



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

**JUNE 30, 2013**



**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, 2013***

<b><u>NAME</u></b>	<b><u>TITLE</u></b>
Ms. Patricia French	Municipal Member, Chair
Mr. Roman Jimenez	State Member, Vice Chair
Ms. Dianna Duran	Ex-Officio, Secretary of State
Mr. James B. Lewis	Ex-Officio, State Treasurer
Ms. Paula Fisher	State Member
Ms. Annette Martinez-Varela	State Member
Ms. Jackie Kohlasch	State Member
Ms. Susan Biernacki	Municipal Member
Mr. Daniel Esquibel	Municipal Member
Ms. Grace Gonzalez	County Member
Mr. Dan Mayfield	Retiree Member
Ms. Loretta Naranjo-Lopez	Retiree Member

## REPORT OF INDEPENDENT AUDITORS

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

### **Report on the Financial Statements**

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, 2013, as listed in the table of contents. We did not audit the Deferred Compensation (IRC 457) Fund, which reflect total assets and additions constituting 3 percent and 4 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.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

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

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PERA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Emphasis of Matter***

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, 2013, and the changes in its financial position, for the year then ended in conformity with U.S. generally accepted accounting principles.

***Opinions***

In our opinion, based on the report of our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the plan net position of PERA as of June 30, 2013, and the respective changes in financial position of its plan net position 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 position of each of the individual funds administered by PERA as of June 30, 2013, and the respective changes in the financial position of the plan net position of the individual funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress, Schedule of Contributions from Employers and Other Contributing Entities and Notes to Required Supplementary Information on pages 6 through 23 and 70 through 73, 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 on them.

*Other Information*

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 Deferred Compensation 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.

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

The accompanying Schedule of Administrative and Investment Expenses Public Employees Retirement Fund Only, Schedule of Administrative and Investment Expenses Deferred Compensation Fund Only, Schedule of Administrative and Investment Expenses Judicial Retirement Fund Only, and Schedule of Administrative and Investment Expenses Magistrate Retirement Fund Only, and Schedule of Administrative and Investment Expenses Volunteer Firefighter Retirement Fund Only are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Schedule of Administrative and Investment Expenses Public Employees Retirement Fund Only, Schedule of Administrative and Investment Expenses Deferred Compensation 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 fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 on our consideration of PERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PERA's internal control over financial reporting and compliance.



Albuquerque, New Mexico  
December 13, 2013



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**



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, 2013 and 2012 provides a summary of the financial position of the Funds, including highlights and comparisons.

The Public Employees Retirement Association (PERA) administers 31 different retirement plans, for affiliated public employers in the State of New Mexico. PERA is a governed Board of Trustees consisting of two ex-officio members and ten members elected by the Association’s membership. The Board serves as the trustee for the funds controlled by PERA and is authorized to invest the funds on behalf of PERA. The Board appoints an Executive Director to oversee daily operations of the agency.

PERA administers a qualified governmental plan under Section 401(a) of the Internal Revenue Code (IRC), which provides retirement, disability and survivor benefits pursuant to the Public Employees Retirement Act. The Public Employees Retirement Act, NMSA 1978 §§10-11-1 to 10-11-141, provides most of PERA’s statutory authority. Additional statutory authority is contained in NMSA 1978 § 10-11A-1 et seq, NMSA 1978 § 10-12B-1 et seq, NMSA 1978 § 10-12C-1 et seq, and NMSA 1978 § 10-13A-1 et seq. Deferred compensation is governed by NMSA 1978 §§ 10-7A-1 to 10-7A-12 and the U.S. Internal Revenue Code § 457.

In FY12, the PERA Board reported an unfunded liability of \$6.2 billion, approximately \$1.2 billion greater than the previous year. In response, the PERA Board developed a pension reform proposal with the objective of providing a stable and affordable retirement benefit for the public employees of the State of New Mexico. The final reform proposal projected the Fund would achieve a 100% funded ratio on or before 2041. The PERA Board held 32 public meetings statewide regarding the reform proposals. The Board’s final proposal, endorsed by the Investments and Pensions Oversight Committee, affected all employee groups: current retirees, active employees and future employees. The proposed pension reform package, introduced in the 2013 Legislative Session as Senate Bill 27, passed the Legislature and was signed by the Governor. SB 27 became effective July 1, 2013 (see Note 1, section D for detailed information regarding changes) and represents the most sweeping changes to the PERA benefit since the agency’s founding.

Preliminary analysis of the impact of SB 27 indicates that the UAAL has decreased by almost \$1.6 billion and the funded ratios of all PERA Plans have improved. PERA’s actuaries project the Fund will reach a funded ratio of 100% by 2041 and 108.8% by 2043.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**



Recent Governmental Accounting Standards Board (GASB) accounting changes (GASB 67 and GASB 68) will change how an unfunded liability is calculated for accounting purposes and how it is reported on financial statements for PERA's participating entities. PERA staff is working to implement the new rules and the agency's actuaries will conduct a test of the new accounting requirements for February 2014. Additionally, PERA staff is taking the following steps to prepare for the new rules:

- Participating in a GASB 68 task force that consists of PERA, Educational Retirement Board (ERB), Department of Finance and Administration (DFA) and the State Auditor Office (SAO) staff.
- PERA is developing an online training program as well as site trainings to educate employers and their auditors the impact of GASB 68.
- PERA is responsible for implementing GASB 67 in the FY14 financial statements. Employers of PERA are required to implement GASB 68 in their FY15 financial statements.

**Fiscal Year Overview**

As noted above, the PERA Board and PERA staff proposed changes to the PERA pension benefits to improve long-term funding and reduce its Unfunded Actuarial Accrued Liability (UAAL).

The market environment was steadily positive most of the year due to Federal Reserve keeping interest rates near zero, positive corporate earnings and the slowly improving economy, which resulted in the overall earnings for the year of 13.26%. These positive earnings were 5.51% over the projected 7.75% for the year.

**Financial Highlights**

- The plan net position held in trust to pay pension benefits was \$13.3 billion as of June 30, 2013. This amount reflects an increase of \$1.16 billion from the prior fiscal year. Interest rates for member accounts and for refund interest was reduced from 5.25% to 2%, which resulted in slight cost savings to the plan. The increase change is primarily the result positive returns of domestic equity and international securities. 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 PERA Retirement Fund funded ratio as of June 30, 2013 is 72.9%. The increase in the funding ratio from June 30, 2012 rate of 65.3% is primarily due to legislative changes in SB27, primarily the reduction of the COLA from 3% to 2%.
  - Legislative funding ratio at June 30, 2013 is 115.2% versus 91.8% from June 30, 2012. The increase in the funding ratio is primarily the reduction of the Cost-of-Living-Adjustment (COLA) from 3% to 2%.
  - Judicial funding ratio at June 30, 2013 is 55.7% versus 51.0% from June 30, 2012. The increase in the funding ratio is primarily due to the reduction of the COLA from 3% to 2%.
  - Magistrate funding ratio at June 30, 2013 is 58.4% versus 53.2% from June 30, 2012. The increase in the funding ratio is primarily due to the reduction of the COLA from 3% to 2%.
  - Volunteer Firefighter funding ratio at June 30, 2013 is 138.2% versus 167.9% from June 30, 2012. The decrease in the funding ratio is primarily due to legislative changes increasing the annuity benefit.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**



- Retirement and death benefits paid this year (excluding Deferred Compensation) totaled \$855 million to 32,042 annuitants as compared to \$792 million to 31,108 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 increased from \$280 million in FY12 to \$290 million in FY13, a difference of \$10 million. The increase is primarily due to the changes made in the employer contribution rates since a swap of 1.75% expired in FY13. Contributions from members decreased from \$250 million in FY12 to \$228 million in FY13, a difference of \$22 million. The decrease is primarily due to the changes made in the member contribution rates due to the contribution swap expiring.
- PERA's investments reported a total return of positive 13.26% for the current year and negative 0.38% for last fiscal year. This increase was due to favorable financial market conditions in 2013, especially in regards to domestic equity. (This percentage does not include the investments administered by the Deferred Compensation Plan's contracted third party.)

## **PERA HIGHLIGHTS**

### **Overview of Financial Statements**

PERA's basic financial statements include the following components:

- 1) Statement of Plan Net Position
  - 2) Statement of Changes in Plan Net Position
  - 3) Notes to the Basic 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.



## **PERA HIGHLIGHTS**

### **Overview of Financial Statements (continued)**

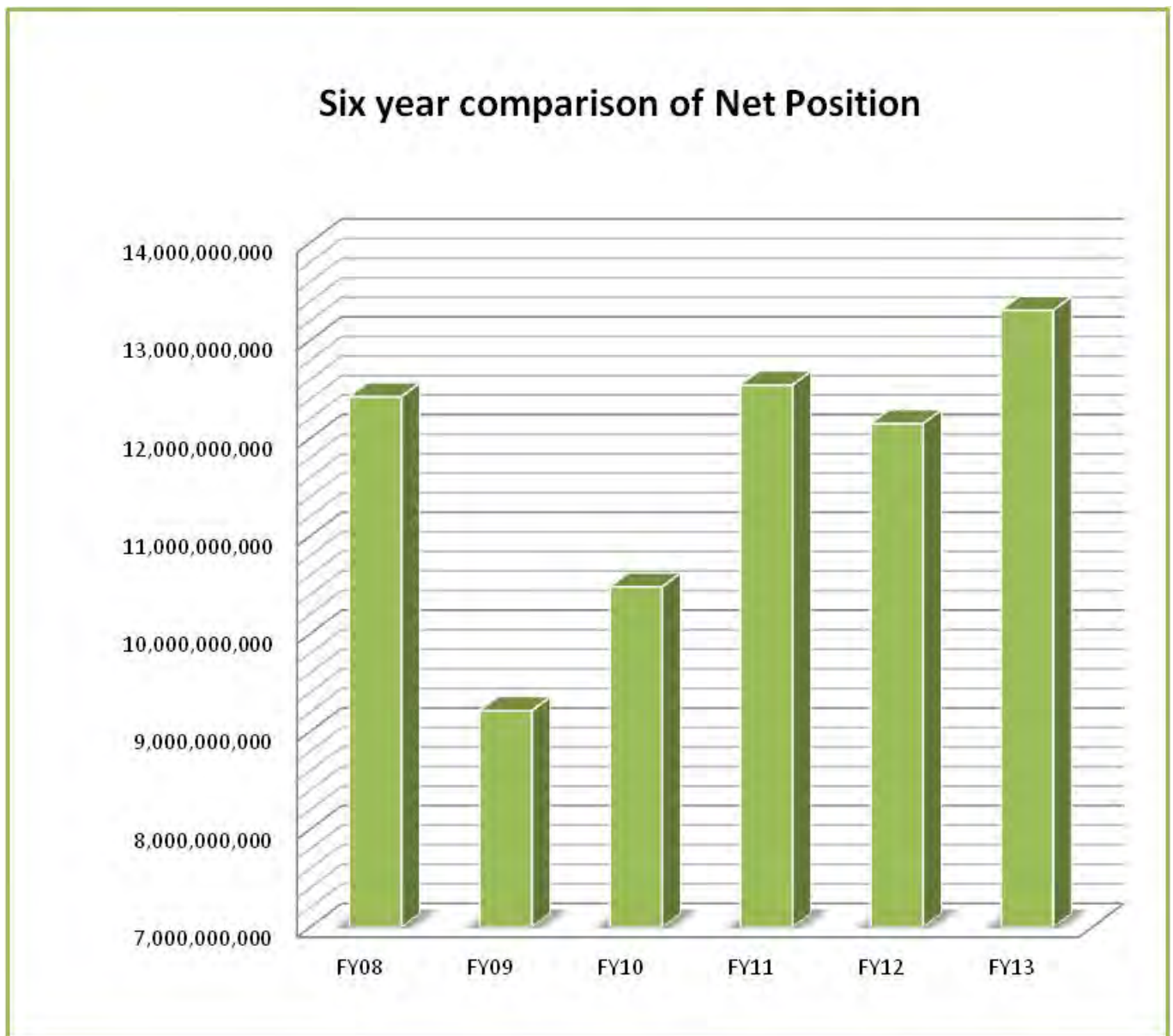
- **The Statement of Plan Net Position:** The Statement of Plan Net Position reflects the resources available at the end of the fiscal year to pay members, retirees, and beneficiaries. This statement also provides information about the fair value and composition of net position. The net increase/decrease serves as an indicator to the financial position of the fund and whether the fund has the ability to fund future benefit payments.
- **The Statement of Changes in Plan Net Position:** The Statement of Changes in Plan Net Position presents the changes to PERA's net position for the fiscal year, including investment income, net appreciation in fair value of the investment portfolio, administration costs and contributions from members and employers.
- **Notes to the Basic Financial Statements:** 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, funding status, derivatives disclosure, investment risk disclosure, investment credit risk, security lending program, commitments and contingencies.
- **Required Supplementary Information:** 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. These schedules provide historical information and actuarial assumptions and methods that assist in understanding the funding status of PERA.
- **Supplemental Information:** The additional supplementary information includes detailed schedules of administrative, investment and consulting fee expenditures for the PERA Fund, Judicial Fund, Magistrate Fund and Volunteer Fire Fighter Fund.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**Comparative Summary Statements**

The Public Employees Retirement Association is a defined benefit plan that provides retirement, disability and survivor benefits. It is comprised of five funds: PERA Fund, Judicial Fund, Magistrate Fund, Volunteer Firefighter Fund and the Deferred Compensation Fund. (See Note 1 for further descriptions of the plans)

