contain at least 7 characters with 1 number and a special character.

c) PERA will limit the users that have access to reports. PERA will also be mapping all data to perform a data risk analysis. Once the analysis is complete further security may be required to address any identified vulnerabilities.

d) PERA managers are responsible for approving and periodically reviewing the User Group membership for all their staff, based on the business requirements of their individual job functions. PERA will review the user access control list for RIO to determine if roles can be reduced for all RIO users. PERA has also identified users that are on the access control list but are no longer employed by PERA. These employees that are no longer employed are required to remain in the RIO system to view changes made by these former employees. This also reduced the number of employees that have specific roles on the access control list. In the event unauthorized or inadvertent changes are made in RIO, the history tables in the RIO database would capture the User ID, the date, the time, and the specific information changed.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
EXIT CONFERENCE
June 30, 2012**

We discussed the recommendations contained in this letter during the exit conference held November 29, 2012. The exit conference was attended by the following individuals:

Public Employees Retirement Association

Wayne Propst	Executive Director
Mary Frederick	Deputy Director
Susan Pittard	Director of Legal Division
Rena Herndon	Comptroller

Gerald Chavez	Municipal Member
Patricia French	Municipal Member
James Lewis	Ex-Officio Member
Nancy Hewitt	State Member
Roman Jimenez	State Member
Annette Martinez-Varela	State Member
Susan Biernacki	Municipal Member
Grace Gonzalez	County Member
Victor Montoya	Retiree Member
Loretta Naranjo-Lopez	Retiree Member

Moss Adams, Ltd.

Scott Eliason	Audit Director
Jeff Bridgens	Audit Senior Manager