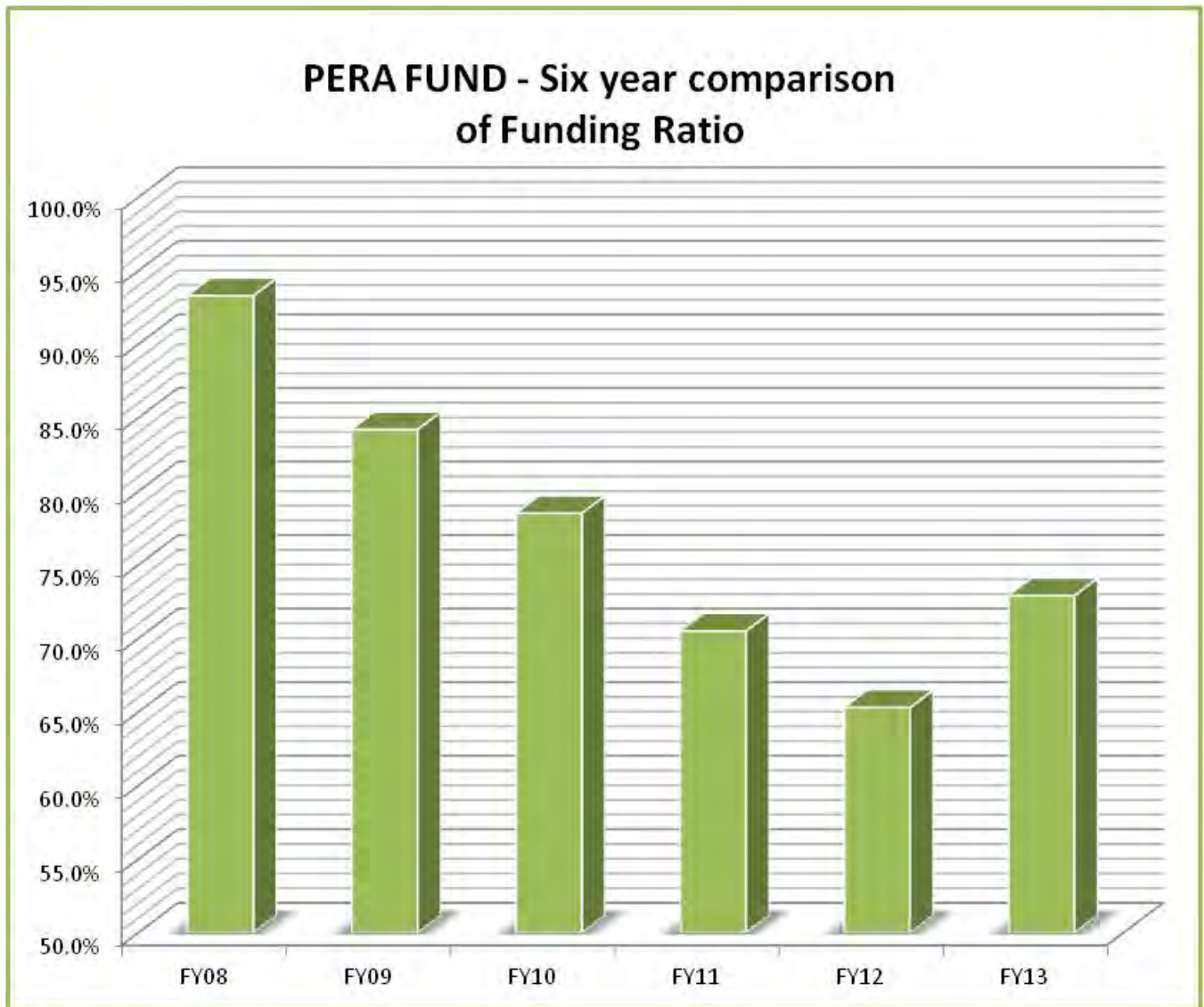
The following chart represents the change in total net position for the Public Employees Retirement Association over the last 6 years. (This includes all 4 funds and the Deferred Compensation fund.)



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**PUBLIC EMPLOYEES RETIREMENT FUND**

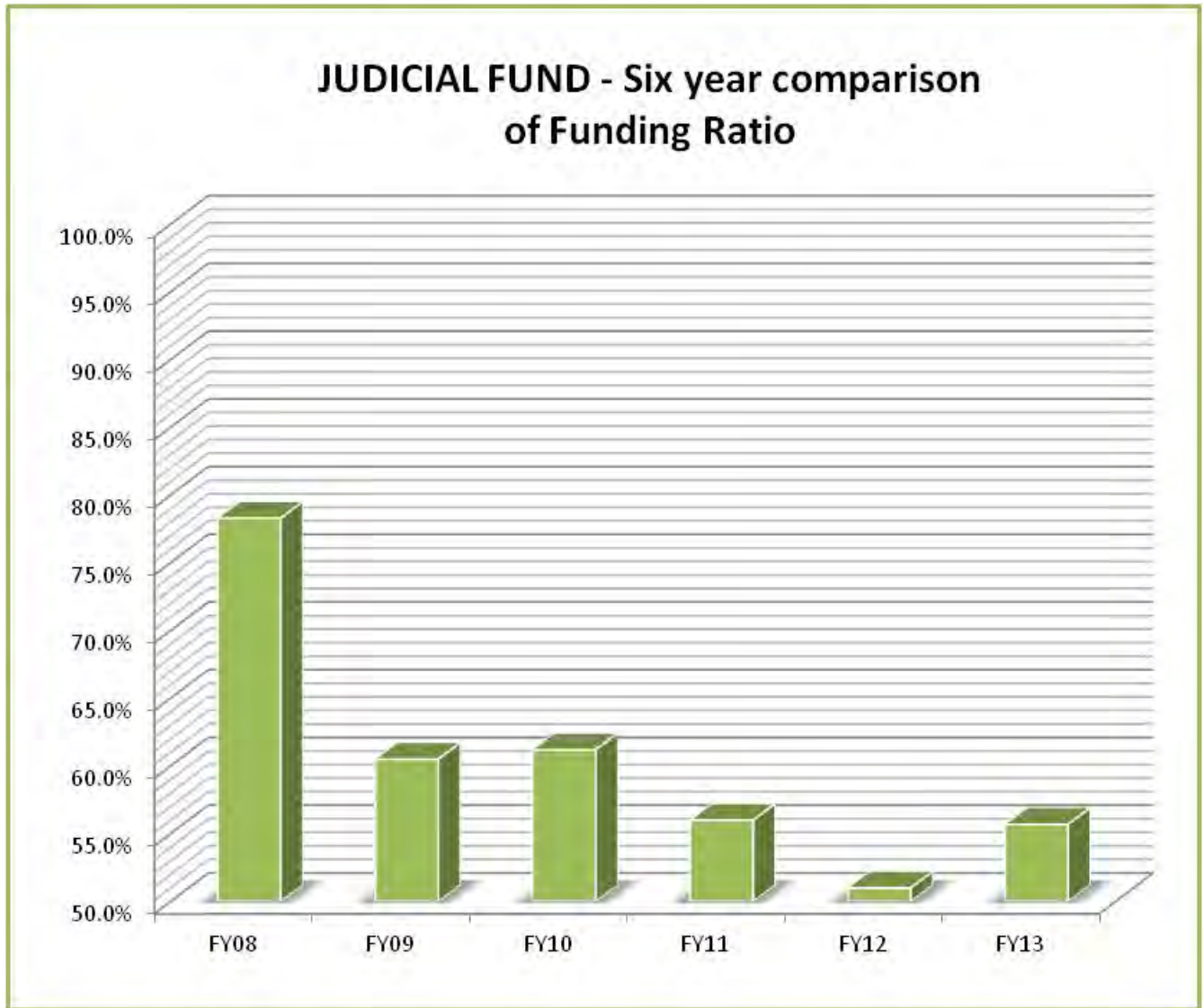
The following chart represents the change in the Funding Ratio for the Public Employees Retirement Association over the last 6 years. The current funding ratio is 72.9%.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**JUDICIAL RETIREMENT FUND**

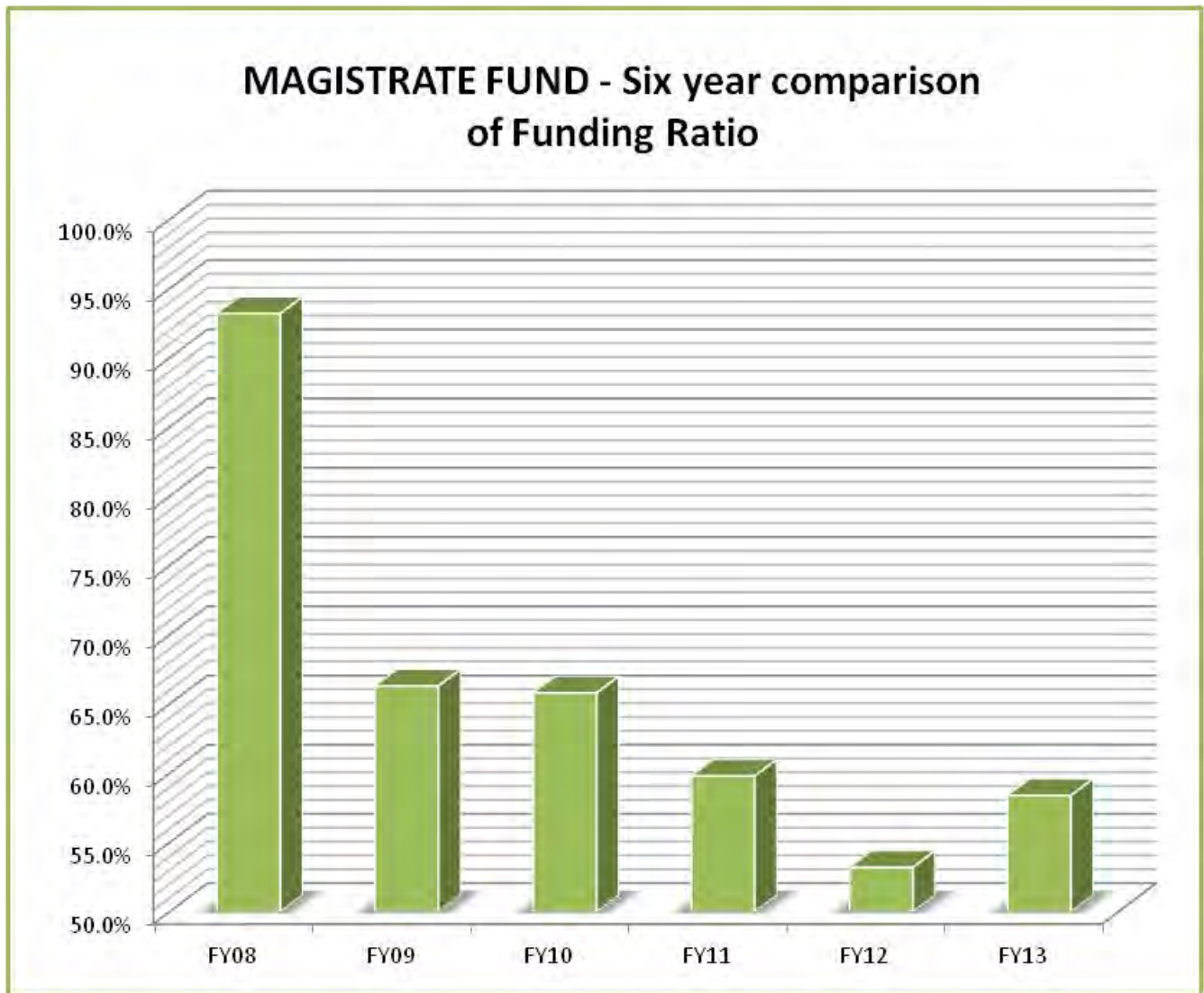
The following chart represents the change in the Funding Ratio for the Judicial Employees Retirement Association over the last 6 years. The current funding ratio is 55.7%.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**MAGISTRATE RETIREMENT FUND**

The following chart represents the change in the Funding Ratio for the Magistrate Employees Retirement Association over the last 6 years. The current funding ratio is 58.4%.

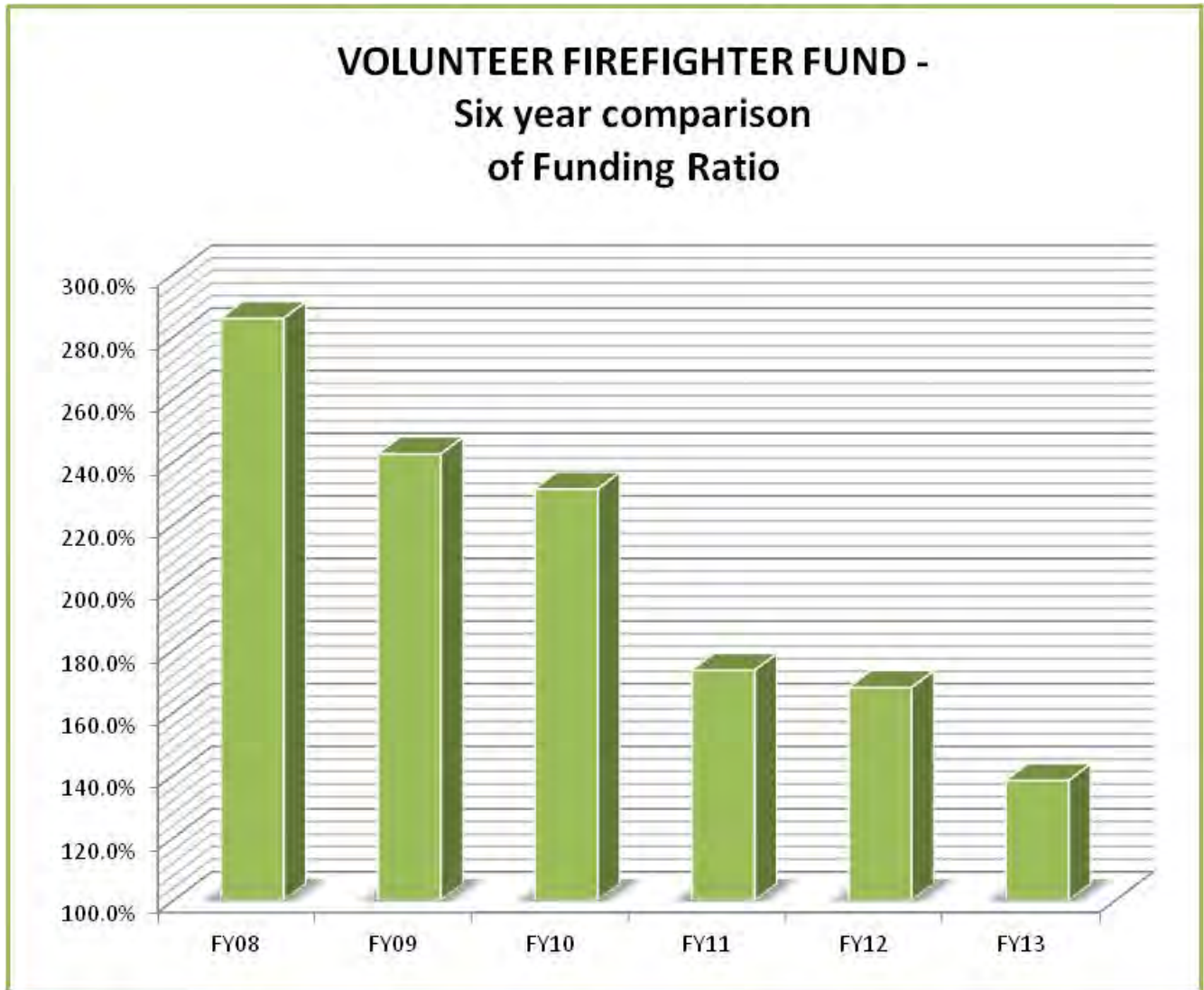




**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**VOLUNTEER FIREFIGHTER FUND**

The following chart represents the change in the Funding Ratio for the Volunteer Firefighters Retirement Association over the last 6 years. The current funding ratio is 138.2%.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**Comparative Summary Statements**

The following table displays the total assets, liabilities, net position, and changes in net position for the four retirement funds and the Deferred Compensation Plan in total as of June 30, 2013:

**ALL FUNDS:**

	2013	2012	Dollar Change	Percentage Change
<b>Assets</b>	\$ 14,175,739,174	\$ 14,150,904,896	\$ 24,834,278	0.18 %
<b>Liabilities</b>	(868,926,480)	(2,004,484,783)	1,135,558,303	(56.65) %
<b>Net Assets Held in Trust</b>	\$ 13,306,812,694	\$ 12,146,420,113	1,160,392,581	9.55 %
<b>Change in Net Position</b>	\$ 1,160,392,581	\$ (396,232,913)	1,556,625,494	(392.86) %

The total net position held by PERA increased during the fiscal year ended June 30, 2013 primarily as a result of the net increase 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, 2013 and 2012:

**PUBLIC EMPLOYEES RETIREMENT FUND:**

The overall change in Net Position from FY2012 to FY2013 is a positive 9.55%. This is a result of the net increase of the change in fair value of investments, especially in regard to international securities and domestic equities.

Statement of Plan Net Position as of June 30, 2013, as compared to June 30, 2012, is as follows:

	2013	2012	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 532,300,770	\$ 455,916,817	\$ 76,383,953	16.75 %
Receivables	433,186,815	1,630,184,740	(1,196,997,925)	(73.43) %
Investments	12,586,928,439	11,478,569,566	1,108,358,873	9.66 %
Capital Assets, Net	13,065,907	13,654,302	(588,395)	(4.31) %
<b>Total Assets</b>	13,565,481,931	13,578,325,425	(12,843,494)	(0.09) %
<b>Liabilities:</b>				
Accounts Payable	488,231,225	1,513,462,763	(1,025,231,538)	(67.74) %
Other Liabilities	369,436,703	464,838,673	(95,401,970)	(20.52) %
<b>Total Liabilities</b>	857,667,928	1,978,301,436	(1,120,633,508)	(56.65) %
<b>Statement of Net Position</b>	\$ 12,707,814,003	\$ 11,600,023,989	\$ 1,107,790,014	9.55 %

The net position of the Public Employees Retirement Fund amounts to 95.51% of the total net position of all funds.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**PUBLIC EMPLOYEES RETIREMENT FUND (continued)**

Statement of Changes in Plan Net Position as of June 30, 2013, as compared to June 30, 2012, is as follows:

	2013	2012	Dollar Change	Percentage Change
<b>Additions:</b>				
Contributions and service credit purchases	\$ 520,858,044	\$ 533,126,207	\$ (12,268,163)	(2.30) %
Net Investment Income	251,521,870	222,165,881	29,355,989	13.21 %
Net Appreciation (Depreciation) of Fair Value of Investments	1,222,051,776	(341,656,779)	1,563,708,555	(457.68) %
Other Income	9,794,948	27,691,349	(17,896,401)	(64.63) %
<b>Total Additions</b>	<u>2,004,226,638</u>	<u>441,326,658</u>	<u>1,562,899,980</u>	354.14 %
<b>Deductions:</b>				
Benefit Payments	(842,710,962)	(780,144,516)	(62,566,446)	8.02 %
Refunds	(45,113,887)	(45,771,456)	657,569	(1.44) %
Administrative Expenses	(8,611,775)	(9,841,396)	1,229,621	(12.49) %
<b>Total Deductions</b>	<u>(896,436,624)</u>	<u>(835,757,368)</u>	<u>(60,679,256)</u>	7.26 %
<b>Change in net position</b>	<u>\$ 1,107,790,014</u>	<u>\$ (394,430,710)</u>	<u>\$ 1,502,220,724</u>	<u>(380.86) %</u>

**JUDICIAL RETIREMENT FUND**

The overall change in Net Position from FY2012 to FY2013 is a positive 8.17%. This is a result of the net increase of the change in fair value of investments, especially in regard to international securities and domestic equities (Judicial Retirement Fund is part of the investment pool and shares in the changes in fair value of investments in proportion to the total pool allocation). The net position of the Judicial Retirement Fund amounts to 0.61% of the total net position of all funds.

Statement of Plan Net Position as of June 30, 2013, as compared to June 30, 2012, is as follows:

	2013	2012	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 3,397,320	\$ 2,923,726	\$ 473,594	16.20 %
Receivables	2,856,027	10,419,328	(7,563,301)	(72.59) %
Investments	80,770,039	74,819,297	5,950,742	7.95 %
<b>Total Assets</b>	<u>87,023,386</u>	<u>88,162,351</u>	<u>(1,138,965)</u>	(1.29) %
<b>Liabilities:</b>				
Accounts Payable	3,059,818	9,656,511	(6,596,693)	(68.31) %
Other Liabilities	2,444,939	3,145,906	(700,967)	(22.28) %
<b>Total Liabilities</b>	<u>5,504,757</u>	<u>12,802,417</u>	<u>(7,297,660)</u>	(57.00) %
<b>Statement of Net Position</b>	<u>\$ 81,518,629</u>	<u>\$ 75,359,934</u>	<u>\$ 6,158,695</u>	<u>8.17 %</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**JUDICIAL RETIREMENT FUND (continued)**

Statement of Changes in Plan Net Position as of June 30, 2013, as compared to June 30, 2012, is as follows:

	2013	2012	Dollar Change	Percentage Change
<b>Additions:</b>				
Contributions and service credit purchases	\$ 4,967,040	\$ 4,630,650	\$ 336,390	7.26 %
Net Investment Income	1,600,857	1,674,426	(73,569)	(4.39) %
Net Appreciation (Depreciation) of Fair Value of Investments	7,723,124	(2,266,423)	9,989,547	(440.76) %
Other Income	170,913	184,195	(13,282)	(7.21) %
<b>Total Additions</b>	<u>14,461,934</u>	<u>4,222,848</u>	<u>10,239,086</u>	242.47 %
<b>Deductions:</b>				
Benefit Payments	(8,224,778)	(7,655,971)	(568,807)	7.43 %
Refunds	(52,386)	(9,853)	(42,533)	0.00 %
Administrative Expenses	(26,075)	(22,639)	(3,436)	15.18 %
<b>Total Deductions</b>	<u>(8,303,239)</u>	<u>(7,688,463)</u>	<u>(614,776)</u>	8.00 %
<b>Change in net position</b>	<u>\$ 6,158,695</u>	<u>\$ (3,465,615)</u>	<u>\$ 9,624,310</u>	<u>(277.71) %</u>

**MAGISTRATE RETIREMENT FUND**

The overall change in Net Position from FY2012 to FY2013 is a positive 5.14%. This is a result of the net increase of the change in fair value of investments, especially in regard to international securities and domestic equities (Magistrate Retirement Fund is part of the investment pool and shares in the changes in fair value of investments in proportion to the total pool allocation). The net position of the Magistrate Retirement Fund amounts to 0.24% of the total net position of all funds.

Statement of Plan Net Position as of June 30, 2013, as compared to June 30, 2012, is as follows:

	2013	2012	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 1,294,217	\$ 1,200,428	\$ 93,789	7.81 %
Receivables	1,080,306	4,252,125	(3,171,819)	(74.59) %
Investments	32,166,134	30,664,135	1,501,999	4.90 %
<b>Total Assets</b>	<u>34,540,657</u>	<u>36,116,688</u>	<u>(1,576,031)</u>	(4.36) %
<b>Liabilities:</b>				
Accounts Payable	1,165,645	3,964,787	(2,799,142)	(70.60) %
Other Liabilities	935,695	1,299,647	(363,952)	(28.00) %
<b>Total Liabilities</b>	<u>2,101,340</u>	<u>5,264,434</u>	<u>(3,163,094)</u>	(60.08) %
<b>Statement of Net Position</b>	<u>\$ 32,439,317</u>	<u>\$ 30,852,254</u>	<u>\$ 1,587,063</u>	<u>5.14 %</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**MAGISTRATE RETIREMENT FUND (continued)**

Statement of Changes in Plan Net Position as of June 30, 2013, as compared to June 30, 2012, is as follows:

	2013	2012	Dollar Change	Percentage Change
<b>Additions:</b>				
Contributions and service credit purchases	\$ 1,158,405	\$ 1,025,909	\$ 132,496	12.91 %
Net Investment Income	636,384	702,717	(66,333)	(9.44) %
Net Appreciation (Depreciation) of Fair Value of Investments	3,172,637	(919,397)	4,092,034	(445.08) %
Other Income	66,507	75,031	(8,524)	(11.36) %
<b>Total Additions</b>	<u>5,033,933</u>	<u>884,260</u>	<u>4,149,673</u>	469.28 %
<b>Deductions:</b>				
Benefit Payments	(3,379,097)	(3,218,401)	(160,696)	4.99 %
Refunds	(53,550)	-	(53,550)	0.00 %
Administrative Expenses	(14,223)	(11,710)	(2,513)	21.46 %
<b>Total Deductions</b>	<u>(3,446,870)</u>	<u>(3,230,111)</u>	<u>(216,759)</u>	6.71 %
<b>Change in net position</b>	<u>\$ 1,587,063</u>	<u>\$ (2,345,851)</u>	<u>\$ 3,932,914</u>	<u>(167.65) %</u>

**VOLUNTEER FIREFIGHTERS RETIREMENT FUND**

The overall change in Net Position from FY2012 to FY2013 is a positive 12.56%. This is a result of the net increase of the change in fair value of investments, especially in regard to international securities and domestic equities (Volunteer Firefighter Retirement Fund is part of the investment pool and shares in the changes in fair value of investments in proportion to the total pool allocation). The net position of the Volunteer Firefighter Retirement Fund amounts to 0.40% of the total net position of all funds.

Statement of Plan Net Position as of June 30, 2013, as compared to June 30, 2012, is as follows:

	2013	2012	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 2,264,880	\$ 1,857,525	\$ 407,355	21.93 %
Receivables	1,692,594	6,523,488	(4,830,894)	(74.05) %
Investments	53,007,454	47,098,762	5,908,692	12.55 %
<b>Total Assets</b>	<u>56,964,928</u>	<u>55,479,775</u>	<u>1,485,153</u>	2.68 %
<b>Liabilities:</b>				
Accounts Payable	2,039,879	6,135,053	(4,095,174)	(66.75) %
Other Liabilities	1,612,576	1,981,443	(368,867)	(18.62) %
<b>Total Liabilities</b>	<u>3,652,455</u>	<u>8,116,496</u>	<u>(4,464,041)</u>	(55.00) %
<b>Statement of Net Position</b>	<u>\$ 53,312,473</u>	<u>\$ 47,363,279</u>	<u>\$ 5,949,194</u>	<u>12.56 %</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**VOLUNTEER FIREFIGHTERS RETIREMENT FUND (continued)**

Statement of Changes in Plan Net Position as of June 30, 2013, as compared to June 30, 2012, is as follows:

	2013	2012	Dollar Change	Percentage Change
<b>Additions:</b>				
Appropriations from State of NM	\$ 750,000	\$ 750,000	\$ -	0.00 %
Net Investment Income	1,042,218	1,061,955	(19,737)	(1.86) %
Net Appreciation (Depreciation) of Fair Value of Investments	5,023,400	(1,342,589)	6,365,989	(474.16) %
Other Income	102,318	109,273	(6,955)	(6.36) %
<b>Total Additions</b>	<u>6,917,936</u>	<u>578,639</u>	<u>6,339,297</u>	1,095.55 %
<b>Deductions:</b>				
Benefit Payments	(968,742)	(856,453)	(112,289)	13.11 %
<b>Total Deductions</b>	<u>(968,742)</u>	<u>(856,453)</u>	<u>(112,289)</u>	13.11 %
<b>Change in net position</b>	<u>\$ 5,949,194</u>	<u>\$ (277,814)</u>	<u>\$ 6,227,008</u>	<u>(2,241.43) %</u>

**DEFERRED COMPENSATION (IRC 457) FUND**

In addition to the above retirement funds, the comparative summary of assets, liabilities, net position and the related change in net position 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 FY2012 to FY2013 is a positive 9.90%. This increase was primarily due to interest income on investments earned during the current year. Net position available for Plan benefits increased by approximately \$38.9 million during the current period from \$392.8 million at June 30, 2012 to \$431.7 million at June 30, 2013. This increase was primarily due to investment income earned during the current year.

Statement of Plan Net Position as of June 30, 2013, as compared to June 30, 2012, is as follows:

	2013	2012	Dollar Change	Percentage Change
<b>Assets:</b>				
Receivables	\$ 7,229,224	\$ 6,702,327	\$ 526,897	7.86 %
Policyholder-value of life insurance contracts	1,953,123	1,998,662	(45,539)	(2.28) %
Investments	422,545,925	384,119,668	38,426,257	10.00 %
<b>Total Assets</b>	<u>431,728,272</u>	<u>392,820,657</u>	<u>38,907,615</u>	9.90 %
<b>Statement of Net Position</b>	<u>\$ 431,728,272</u>	<u>\$ 392,820,657</u>	<u>\$ 38,907,615</u>	<u>9.90 %</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**DEFERRED COMPENSATION (IRC 457) FUND (continued)**

Statement of Changes in Plan Net Position as of June 30, 2013, as compared to June 30, 2012, is as follows:

	<b>2013</b>	<b>2012</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
<b>Additions:</b>				
Contributions and service credit purchases	\$ 35,920,698	\$ 33,868,513	\$ 2,052,185	6.06 %
Net Investment Income	2,585,637	1,456,819	1,128,818	77.49 %
Net Appreciation (Depreciation) of Fair Value of Investments	37,604,199	(10,935)	37,615,134	(343,988.42) %
<b>Total Additions</b>	<b>76,110,534</b>	<b>35,314,397</b>	<b>40,796,137</b>	<b>115.52 %</b>
<b>Deductions:</b>				
Benefit Payments	(36,193,619)	(29,959,708)	(6,233,911)	20.81 %
Life Insurance Premiums	(91,787)	(111,701)	19,914	(17.83) %
Administrative Expenses	(917,513)	(955,911)	38,398	(4.02) %
<b>Total Deductions</b>	<b>(37,202,919)</b>	<b>(31,027,320)</b>	<b>(6,175,599)</b>	<b>19.90 %</b>
<b>Change in net position</b>	<b>\$ 38,907,615</b>	<b>\$ 4,287,077</b>	<b>\$ 34,620,538</b>	<b>807.56 %</b>

Employee contributions were \$35.9, \$33.9 and \$35.8 million for the years ending June 30, 2013, 2012 and 2011, respectively. Fluctuations in employee contributions are primarily due to fluctuations in the number of actively contributing participants from year to year as well as changes in the average contribution per participant. There were 11,462, 11,250 and 11,540 actively contributing participants at June 30, 2013, 2012 and 2011, respectively.

Benefits paid to participants increased from \$30.0 million for the year ended June 30, 2012 to \$36.2 million for year ended June 30, 2013. This increase was primarily due to an increase in the average benefit payment and an increase in the number of retirees from 2,523 in 2012 to 2,774 in 2013.

Variable earnings investment income increased from a \$1.0 million loss for the year ended June 30, 2012 to a \$37.6 million gain for the year ended June 30, 2013. This increase was due to more favorable market conditions in 2013 as compared to 2012.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**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, 2013, as compared to June 30, 2012, follows:**

<b>Investment Category</b>	<b>June 30 2013</b>	<b>June 30 2012</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
U.S. Government and Agency Securities	\$ 1,173,749,124	\$ 1,190,399,573	\$ (16,650,449)	(1.40) %
Municipal Bonds	33,783,776	41,834,649	(8,050,873)	(19.24) %
Variable Earning Investments (IRC 457)	281,962,370	240,968,529	40,993,841	17.01 %
Stable Value Option & Other (IRC 457)	140,583,555	143,151,139	(2,567,584)	(1.79) %
Corporate Equity Securities	3,581,996,306	2,868,486,232	713,510,074	24.87 %
Corporate Obligations	1,541,406,506	1,344,764,636	196,641,870	14.62 %
International Securities	3,331,404,452	3,027,362,501	304,041,951	10.04 %
Venture Capital and Partnerships	2,468,908,679	2,339,930,658	128,978,021	5.51 %
Alternative Investments	276,126,989	346,072,783	(69,945,794)	(20.21) %
Securities Lending Collateral	338,166,311	444,837,638	(106,671,327)	(23.98) %
Investment in State General Fund	7,329,923	7,768,878	(438,955)	(5.65) %
<b>Subtotal Investments</b>	<b>\$ 13,175,417,991</b>	<b>\$ 11,995,577,216</b>	<b>\$ 1,179,840,775</b>	<b>9.84 %</b>
Other Assets	-	19,694,212		
<b>Total Investments</b>	<b>\$ 13,175,417,991</b>	<b>\$ 12,015,271,428</b>		

With the total fund returning 13.26% (excluding Deferred Compensation) for the fiscal year ending June 30, 2013, market values increased across most investment categories and at the total investment level. The largest market value increase occurred in the Corporate Equity Securities category and International Securities, which were up significantly due to strong performance in the global equity markets. Corporate Obligations (corporate bonds) also increased due largely to outperformance of PERA's bond managers. The Venture Capital and Partnerships category, which includes private equity, real estate, and real asset partnerships continued to call capital to fund new investments, combined with positive realizations and higher valuations caused this category to rise.

The largest decrease in market value occurred in the Securities Lending Collateral pool due to waning demand for equity securities. This correlates directly with the decrease in collateral pool. The slight decline in U.S. Government and Agency Securities and Municipal Bonds was due to security selection and bond sector decisions made by PERA's core and core plus managers. The decline in market value for the Alternative Investment category, which is composed of PERA's REIT and TIPS allocations, were caused by rising Treasury yields and due to these two allocations being used to fund private partnership capital calls as they occur.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2013**

**INVESTMENTS (Continued)**

As Deferred Compensation participants continued to contribute to their retirement savings plans, the fixed income investments (IRC 457) category rose positively by 15.22%.

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

There were eight budget adjustments made to the beginning budget during fiscal year 2013, for an increase of \$8,042,496 from the original budget. In FY13, the Legislature only appropriated in the original budget funding for investment managers and investment consultants. Other essential professional service contracts that historically were within PERA’s normal course of business and procured during the fiscal year (audit, actuary, doctors, legal, etc.) were not funded. These eight Budget Adjustment Requests (BARs) increases were primarily used to increase PERA’s contractual services budget for 1) professional services and contracts, 2) payment to investment managers, and 3) to conduct additional actuarial information for the Board to review Legislative changes to the pension funds. See Note 14 for an explanation of 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	\$ 177,063	\$ 67,452	\$118,042	\$362,557
Administrative expenses	<u>26,075</u>	<u>14,223</u>	<u>-</u>	<u>40,298</u>
Total allocated expenses	<u>\$ 203,138</u>	<u>\$81,675</u>	<u>\$118,042</u>	<u>\$402,855</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, 2013**

**Capital Assets**

Capital assets, at carrying value, are listed for the years ended June 30, 2013 and 2012:

<b>CAPITAL ASSETS:</b>	2013	2012
Land	\$ 1,548,990	\$ 1,548,990
Capital Assets: Net of Depreciation		
Building	11,346,456	11,767,996
Computer Equipment and Software	161,125	322,726
Property and Equipment	2,778	3,111
Automobile	6,559	11,480
Total	<u>\$ 13,065,908</u>	<u>\$ 13,654,303</u>

Depreciation and amortization expense, reported as part of administrative expenses, for the year ended June 30, 2013 was \$666,124.

**Currently Known Facts and Conditions**

During fiscal year 2013, the global equity markets moved up strongly while interest rate sensitive markets lagged as expectations for higher rates, in the U.S. in particular, dominated. Importantly, 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, 2013, improving growth expectations lifted most assets as the U.S. economy continued to grow at over 2%, unemployment moved lower, and the housing market demonstrated strong gains. Despite risky assets melting up for the year, investment markets have generally continued to be volatile, including higher than normal unemployment rates, continued political unrest in the Middle East, concerns regarding below long-term potential growth rates and rising interest rates, continued strife in Congress regarding rising debt limit, Affordable Car Act, and the federal government shutdown. (See Note 11).

**Legislative Update**

In the upcoming 2014 Legislative session, PERA will work with the Administrative Office of the Courts to ensure the long term solvency of the Judicial and Magistrate Funds.

**Request for Information**

Any questions regarding the financial statements of PERA should be directed to the Executive Director, at (505) 476-9301; Deputy Investment Director at (505) 476-9333, ASD Director at (505) 476-9304 or Comptroller at (505) 476-9313. All can be reached by mail at P.O. Box 2123, Santa Fe, NM 87504. Contact information is also located on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**STATEMENT OF PLAN NET POSITION**  
**JUNE 30, 2013**

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 532,300,770	\$ 3,397,320	\$ 1,294,217
Receivables			
Accrued Investment Income	50,394,711	320,279	124,391
Accounts Receivable-Brokers	348,062,120	2,221,448	846,266
Contributions Receivable	33,997,925	314,300	73,374
Accounts Receivable - Other	329,204	-	-
Participant Loans Receivable	-	-	-
Due from other Agencies	-	-	36,275
Interfund Receivable	402,855	-	-
	<u>433,186,815</u>	<u>2,856,027</u>	<u>1,080,306</u>
Investment in State Treasurer Investment Pool	5,633,053	616,625	1,032,782
Investments, at fair value			
U.S. Government and Agency Securities	1,158,607,761	7,394,619	2,816,998
Municipal Bonds	33,347,965	212,838	81,081
Variable Earning Investments (IRC 457)	-	-	-
Stable Value Option & Other (IRC 457)	-	-	-
Corporate Equity Securities	3,535,788,553	22,566,577	8,596,791
Corporate Obligations	1,521,693,101	9,567,359	4,243,426
International Securities	3,288,429,334	20,987,848	7,995,371
Venture Capital and Partnerships	2,437,059,757	15,554,125	5,925,381
Alternative Investments	272,564,951	1,739,600	662,705
Other Assets	-	-	-
	<u>12,253,124,475</u>	<u>78,639,591</u>	<u>31,354,535</u>
Securities Lending Collateral Investments	333,803,964	2,130,448	811,599
	<u>12,586,928,439</u>	<u>80,770,039</u>	<u>32,166,134</u>
<b>Total Investments</b>	12,586,928,439	80,770,039	32,166,134
Capital Assets, Net	13,065,907	-	-
Policyholder Account Value of Life Insurance	-	-	-
	<u>13,565,481,931</u>	<u>87,023,386</u>	<u>34,540,657</u>
<b>Total Assets</b>	<u>\$ 13,565,481,931</u>	<u>\$ 87,023,386</u>	<u>\$ 34,540,657</u>
<b>LIABILITIES</b>			
Accounts Payable - Brokers	\$ 479,420,032	\$ 3,059,818	\$ 1,165,645
Accounts Payable - Other	8,811,193	-	-
Accrued Expenses	97,979	-	-
Compensated Absences	291,873	-	-
Interfund Payable	-	203,138	81,675
Due to other Agencies	17,795,733	-	-
Securities Lending Liability	351,251,118	2,241,801	854,020
	<u>\$ 857,667,928</u>	<u>\$ 5,504,757</u>	<u>\$ 2,101,340</u>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 12,707,814,003</u>	<u>\$ 81,518,629</u>	<u>\$ 32,439,317</u>

*See Accompanying Notes to the Financial Statements.*

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**STATEMENT OF PLAN NET POSITION (CONTINUED)**  
**JUNE 30, 2013**

	Volunteer Firefighters Retirement Fund	Deferred Compensation (IRC 457) Fund	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 2,264,880	\$ -	\$ 539,257,187
Receivables			
Accrued Investment Income	211,629	-	51,051,010
Accounts Receivable-Brokers	1,480,965	-	352,610,799
Contributions Receivable	-	-	34,385,599
Accounts Receivable - Other	-	-	329,204
Participant Loans Receivable	-	7,229,224	7,229,224
Due from other Agencies	-	-	36,275
Interfund Receivable	-	-	402,855
	<u>1,692,594</u>	<u>7,229,224</u>	<u>446,044,966</u>
Investment in State Treasurer Investment Pool	47,463	-	7,329,923
Investments, at fair value			-
U.S. Government and Agency Securities	4,929,746	-	1,173,749,124
Municipal Bonds	141,892	-	33,783,776
Variable Earning Investments (IRC 457)	-	281,962,370	281,962,370
Stable Value Option & Other (IRC 457)	-	140,583,555	140,583,555
Corporate Equity Securities	15,044,385	-	3,581,996,306
Corporate Obligations	5,902,620	-	1,541,406,506
International Securities	13,991,899	-	3,331,404,452
Venture Capital and Partnerships	10,369,416	-	2,468,908,679
Alternative Investments	1,159,733	-	276,126,989
Other Assets	-	-	-
	<u>51,587,154</u>	<u>422,545,925</u>	<u>12,837,251,680</u>
Securities Lending Collateral Investments	1,420,300	-	338,166,311
	<u>53,007,454</u>	<u>422,545,925</u>	<u>13,175,417,991</u>
Capital Assets, Net	-	-	13,065,907
Policyholder Account Value of Life Insurance	-	1,953,123	1,953,123
	<u>-</u>	<u>1,953,123</u>	<u>1,953,123</u>
<b>Total Assets</b>	<u>\$ 56,964,928</u>	<u>\$ 431,728,272</u>	<u>\$ 14,175,739,174</u>
<b>LIABILITIES</b>			
Accounts Payable - Brokers	\$ 2,039,879	\$ -	\$ 485,685,374
Accounts Payable - Other	-	-	8,811,193
Accrued Expenses	-	-	97,979
Compensated Absences	-	-	291,873
Interfund Payable	118,042	-	402,855
Due to other Agencies	-	-	17,795,733
Securities Lending Liability	1,494,534	-	355,841,473
	<u>\$ 3,652,455</u>	<u>\$ -</u>	<u>\$ 868,926,480</u>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 53,312,473</u>	<u>\$ 431,728,272</u>	<u>\$ 13,306,812,694</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**STATEMENT OF CHANGES IN PLAN NET POSITION**  
**For the Year Ended June 30, 2013**

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 285,560,291	\$ 3,527,270	\$ 805,337
Member	226,164,967	1,424,414	353,068
Appropriations from State of New Mexico - Fire Protection Fund	-	-	-
Service Credits Purchased	9,132,786	15,356	-
<b>Total Contributions</b>	<u>520,858,044</u>	<u>4,967,040</u>	<u>1,158,405</u>
Investment Income			
Interest	118,160,264	751,985	297,976
Dividends	175,225,282	1,109,934	441,082
Net Appreciation in Fair Value of Investments	1,222,051,776	7,723,124	3,172,637
Other Investment Income	-	-	-
Securities Lending Income	(13,764,180)	(81,722)	(34,353)
	<u>1,501,673,142</u>	<u>9,503,321</u>	<u>3,877,342</u>
Securities Lending Expenses	(356,839)	(2,277)	(868)
Other Investment Expenses	(27,742,657)	(177,063)	(67,453)
	<u>1,473,573,646</u>	<u>9,323,981</u>	<u>3,809,021</u>
<b>Net Investment Income</b>	<u>1,473,573,646</u>	<u>9,323,981</u>	<u>3,809,021</u>
Other Income	9,794,948	170,913	66,507
<b>Total Additions</b>	<u>2,004,226,638</u>	<u>14,461,934</u>	<u>5,033,933</u>
<b>DEDUCTIONS</b>			
Benefit Payments	842,710,962	8,224,778	3,379,097
Refunds to Terminated Employees	45,113,887	52,386	53,550
Life Insurance Premiums	-	-	-
Administrative Expenses	8,611,775	26,075	14,223
<b>Total Deductions</b>	<u>896,436,624</u>	<u>8,303,239</u>	<u>3,446,870</u>
<b>Increase in Net Position</b>	1,107,790,014	6,158,695	1,587,063
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>			
<b>Beginning of Year</b>	<u>11,600,023,989</u>	<u>75,359,934</u>	<u>30,852,254</u>
<b>End of Year</b>	<u>\$ 12,707,814,003</u>	<u>\$ 81,518,629</u>	<u>\$ 32,439,317</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, 2013**

	Volunteer Firefighters Retirement Fund	Deferred Compensation (IRC 457) Fund	Total
<b>ADDITIONS</b>			
Contributions			
Employer	\$ -	\$ -	\$ 289,892,898
Member	-	35,920,698	263,863,147
Appropriations from State of New Mexico -			
Fire Protection Fund	750,000	-	750,000
Service Credits Purchased	-	-	9,148,142
<b>Total Contributions</b>	<u>750,000</u>	<u>35,920,698</u>	<u>563,654,187</u>
Investment Income			
Interest	494,117	2,597,093	122,301,435
Dividends	729,409	-	177,505,707
Net Appreciation in Fair Value of Investments	5,023,400	37,604,199	1,275,575,136
Other Investment Income	-	(11,456)	(11,456)
Securities Lending Income	(61,748)	-	(13,942,003)
	<u>6,185,178</u>	<u>40,189,836</u>	<u>1,561,428,819</u>
Securities Lending Expenses	(1,518)	-	(361,502)
Other Investment Expenses	(118,042)	-	(28,105,215)
<b>Net Investment Income</b>	<u>6,065,618</u>	<u>40,189,836</u>	<u>1,532,962,102</u>
Other Income	<u>102,318</u>	<u>-</u>	<u>10,134,686</u>
<b>Total Additions</b>	<u>6,917,936</u>	<u>76,110,534</u>	<u>2,106,750,975</u>
<b>DEDUCTIONS</b>			
Benefit Payments	968,742	36,193,619	891,477,198
Refunds to Terminated Employees	-	-	45,219,823
Life Insurance Premiums	-	91,787	91,787
Administrative Expenses	-	917,513	9,569,586
<b>Total Deductions</b>	<u>968,742</u>	<u>37,202,919</u>	<u>946,358,394</u>
<b>Increase in Net Position</b>	5,949,194	38,907,615	1,160,392,581
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>			
<b>Beginning of Year</b>	<u>47,363,279</u>	<u>392,820,657</u>	<u>12,146,420,113</u>
<b>End of Year</b>	<u>\$ 53,312,473</u>	<u>\$ 431,728,272</u>	<u>\$ 13,306,812,694</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**



**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, 2013**

**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 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 Fund 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/Adult Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 31 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 for TIER I members. 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 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, 2013**

**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 pension factor of 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.

The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired on or after July 1, 2010 increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age with 30 or more years of service credit. General members hired on or before June 30, 2010 (Tier I) 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 or 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 regards to Tier II, 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 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 much 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 amount for the State Legislative Fund for the fiscal year ended June 30, 2013 was determined by the

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

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

actuary to be \$283,784. 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 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, 2013 is \$154. The per diem rate starting January 1, 2014 will increase to \$159.

*Judicial Retirement Fund* is a single 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 of this plan 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 a member of this plan 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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

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

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

*Magistrate Retirement Fund* is a single 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 single 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 is eligible for membership in the Volunteer Firefighters Retirement Fund. 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 (\$125 per month as of July 1, 2013) with at least 10 but less than 25 years of service or \$200 per month (\$250 per month as of July 1, 2013) 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 individual contributions to the plan. State statutes required that the State Treasurer transfer \$750,000 during the 2013 fiscal year from the Fire Protection Fund to the Volunteer Firefighters Retirement Fund for purposes of contributing to the plan.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

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

*Deferred Compensation Plan* - The State of New Mexico also offers employees a deferred compensation plan under NMSA 1978, Sections 10-7A-1 through 10-7A-12, the “Deferred Compensation Act,” in conformity with Internal Revenue Code Section 457. The plan provides eligible employees a voluntary, supplemental, tax-deferred retirement program as an additional method to save a portion of their income for 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 perform recordkeeping, enrollment education services and other administrative duties for the Plan. The Administrator is delegated any and all powers as may be necessary or advisable to discharge its duties under the Plan, and has certain discretionary authority to decide all matters under the Plan. As Plan trustee, PERA’s primary responsibility is to select investment options that provide a prudent 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 Document.

The Plan was amended in October 2004 to allow participants to take loans from their account balances. The maximum term permitted on a loan is five years or 15 years if the loan is for the purchase of a principal residence. The minimum loan amount permitted is \$1,000 and the maximum amount of any loan under the Plan is the lesser of 50% of the participant’s vested account balance or \$50,000. The total balance of loans outstanding to participants was \$7,024,203 and \$6,536,805 at June 30, 2013 and 2012, respectively. Interest rates range between 4.25% and 6.00% for all loans outstanding.

Participant of this plan may take distributions at the age of 70½ years old. Participants of this plan also may take distributions under certain circumstances such as the participant’s death, separation-from-service, retirement, severe financial emergency, or if a participant’s account balance does not exceed \$5,000 and no amount was deferred during a 2-year period and there was no prior distribution. Participants may select various payout options, including lump sum payments or periodic payments.

The Deferred Compensation Plan 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) 476-9395.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**D. Senate Bill 27 - Summary of PERA Pension Plan Changes effective July, 1, 2013**

Effective July 1, 2013, this legislation establishes two tiers of benefits under each PERA coverage plan.

**TIER 1**

Individuals who are retired members or members (i.e. currently employed, contributing employees of an affiliated public employer or individuals who have been, but are not currently, employed by an affiliated public employer who have not retired and who have not received a refund of member contributions) on June 30, 2013 are in Tier 1.

State and Municipal General Members hired between July 1, 2010 and June 30, 2013 are grandfathered into Tier 1 coverage plans.

**TIER 2**

Individuals who are not retired members or members on June 30, 2013 (i.e., were first hired by a PERA employer on or after July 1, 2013) are in Tier 2.

**CHANGES FOR TIER 1 MEMBERS**

**Pension Maximum**

- Increased to 90% of final average salary for all plans.

**Service Credit**

- Establishes blended pensions for service credit earned after July 1, 2013. A blended pension benefit is equal to the sum of the pension attributable to the service credit the member has accrued under each coverage plan with different pension factors.

**Cost-of-Living Adjustment (COLA)**

- Eligible retired members will receive a 2% COLA.
- Graduated COLA eligibility period for those who retire:
  - ✓ before June 30, 2014: no change to current 2 full-calendar years after retirement to receive a COLA;
  - ✓ between July 1, 2014 and June 30, 2015: 3 full-calendar year eligibility period to receive a COLA;
  - ✓ between July 1, 2015 and June 30, 2016: 4 full-calendar year eligibility period to receive a COLA; and
  - ✓ after July 1, 2016: 7 full-calendar year eligibility period to receive a COLA.
- No change in 1-year COLA eligibility for disability retirees or retirees age 65 or older.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**D. Senate Bill 27 - Summary of PERA Pension Plan Changes effective July, 1, 2013 (continued)**

**Employee Contribution Rate**

- Increases the statutory employee contribution rate by 1.5% for employees who earn \$20,000 or more in annual salary.
- Employee contribution increase of 1.5% accomplished for state members by removing the sunset of the contribution shift.

**CHANGES FOR TIER 2 MEMBERS**

**Pension Benefits**

*General Members (Non-Public Safety Employees)*

- 0.5% reduction in the Annual Pension Factor
- 5-year Final Average Salary calculation
- Retirement eligibility: Rule of 85 or age 65 with 8 years of service
- 8-year Vesting Period
- 90% Pension Maximum
- 2% COLA
- 7 full-calendar year eligibility period to receive a COLA

*Public Safety Plan Members (State Police, Adult Correctional Officers, Peace Officers, Juvenile Correctional Officers, Municipal Police, Fire, Detention Officers)*

- 0.5% reduction in the Annual Pension Factor
- 5-year Final Average Salary calculation
- Retirement eligibility: 25 years of service credit/any age or age 60 with 6 years of service
- 6-year Vesting Period
- 90% Pension Maximum
- 2% COLA
- 7 full-calendar year eligibility period to receive a COLA

Blended pension is equal to the sum of the pension attributable to the service credit the member has earned under each coverage plan with different pension factors.

**Employee Contribution Rate**

- Increases the statutory employee contribution rate by 1.5 % for employees who earn \$20,000 or more in annual salary.
- Employee contribution increase of 1.5% accomplished for state members by removing the sunset of the contribution shift effective July 1, 2013.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2013**

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

**D. Senate Bill 27 - Summary of PERA Pension Plan Changes effective July, 1, 2013 (continued)**

**CHANGES FOR RETIREES**

**Cost-of-Living Adjustment (COLA)**

- Reduces the COLA from 3% to 2% except for:
- 2.5% COLA for members retired with 25 or more years of PERA service credit (not reciprocity) and disability retired members, whose annual pensions are less than \$20,000.

**CHANGES FOR RE-EMPLOYED RETIREES**

**Cost-of-Living Adjustment (COLA)**

- Suspends the COLA for grandfathered return-to-work retirees during reemployment with PERA-affiliated employers or retirees employed by entities covered by the Educational Retirement Act.

**CHANGES FOR EMPLOYERS**

- Optional municipal employer “pickup” of future employee contribution increases.
- Increases the statutory employer contribution rate 0.4% for FY15.

**CHANGES TO VOLUNTEER FIREFIGHTER RETIREMENT PLAN**

The following monthly benefit increases are effective July 1, 2013:

- Age 55 years with 25 or more years of service credit: \$250 (from \$200)
- Age 55 years with 10 or more years of service credit: \$125 (from \$100)

**E. Membership of the Plans**

At June 30, 2013, the number of participating government employers were as follows:

Public Employees Retirement Fund	
State Agencies	126
Cities	88
Counties	33
Special Districts and Councils of Government	46
Housing Authorities	16
Hospitals	2
Other	<u>7</u>
Totals	<u><u>318</u></u>
Judicial Retirement Fund	16
Magistrate Retirement Fund	9
Volunteer Firefighters Retirement Fund	363

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

**E. Membership of the Plans (continued)**

At June 30, 2013, membership in the plans was as follows:

	<b>PERA*</b> <b>Retirement</b> <b>Fund</b>	<b>Judicial</b> <b>Retirement</b> <b>Fund</b>	<b>Magistrate</b> <b>Retirement</b> <b>Fund</b>	<b>VFF</b> <b>Retirement</b> <b>Fund</b>	<b>Totals</b>
Retirees and beneficiaries receiving benefits	32,042	133	86	762	33,023
Terminated plan members not yet receiving benefits	7,756	23	13	805	8,597
Active plan members	50,131	123	41	6,461	56,756

\*Note: PERA Retirement Fund includes the Legislative Fund

**F. 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 FY13 were \$20,769,588 (average of \$1,730,799 per month). In FY14, the COLA will be 2% (exceptions for disability members making less than \$20,000 and members that make less than \$20,000 and have 25 years of service credit. The COLA for those members will be 2.5%). See Note 14 for more information regarding benefit changes effective July 1, 2013.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**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 or refund 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 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, 2013**

**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.

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 individual investment in the increases or decreases based upon the fund's deposits or withdrawals.

Ownership percentages (rounded to the nearest hundredth of a percent) in the investment pool at June 30, 2013, are as follows:

Public Employees Retirement Fund	98.71%
Magistrate Retirement Fund	0.24
Judicial Retirement Fund	0.63
Volunteer Firefighters Retirement Fund	<u>0.42</u>
<b>Total</b>	<u><u>100.00%</u></u>

**Capital Assets.** Capital assets costing \$5,000 or more (12-1-10 NMSA 1978) that are used in PERA's operations are capitalized. Intangible assets such as internally generated computer software used to maintain a membership data base also are 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. See Note 6 for a more detailed summary of PERA's capital assets.

**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 of the Public Employees Retirement Fund.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

**Interfund Receivables and Payables.** During the course of operations, 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.

**Reserves.** New Mexico Statutes, Annotated 1978, Subsections 10-11-123, 10-12B-3, and 10-12C-3 set forth required reserves to be maintained 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 reserves to be maintained are as follows:

**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.

**Members Contribution Reserve** 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 2013 fiscal year was 2.00%.

**Employers Accumulation Reserve** 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 is transferred to the Retirement Reserve Fund from the Employers Accumulation Fund.

**Income Reserve** 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 the Retirement Reserve Fund in a manner determined by the Board. The distribution rate of interest as determined by the Board for fiscal year 2013 was 2.00% of member account balances to the Member Contribution Fund. 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, 2013**

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

**Reserves (continued)**

Net Position balances as of June 30, 2013 are as follows:

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighter Retirement Fund
Members Contribution Reserve	\$ 2,311,870,438	\$ 10,484,159	\$ 3,309,456	\$ -
Employers Accumulation Reserve	3,828,753,267	53,482,468	23,126,834	-
Retirement Reserve Fund	<u>6,567,117,221</u>	<u>17,552,002</u>	<u>6,003,027</u>	<u>53,312,473</u>
<b>Subtotal</b>	<b>\$ 12,707,740,926</b>	<b>\$ 81,518,629</b>	<b>\$ 32,439,317</b>	<b>\$ 53,312,473</b>
Deferred Compensation Fund	<u>73,077</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$ 12,707,814,003</u></b>	<b><u>\$ 81,518,629</u></b>	<b><u>\$ 32,439,317</u></b>	<b><u>\$ 53,312,473</u></b>

**Deferred Compensation Plan.** At June 30, 2013, PERA had \$73,077 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 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 of 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, 2013, 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 position 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, 2013**

**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.

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, 2013**

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

**Funding Policy (continued)**

The funded status of the retirement plans and divisions as of June 30, 2013 are as follows:

<b>Plan</b>	<b>Actuarial Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded (Overfunded) Actuarial Accrued Liability</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</b>
	<b>(a)</b>	<b>(b)</b>	<b>(b) – (a)</b>	<b>(a)/(b)</b>	<b>(c)</b>	<b>((b-a)/c)</b>
PERA	\$ 12,438,151,665	\$ 17,057,380,022	\$ 4,619,228,357	72.90%	\$ 2,049,737,510	225.4%
Legislative	28,939,243	25,127,311	(3,811,932)	115.20%	N/A**	N/A**
Judicial	80,007,287	143,745,971	63,738,684	55.70%	13,226,142	481.9%
Magistrate	31,813,605	54,498,646	22,685,041	58.40%	3,136,834	723.2%
Volunteer Fire	52,179,180	37,766,300	(14,412,880)	138.20%	N/A**	N/A**

\*\* Legislative and Volunteer Firefighters Retirement Fund benefits are not based on salary. Neither plan have active members receiving a 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, 2013**

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

The actuarial methods and significant assumptions as of June 30, 2013 are as follows:

	Public Employees Retirement Fund	Legislative Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Valuation date	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
Actuarial cost method	Entry age	Projected Unit Credit	Entry age	Entry age	Entry age
Amortization method	Level percent, open	Level dollar, open	Level percent, open	Level percent, open	Level dollar, open
Amortization period	30 years <sup>^</sup>	30 years <sup>#</sup>	30 years <sup>^</sup>	30 years <sup>^</sup>	30 years <sup>#</sup>
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market	4 year smoothed market	4 year smoothed market
Rate of return on investment of present and future assets*	7.75%	7.75%	7.75%	7.75%	7.75%
Projected salary increases	4.00% - 19.00%	N/A <sup>+</sup>	4.75%	4.25%	N/A <sup>+</sup>
Post retirement benefit Increases (1)	2.00%	2.00%	2.00%	2.00%	N/A <sup>+</sup>
* Includes inflation at	3.50%	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.

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

(1) 2.5% for certain retirees and disabled participants with annual benefits less than \$20,000

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3. DEPOSITS, INVESTMENTS, AND ALTERNATIVE INVESTMENTS**

**A. DEPOSITS**

Investment balances reported in the Statements of Plan Net Position include an interest in the State General Fund Investment Pool maintained by 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 Plan’s interest in the State General Fund Investment Pool 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 information about 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	\$ 5,547,500	\$ 5,547,500
Deferred Compensation Operating Account	85,553	85,553
Judicial Retirement Fund	616,625	616,625
Magistrate Retirement Fund	1,032,782	1,032,782
Volunteer Firefighters Retirement Fund	47,463	47,463
Total deposits at State Treasurer's Office	\$ 7,329,923	\$ 7,329,923

In addition to the Plan’s interest in the State General Fund Investment Pool, the Plan also invests in the Short-Term Investment Fund (STIF), held by J.P. Morgan. STIF investments are reported as cash and cash equivalents in the statement of plan net position. STIF investments are used to facilitate more efficient trade procedures with the Plan’s external money managers. STIF investments held by the investment custodian (J.P. Morgan) are invested in commercial paper, government agencies, asset backed securities with Standard and Poor’s ratings of at least AA as presented in the schedule of custodial credit risk. The Plan’s investment in STIF accounts totaled \$539,257,187 as of June 30, 2013.

**B. 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) 476-9395.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 3. DEPOSITS, INVESTMENTS, AND ALTERNATIVE INVESTMENTS**  
**(CONTINUED)**

**Government Agency Mortgage-backed Securities.** As of June 30, 2013, the Funds' investment portfolios, excluding securities lending collateral investments, included mortgage-backed securities issued by agencies of the United States government of \$587,894,760 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, 2013, the Funds' investment portfolio, excluding securities lending collateral investment, included corporate asset-backed securities with a fair value of \$182,780,459. 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.

**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.

PERA's securities are held by a third-party custodian, independent of any counterparty; therefore, management believes 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 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 the agreement.

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

**Custodial Credit Risk (continued)**. 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**  
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**NOTE 3. DEPOSITS, INVESTMENTS, AND ALTERNATIVE INVESTMENTS**  
**(CONTINUED)**

PERA's investments (summarized) at June 30, 2013 and its exposure to custodial credit risk are as follows:

<b>Asset Type</b>	<b>Held in the name of the Fund by the Fund's custodian bank</b>	<b>Custody arrangements contracted by fund manager</b>	<b>Total</b>
U.S. Government Bonds and Agency Securities	\$ 546,022,106	\$	546,022,106
International Government Bonds & Agency Securities	418,483,906		418,483,906
U.S. Municipal Bonds	33,783,776		33,783,776
Mutual Bonds	39,832,259		39,832,259
Corporate Bonds	1,128,409,334		1,128,409,334
International Corporate Bonds	40,324,364		40,324,364
U.S. Government MBS	587,894,760		587,894,760
Commercial MBS	160,789,049		160,789,049
Asset Backed Securities	175,530,278		175,530,278
International Asset Backed Securities	7,250,181		7,250,181
Non-government C.M.O.	76,677,845		76,677,845
International Non-government C.M.O.	603,368		603,368
<b>Total Fixed Income Investments</b>	<b>\$ 3,215,601,226</b>	<b>\$</b>	<b>3,215,601,226</b>
International Common Stock	\$ 2,713,464,985	\$	2,713,464,985
Domestic Common Stock	3,331,073,699		3,331,073,699
US Venture Capital & Partnerships	2,468,908,679		2,468,908,679
International Venture Capital & Partnerships	61,131,788		61,131,788
Alternatives	276,126,989		276,126,989
International Preferred Stock	50,537,052		50,537,052
Domestic Preferred Stock	19,542,696		19,542,696
Domestic American Depository Receipt (ADR)	39,297,335		39,297,335
International American Depository Receipt (ADR)	2,425,032		2,425,032
Domestic Global Depository Receipt (GDR)	11,660,817		11,660,817
International Global Depository Receipt (GDR)	19,746,371		19,746,371
Domestic Real Estate Investment Trust (REIT)	173,913,717		173,913,717
International Real Estate Investment Trust (REIT)	17,357,102		17,357,102
Exchange Traded Fund	5,319,654		5,319,654
Domestic Rights/Warrants	1,188,388		1,188,388
International Rights/Warrants	80,302		80,302
<b>Total Equities</b>	<b>\$ 9,191,774,606</b>	<b>-</b>	<b>\$ 9,191,774,606</b>
<b>Subtotal Equities and Fixed Income</b>	<b>\$ 12,407,375,832</b>	<b>\$ -</b>	<b>\$ 12,407,375,832</b>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 3. DEPOSITS, INVESTMENTS, AND ALTERNATIVE INVESTMENTS**  
**(CONTINUED)**

PERA's investments (summarized) at June 30, 2013 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		\$ 338,166,311	338,166,311
<b>Total Investments as presented above</b>			<b>\$ 12,745,542,143</b>
IRC 457 fund investments directed by participants			422,545,925
Investments in State General Fund Investment Pool			7,329,923
Total Investments per the Statement of Plan Net Position			<b>\$ 13,175,417,991</b>

**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 ALTERNATIVE 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, 2013**

**NOTE 3. DEPOSITS, INVESTMENTS, AND ALTERNATIVE INVESTMENTS**  
**(CONTINUED)**

A summary of PERA's investments at June 30, 2013 and its exposure to credit risk are as follows:

<b>Type</b>	<b>S &amp; P Ratings</b>	<b>Market Value</b>	<b>% of Portfolio</b>
Government Bonds:	AAA	\$ 29,426,809	0.92%
	AA+	506,355	0.02%
	AA-	3,853,813	0.12%
	A	1,464,252	0.05%
	A-	4,837,434	0.15%
	BBB+	535,431	0.02%
	BBB	1,349,239	0.04%
	BBB-	910,220	0.03%
	BB+	476,539	0.01%
	BB	550,063	0.02%
	Not Rated	929,579,407	29.00%
Municipal Agencies:	AA+	574,197	0.02%
	AA	588,209	0.02%
	AA-	1,259,910	0.04%
	A+	797,471	0.02%
	A-	2,900,171	0.09%
	Not Rated	28,071,787	0.88%
Corporate Bonds:	AAA	381,321	0.01%
	AA+	17,261,176	0.54%
	AA	5,017,295	0.16%
	AA-	6,275,889	0.20%
	A+	9,985,064	0.31%
	A	75,187,527	2.35%
	A-	31,048,480	0.97%
	BBB+	55,092,557	1.72%
	BBB	36,760,363	1.15%
	BBB-	58,757,295	1.83%
	BB+	15,777,561	0.49%
	BB	15,858,619	0.50%
	BB-	16,312,258	0.51%
	B+	7,129,981	0.22%
	B	5,752,527	0.18%
B-	8,209,480	0.26%	

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 3. DEPOSITS, INVESTMENTS, AND ALTERNATIVE INVESTMENTS**  
**(CONTINUED)**

Type	S & P Ratings	Market Value	% of Portfolio
Corporate Bonds:	CCC+	2,880,932	0.09%
	CCC	6,285,251	0.20%
	CCC-	438,444	0.01%
	Not rated	810,015,170	25.28%
Government MBS:	AAA	98,566,353	3.08%
	Not Rated	490,967,691	15.33%
Commercial MBS:	AAA	29,162,367	0.91%
	AA	3,865,909	0.12%
	AA-	3,619,955	0.11%
	A+	9,407,343	0.29%
	A	9,033,608	0.28%
	A-	5,819,303	0.18%
	BBB+	7,623,356	0.24%
	BBB	4,161,969	0.13%
	BBB-	1,049,285	0.03%
	BB+	224,066	0.01%
	Not Rated	87,371,420	2.73%
	Asset Backed Securities:	AAA	8,984,371
AA+		7,031,189	0.22%
AA		4,177,206	0.13%
AA-		3,282,867	0.10%
A+		572,434	0.02%
A		1,535,415	0.05%
A-		450,602	0.01%
BBB+		796,248	0.02%
BBB		685,943	0.02%
BB+		2,375,715	0.07%
BB		1,218,671	0.04%
B-		7,081	0.00%
CCC		182,965	0.01%
Not Rated		151,783,550	4.74%

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

Type	S & P Ratings	Market Value	% of Portfolio
Non government Backed C.M.O.:	AAA	10,068,318	0.31%
	AA	2,141,820	0.07%
	A-	685,466	0.02%
	BBB+	746,931	0.02%
	B	5,004	0.00%
	CCC	1,016,502	0.03%
	CC	238,957	0.01%
	Not Rated	62,639,858	1.96%
		\$ 3,203,608,235	100.00%

***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**  
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**NOTE 3. DEPOSITS, INVESTMENTS, AND ALTERNATIVE INVESTMENTS**  
**(CONTINUED)**

A summary of PERA's investments and its respective maturities at June 30, 2013 and its exposure to interest rate risk are as follows:

<b>Bond Category</b>	<b>Weighted Average Maturity in Years</b>	<b>Market Value plus Accrued Income</b>	<b>Percentage of Fixed Income Portfolio</b>
Corporate Bonds	9.41	\$ 1,184,427,192	36.53%
Government MBS	24.70	589,534,043	18.18%
Asset Backed Securities	17.01	183,084,256	5.64%
Government Bonds	6.40	973,489,561	30.01%
Commercial MBS	31.14	161,338,579	4.97%
Non-Government Backed C.M.O.s	24.36	77,542,855	2.39%
Municipal and Mutual Bonds	29.17	74,024,004	2.28%
SUBTOTAL Fixed Income Investments		\$ 3,243,440,490	100.00%
Fixed Income Derivatives		8,890,716	
TOTAL Fixed Income Investments		\$ 3,252,331,206	
Short Term Bills & Notes reported as			
Cash and Cash Equivalents	0.36	54,110,518	
TOTAL INVESTMENTS SUBJECT TO INTEREST RATE RISK		\$ <u>3,306,441,724</u>	

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3. DEPOSITS, INVESTMENTS, AND ALTERNATIVE 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, 2013, PERA had no investments 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 (non-U.S. equity) allocation is less than 25% 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 mitigated.

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, 2013.

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

Non-U.S. dollar denominated investments and cash and cash equivalents at June 30, 2013 are as follows:

		<b>Market Value (included in investments)</b>			
	<b>Currency</b>	<b>Equity</b>	<b>Fixed Income</b>	<b>Venture Capital &amp; Partnerships</b>	<b>Total</b>
AED	UAB Dirham	\$ 2,887,558	\$ -	\$ -	\$ 2,887,558
AUD	Australian Dollar	148,579,707	31,433,206	-	180,012,913
BGN	Bulgarian New Lev	48,676	-	-	48,676
BRL	Brazilian Real	59,330,890	3,652,655	-	62,983,545
BWP	Botswana Pula	1,138,671	-	-	1,138,671
CAD	Canadian Dollar	148,421,745	19,551,585	-	167,973,330
CHF	Swiss Franc	193,065,838	-	-	193,065,838
CLP	Chilean Peso	13,097,818	-	-	13,097,818
CNH	Chinese Offshore Renminbi	-	-	-	-
CNY	Chinese Renminbi	935,753	-	-	935,753
COP	Columbian Peso	7,090,158	-	-	7,090,158
CZK	Czech Koruna	4,627,570	-	-	4,627,570
DKK	Danish Krone	27,067,730	-	-	27,067,730
EGP	Egyptian Pound	3,702,063	-	-	3,702,063
EUR	Euro	551,344,247	84,030,611	61,131,788	696,506,646
GBP	British Pound Sterling	453,007,993	6,064,678	-	459,072,671
GHS	New Ghana Cedi	980,980	15,908,568	-	16,889,548
HKD	Hong Kong Dollar	166,913,491	-	-	166,913,491
HRK	Croatia Kuna	1,146,533	-	-	1,146,533
HUF	Hungarian Forint	4,788,420	27,061,027	-	31,849,447
IDR	Indonesian Rupiah	20,804,978	14,234,495	-	35,039,473
ILS	New Israeli Shekel	7,737,081	-	-	7,737,081
INR	Indian Rupee	42,992,823	416,009	-	43,408,832
JOD	Jordanian Dinar	1,549,319	-	-	1,549,319
JPY	Japanese Yen	489,266,338	2,129,984	-	491,396,322
KES	Kenyan Shilling	1,827,481	-	-	1,827,481
KRW	South Korean Won	81,850,346	73,889,454	-	155,739,800
KWD	Kuwaiti Dinar	3,392,189	-	-	3,392,189
LKR	Sri Lankan Rupee	-	6,167,800	-	6,167,800
LTL	Lithuanian Litas	10,849	-	-	10,849
LVL	Latvia Lats	400,640	-	-	400,640
MAD	Moroccan Dirham	1,960,256	-	-	1,960,256
MUR	Mauritian Rupee	1,639,863	-	-	1,639,863
MXN	Mexican Peso	35,221,065	32,405,093	-	67,626,158
MYR	Malaysian Ringgit	25,957,685	40,245,117	-	66,202,802
NGN	Nigerian Naira	1,920,756	-	-	1,920,756

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

<b>Market Value (included in investments)</b>					
	<b>Currency</b>	<b>Equity</b>	<b>Fixed Income</b>	<b>Venture Capital &amp; Partnerships</b>	<b>Total</b>
NOK	Norwegian Krone	22,128,402	4,893,262	-	27,021,664
NZD	New Zealand Dollar	4,298,864	16,393,724	-	20,692,588
OMR	Omani Rial	1,736,936	-	-	1,736,936
PEN	Peruvian Nuevo Sol	1,513,447	-	-	1,513,447
PHP	Philippine Peso	8,114,570	6,366,962	-	14,481,532
PKR	Pakistan Rupee	1,626,819	-	-	1,626,819
PLN	Polish Zloty	12,415,163	33,302,928	-	45,718,091
QAR	Qatari Riyal	3,127,791	-	-	3,127,791
RON	New Romanian Leu	1,282,911	-	-	1,282,911
RSD	Servia & Montenegro Dinar	-	5,340,996	-	5,340,996
RUB	Russian Ruble	381,759	-	-	381,759
SEK	Swedish Krona	64,228,526	7,315,043	-	71,543,569
SGD	Singapore Dollar	30,020,636	7,589,486	-	37,610,122
THB	Thai Baht	21,960,336	5,221,433	-	27,181,769
TRY	Turkish Lira	14,966,395	-	-	14,966,395
TWD	New Taiwan Dollar	67,652,468	-	-	67,652,468
UYU	Uruguayan New Pesos	-	23,047,703	-	23,047,703
VND	Vietnam Dong	1,154,684	-	-	1,154,684
ZAR	South African Rand	42,293,628	-	-	42,293,628
		<b>\$ 2,803,610,845</b>	<b>\$ 466,661,819</b>	<b>\$ 61,131,788</b>	<b>\$ 3,331,404,452</b>
<p style="text-align: center;">% of total investments</p>					26%

**C. ALTERNATIVE INVESTMENTS**

Alternative investments are described as investments that are not traditional investment assets such as: stocks, bonds or cash. For the purposes of PERA's investment portfolio, management classifies alternative investments by investment strategies that include 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 traditional asset classes. PERA pays participation fees it's made via limited partnerships. These fees are paid as part of PERA's committed capital. The PERA Board adopted an allocation to Alternative Investments in calendar year 2006 and revised the policy in 2010. The PERA Board adopted an allocation to Alternative Investments in calendar year 2012 and revised the total allocation to alternative investments in November 2012 to 20% of the investment portfolio (7% to Absolute Return (hedge funds), 5% to Private Equity, 3% to Real Estate, and 5% to Real Assets).

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**NOTE 3. DEPOSITS, INVESTMENTS, AND ALTERNATIVE INVESTMENTS**  
**(CONTINUED)**

**C. ALTERNATIVE INVESTMENTS (CONTINUED)**

**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, 2013, PERA had a total market value of \$1,488,246,016 of assets invested in Absolute Return.

**Private Equity.** Private Equity investments are typically private interests in corporations across different areas of the capital structure and in different stages of the corporations' development via limited partnership vehicles. Private Equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. PERA's Private Equity portfolio will likely have a "J-Curve Effect" whereby there are low to negative returns in the initial years due to the payment of investment management fees and initial funding of investments made by the General Partner during a period when investments are typically carried at cost and returns have not been realized. Funding for Private Equity is from PERA's public equity portfolio. To diversify the program, Private Equity investments are made across business cycles, vintage years, and different strategies. PERA's Private Equity investments are made in such strategies as: Buyouts, Venture Capital, and Distressed Debt. PERA's private equity investments also 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 or energy-related businesses. As of June 30, 2013, PERA had committed \$927,434,000 to Private Equity limited partnerships and funded only a portion of the total commitment for a market value of \$605,170,601.

**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. As of June 30, 2013, PERA had committed \$754,000,000 to Real Assets partnerships and funded only a portion of the total commitment for a market value of \$250,766,487, including the TIPS and Commodity allocations

**Real Estate Investment Trusts (REITS).** These 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, an "opportunistic", which derive their return primarily through appreciation. 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. As of June 30, 2013, PERA had committed \$530,684,000 to Real Estate limited partnerships and funded only a portion of the total commitment for a market value of \$444,087,031, including the REIT allocations.

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

This note 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. The accumulated changes in fair value of PERA’s derivative instruments as of June 30, 2013, are reported within the “Net Appreciation in Fair Value of Investments” on the Statement of Changes in Plan Net Position. Derivatives are defined as contracts whose value depend on, or derive from, the value of an underlying asset, reference rate or financial index. The Board’s investment policies allow for certain portfolio managers to utilize derivatives subject to a manager’s investment management guidelines.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2013 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	\$ (8,407,014)	Investments	\$605,999,366	721,827	\$ 1,010,451,414
Commodity Futures	Investment Revenue	(3,334,020)	Investments	88,586,265	974,936	91,920,285
Bond Index Futures	Investment Revenue	(1,956,275)	Investments	425,282,141	(201,320,000)	(276,040,199)
Interest Rate Futures	Investment Revenue	(137,082)	Investments	35,058,025	355,000	35,195,107
Fixed Income derivatives - options	Investment Revenue	706,407	Investments	1,070,893	115,085,519	285,772
Fixed Income derivatives - swaps	Investment Revenue	7,819,823	Investments	7,819,823	3,692,698,805	-
Other Derivatives	Investment Revenue	(754,627)	Investments	(646,205)	(26,740,000)	113,372

**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, 2013. 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, 2013, 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, 2013.

**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. PERA's derivative exposure to foreign currency risk are in the markets of the Australian Dollar, Brazilian Real, Canadian Dollar, Euro, British Pound Sterling, Hong Kong Dollar, Indian Rupee, Japanese Yen, Mexican Peso, New Zealand Dollar, Polish Zloty, Russian Ruble 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.

<b>Currency</b>	<b>Description</b>	<b>Market Value</b>
AUD	Bond Index Futures	\$ 24,175,617
	Equity derivatives - futures	2,371,864
	Fixed Income derivatives - swaps	(27,124)
BRL	Fixed Income derivatives - swaps	(401,943)
CAD	Bond Index Futures	(7,997,869)
	Equity derivatives - futures	2,995,593
	Fixed Income derivatives - swaps	96
EUR	Fixed Income derivatives - options	723,466
	Bond Index Futures	(53,487,242)
	Equity derivatives - futures	7,063,134
	Fixed Income derivatives - swaps	1,037,542
	Other Derivatives	(21,643)
GBP	Bond Index Futures	32,169,907
	Equity derivatives - futures	5,095,665
	Fixed Income derivatives - swaps	1,115,050
HKD	Equity derivatives - futures	1,870,404
INR	Fixed Income derivatives - swaps	(82,492)
JPY	Bond Index Futures	(7,303,077)
	Equity derivatives - futures	3,966,781
	Fixed Income derivatives - swaps	236,368
MXN	Fixed Income derivatives - swaps	(67,387)
NZD	Fixed Income derivatives - swaps	(135,485)
PLN	Fixed Income derivatives - swaps	(12,072)
RUB	Fixed Income derivatives - swaps	(79,276)
ZAR	Equity derivatives - futures	1,356,510
	Fixed Income derivatives - swaps	35,607
Total Derivative Foreign Currency Risk		<u>\$ 14,597,994</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 4. DERIVATIVES (CONTINUED)**

**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 cash dividends and other small cash balances.

**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, 2013, the Funds had outstanding forward exchange currency contracts to purchase foreign currencies of \$352,831,763 and to sell foreign currencies of \$416,288,586. The fair values of these outstanding contracts at June 30, 2013, were to purchase foreign currencies of \$375,723,840 and to sell foreign currencies of \$380,794,322, 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**  
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**NOTE 5. SECURITIES LENDING**

NMSA 1978 10-11-132 and PERA's policies permit the 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. PERA's 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 loans are held by PERA's custodial agent and must be equal to either 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 105% in the case of loaned securities not denominated in United States. PERA may invest cash collateral received in eligible securities as defined in a governing securities lending agreement.

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, 2013, the fair value of securities on loan was \$338,134,451. The associated collateral was \$355,860,014, of which \$17,725,563 was cash collateral, \$288,517,127 was short term (maturing in one business day) US Treasury securities and \$49,617,324 was collateral invested in varied legacy securities maintained from a previous securities lending agent. The collateral has been reinvested in other instruments which had a fair value of \$338,166,308 as of June 30, 2013 and the securities lending obligations were \$355,841,473. The unrealized loss in invested collateral on June 30, 2013 was \$17,888,526 which is reflected in the Statement of Changes in Plan Net Position, "Net Appreciation in fair value of investments."

Open security loans may 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 was 824 days as of June 30, 2013. The total portion of collateral made up of these assets was 18.96% as of June 30, 2013. All loans were open loans. There were no direct matching loans. As of June 30, 2013, no borrowers defaults have occurred.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 6. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2013, is as follows:

	<b>Balance</b>		<b>Balance</b>
	<b>June 30, 2012</b>	<b>Additions</b>	<b>June 30, 2013</b>
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	13,960,781	77,729	14,038,510
Automobile	80,107		80,107
	<u>\$ 28,272,098</u>	<u>\$ 77,729</u>	<u>\$ 28,349,827</u>
Accumulated depreciation:			
Building	\$ (878,208)	\$ (421,540)	\$ (1,299,748)
Property and equipment	(32,905)	(333)	(33,238)
Computer equipment and software	(13,638,055)	(239,330)	(13,877,385)
Automobile	(68,627)	(4,921)	(73,548)
	<u>\$ (14,617,795)</u>	<u>\$ (666,124)</u>	<u>\$ (15,283,919)</u>
Total	<u>\$ 13,654,303</u>	<u>\$ (588,395)</u>	<u>\$ 13,065,908</u>

The following are included in the above schedule.

- Depreciation and amortization expense, reported as part of administrative expenses, for the year was \$666,124.
- PERA did not dispose of any capital assets in FY13.

**NOTE 7. COMPENSATED ABSENCES**

The following represents changes in long-term liabilities for the year ended June 30, 2013.

	Balance			Balance
	June 30, 2012	Additions	Deletions	June 30, 2013
Compensated absences	<u>\$ 292,104</u>	<u>\$ 219,074</u>	<u>\$ (219,305)</u>	<u>\$ 291,873</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, 2013**

**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.

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. The Plan's insurance coverages are designed to satisfy the requirements of the State tort claims. Also, any claims are processed through the Risk Management Division of the State of New Mexico.

**NOTE 9. RETIREMENT PLANS**

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

***Funding Policy.*** For fiscal year 2013, plan members are required to contribute 8.92% of their gross salary. For fiscal year 2012, plan members were 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 2013, PERA employers were required to contribute 15.09% of the gross covered salary. For fiscal year 2012, PERA employers were required to contribute 13.34% of their gross salary. For fiscal year 2009 through 2011, PERA employers were 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 PERA employees were for the years ending June 30, 2013, 2012, and 2011, were \$565,115, \$473,261, and \$602,122, respectively, equal to the amount of the required contributions from the employer for each year. In addition, the employees contributed an additional \$334,051, \$378,538, and \$355,926 respectively, equal to the amount of the required contributions from employees for each year.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 10. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

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

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

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

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

The Retiree Health Care Act (Section 10-7C-15, NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer as of July 1, 2012 to contribute 2.0% of each participating employee's annual salary; each participating employee is required to contribute 1.0% of their salary. Prior to July 1, 2012, the statute required each participating employer as of July 1, 2011 to June 30, 2012 to contribute 1.834% of each participating employee's annual salary; each participating employee is required to contribute 0.917% of their salary. From July 1, 2010 to June 30, 2011, the statute required 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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 10. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**  
**(CONTINUED)**

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, 2013, 2012, and 2011 were \$74,948, \$64,480, and \$67,095, for employer contributions and \$37,474, \$32,240, and \$33,547 in employee contributions, respectively, which equal the required contributions for each year.

**NOTE 11. MARKET VOLATILITY**

Global asset markets have shown marked strength in the months since the fiscal year end through late November in the face of sluggish global economic data, mixed corporate earnings, uncertain monetary policy, uncertainty over the future leadership of the Federal Reserve, a drawn out fiscal impasse resulting in a government shutdown in October, and a near technical default on US debt payments. Sturdy investor sentiment and the prevailing expectation that monetary policy will be supportive of growth for longer has pushed the S&P 500 to a new all-time high of 1,800 as of late November causing this important index to return 12.75% since June. The developed non-US equity markets (MSCI EAFE) are up nearly 15% and the emerging markets have returned 12% in the same time period. Notably, the rising global equity markets have caused PERA to exceed its all-time high of \$13.8 billion, which was last touched in October 2007. As of November 22, 2013, the PERA market value totaled \$13.83 billion.

Underneath the over-riding trend of rising global equity markets, continued fiscal policy gridlock and speculation over the nature and timing of monetary policies have caused interest rate sensitive assets and currency markets to gyrate since June. This was most apparent in the bond markets, which sought to regain composure after selling off in the second quarter of the year in anticipation of the Federal Reserve reducing their bond purchase program. With the consensus view that the FOMC would announce the beginning of the "taper" in mid-September global bonds sold-off with yields rising above June levels. Only when the Fed unexpectedly maintained its existing pace of asset purchases with its September 18th surprise announcement did bond yields undergo a more meaningful unwind of their brisk ascent since April. But the cautious tone at the US Fed encouraged a more sober assessment of growth prospects, and the level of government yields across both the US and Europe have remained not too far from where they began mid-year. The US Federal Reserve was not the only central bank to see downside risks to economic growth, and several others with actual room to lower rates continued to ease policy during the third quarter. Despite these moves, broader upward pressure on global bond yields held sway through November with rates and bond yields broadly higher than at the end of June. The 10-year US Treasury stands at 2.78% compared to 2.5% at the end of June with investment grade US bond yields at 4.46% compared to 4.31% in June. The US Barclays Aggregate bond index is down 0.28% since the start of July.

Although PERA has exceeded its target return already for the 2014 fiscal year, the US federal government will run-out of funding again as early as January and the national debt will reach the just raised ceiling in February. Another bout of political gridlock would likely roil global asset markets. Additionally, although the US economy is expected to continue to grow at a moderate pace through 2014, growth in Europe is still sluggish and emerging economies are also expanding below their long-term potential. Periodic corrections in global equity markets and a secular trend in rising interest rates are likely.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 12. 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 (effective until March 4, 2013) 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 13. CASH RECONCILIATION**

**General Fund Investment Pool Not Reconciled Note Disclosure per DFA.** For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 13. CASH RECONCILIATION (CONTINUED)**

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

Management in FY 2012 recorded a loss contingency of \$101.7 million in the State General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

**General Fund Investment Pool DFA Reconciliation Impact to PERA.** 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 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, 2013 the Department had the following invested in the General Fund Investment Pool: \$7,329,923.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 13. CASH RECONCILIATION (CONTINUED)**

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, 2013.

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.

**NOTE 14. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through December 13, 2013 (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, 2013. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

**Pension Proposal Changes for Judicial and Magistrate for the 2014 Legislative Session:**

Due to the high unfunded balances in both of these plans (see Note 2) and anticipated continued decrease of available funds, the Judges and Administrative Court Staff are going to be introducing two separate proposals for the 2014 Legislative Session to change the two pension funds to help these pensions be at least 80% funded in 30 years. The proposals are still in draft stages and will be discussed, reviewed and amended by many constituents including the Judges themselves, along with the PERA Board, Legislature and the Governor.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS  
Year Ended June 30, 2013**

**SCHEDULE OF FUNDING PROGRESS**

PERA uses the aggregate funding method, which does not identify or separately amortize unfunded actuarial liabilities. Below is a schedule of funding progress using the individual entry age normal funding method to approximate the funding status. The individual entry-age actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's pensionable compensation between the entry age of the member and the pattern of projected exit ages.

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Liability (AAL) Entry Age	(3) Unfunded (Excess) AAL (UAAL) (2) - (1)	(4) Funded Ratios (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll (3)/(5)
<b><u>PUBLIC EMPLOYEES RETIREMENT FUND</u></b>						
June 30, 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
June 30, 2013	12,438,151,665	17,057,380,022	4,619,228,357	72.9	2,049,737,510	225.4
<b><u>LEGISLATIVE RETIREMENT FUND (A)</u></b>						
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
June 30, 2013	28,939,243	25,127,311	(3,811,932)	115.2	N/A	N/A
<b><u>JUDICIAL RETIREMENT FUND</u></b>						
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
June 30, 2012	80,007,287	143,745,971	63,738,684	55.7	13,226,142	481.9
<b><u>MAGISTRATE RETIREMENT FUND</u></b>						
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
June 30, 2013	31,813,605	54,498,646	22,685,041	58.4	3,136,834	723.2

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS  
Year Ended June 30, 2013**

**SCHEDULE OF FUNDING PROGRESS (CONTINUED)**

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)
<i><u>VOLUNTEER FIREFIGHTERS RETIREMENT FUND (A)</u></i>						
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
June 30, 2013	52,179,180	37,766,300	(14,412,880)	138.2	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, 2013**

<b>Fiscal Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Public Employees Retirement Fund</b>		<b>Legislative Retirement Fund</b>	
		<b>Annual Required Contribution</b>	<b>% Contributed</b>	<b>Annual Required Contribution</b>	<b>% Contributed</b>
June 30, 2008	June 30, 2007	292,578,920	100.0%	585,916	100.0%
June 30, 2009	June 30, 2008	302,068,680	100.0%	545,655	100.0%
June 30, 2010	June 30, 2009	327,447,665	100.0%	755,156	100.0%
June 30, 2011	June 30, 2010	355,192,459	100.0%	857,633	100.0%
June 30, 2012	June 30, 2011	466,059,490	100.0%	775,571	100.0%
June 30, 2013	June 30, 2012	523,617,049	100.0%	682,187	100.0%

<b>Fiscal Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Judicial Retirement Fund</b>		<b>Magistrate Retirement Fund</b>	
		<b>Annual Required Contribution</b>	<b>% Contributed</b>	<b>Annual Required Contribution</b>	<b>% Contributed</b>
June 30, 2008	June 30, 2007	4,549,247	112.6%	1,029,865	132.6%
June 30, 2009	June 30, 2008	4,690,274	115.6%	1,151,061	86.9%
June 30, 2010	June 30, 2009	5,658,174	85.7%	1,698,108	68.0%
June 30, 2011	June 30, 2010	5,784,453	88.9%	2,013,684	62.5%
June 30, 2012	June 30, 2011	5,834,621	79.1%	1,793,261	57.2%
June 30, 2013	June 30, 2012	7,235,448	68.4%	2,286,413	50.7%

<b>Fiscal Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Volunteer Firefighters Retirement Fund (1)</b>	
		<b>Annual Required Contribution</b>	<b>% Contributed (2)</b>
June 30, 2008	June 30, 2007	-	750.0%
June 30, 2009	June 30, 2008	-	750.0%
June 30, 2010	June 30, 2009	-	750.0%
June 30, 2011	June 30, 2010	-	750.0%
June 30, 2012	June 30, 2011	-	750.0%
June 30, 2013	June 30, 2012	-	750.0%

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

(2) No annual required contribution as contribution is appropriated

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**Year Ended June 30, 2013**

	Public Employees Retirement Fund	Legislative Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Valuation date	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
Actuarial cost method	Entry age	Projected Unit Credit	Entry age	Entry age	Entry age
Amortization method	Level percent, open	Level dollar, open	Level percent, open	Level percent, open	Level dollar, open
Amortization period	30 years^^	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	4 year smoothed market
Rate of return on investment of present and future assets*	7.75%	7.75%	7.75%	7.75%	7.75%
Projected salary increases	4.00% - 19.00%	N/A+	4.75%	4.25%	N/A+
Post retirement benefit Increases (1)	2.00%	2.00%	2.00%	2.00%	N/A+
* Includes inflation at	3.50%	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.

(1) 2.5% for certain retirees and disabled participants with annual benefits less than \$20,000

**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, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Investment Expenses:</b>		
Investment Manager Fees	\$ 22,859,221	\$ 19,742,383
Consultant Fees	4,617,912	4,677,295
Information Technology Services	27,232	27,469
Legal Fees	238,292	172,251
Total Investment Expenses	\$ 27,742,657	\$ 24,619,398
<b>Administrative Expenses:</b>		
<b>Other Contractual Services:</b>		
Information Technology Services	1,246,752	1,207,626
Legal Fees	70,261	32,705
Audit Fees	108,457	106,405
Medical Services	51,705	49,455
Other Professional Services	356,337	401,776
Total Other Contractual Services	1,833,512	1,797,967
<b>Other Administrative Services:</b>		
Personnel Services and Benefits	4,837,116	4,553,790
Other Operating Costs	907,662	1,128,204
Compenstated Absences	284,858	284,951
Depreciation Expense	666,124	1,988,385
Total Other Administrative Services	6,695,760	7,955,330
Total Administrative Expenses	\$ 8,529,272	\$ 9,753,297
<b>Total Investment and Administrative Expenses</b>	<b>\$ 36,271,929</b>	<b>\$ 34,372,695</b>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
OTHER SUPPLEMENTAL SCHEDULES  
SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES  
DEFERRED COMPENSATION FUND ONLY  
Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Investment Expenses:</b>		
Investment Manager Fees	\$ -	\$ -
Consultant Fees	-	-
Information Technology Services	-	-
Legal Fees	-	-
Total Investment Expenses	\$ -	\$ -
<b>Administrative Expenses:</b>		
<b>Other Contractual Services:</b>		
Information Technology Services	-	-
Legal Fees	-	-
Audit Fees	-	-
Medical Services	-	-
Other Professional Services	-	-
Total Other Contractual Services	-	-
<b>Other Administrative Services:</b>		
Personnel Services and Benefits	66,350	65,714
Other Operating Costs	9,138	8,079
Compenstated Absences	7,015	7,153
Depreciation Expense	-	-
Total Other Administrative Services	82,503	80,946
Total Administrative Expenses	\$ 82,503	\$ 80,946
<b>Total Investment and Administrative Expenses</b>	<b>\$ 82,503</b>	<b>\$ 80,946</b>

Note: These Deferred Compensation Fund Administrative Expenses are included in the PERA fund administrative expenses on page 26.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**OTHER SUPPLEMENTAL SCHEDULES**  
**SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES**  
**JUDICIAL RETIREMENT FUND ONLY**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Investment Expenses:</b>		
Investment Manager Fees	\$ 175,368	\$ 158,344
Consultant Fees	-	-
Information Technology Services	174	178
Legal Fees	1,521	1,117
Total Investment Expenses	177,063	159,639
<b>Administrative Expenses:</b>		
<b>Other Contractual Services:</b>		
Information Technology Services	4,135	3,518
Legal Fees	233	95
Audit Fees	360	310
Medical Services	172	144
Other Professional Services	1,182	1,170
Total Other Contractual Services	6,082	5,237
<b>Other Administrative Services:</b>		
Personnel Services and Benefits	16,989	14,116
Other Operating Costs	3,004	3,286
Compenstated Absences	-	-
Depreciation Expense	-	-
Total Other Administrative Services	19,993	17,402
Total Administrative Expenses	\$ 26,075	\$ 22,639
<b>Total Investment and Administrative Expenses</b>	<b>\$ 203,138</b>	<b>\$ 182,278</b>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**OTHER SUPPLEMENTAL SCHEDULES**  
**SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES**  
**MAGISTRATE RETIREMENT FUND ONLY**  
**Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Investment Expenses:</b>		
Investment Manager Fees	\$ 66,807	\$ 64,328
Consultant Fees	-	-
Information Technology Services	66	72
Legal Fees	579	454
Total Investment Expenses	\$ 67,452	\$ 64,854
<b>Administrative Expenses:</b>		
<b>Other Contractual Services:</b>		
Information Technology Services	2,256	1,819
Legal Fees	127	49
Audit Fees	196	160
Medical Services	94	75
Other Professional Services	644	605
Total Other Contractual Services	3,317	2,708
<b>Other Administrative Services:</b>		
Personnel Services and Benefits	9,267	7,302
Other Operating Costs	1,639	1,700
Compenstated Absences	-	-
Depreciation Expense	-	-
Total Other Administrative Services	10,906	9,002
Total Administrative Expenses	\$ 14,223	\$ 11,710
<b>Total Investment and Administrative Expenses</b>	<b>\$ 81,675</b>	<b>\$ 76,564</b>



**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, 2013 and 2012**

	2013	2012
<b>Investment Expenses:</b>		
Investment Manager Fees	\$ 116,912	\$ 98,966
Consultant Fees	-	-
Information Technology Services	116	111
Legal Fees	1,014	698
Total Investment Expenses	\$ 118,042	\$ 99,775
<b>Administrative Expenses:</b>		
<b>Other Contractual Services:</b>		
Information Technology Services	-	-
Legal Fees	-	-
Audit Fees	-	-
Medical Services	-	-
Other Professional Services	-	-
Total Other Contractual Services	-	-
<b>Other Administrative Services:</b>		
Personnel Services and Benefits	-	-
Other Operating Costs	-	-
Compenstated Absences	-	-
Depreciation Expense	-	-
Total Other Administrative Services	-	-
Total Administrative Expenses	\$ -	\$ -
<b>Total Investment and Administrative Expenses</b>	<b>\$ 118,042</b>	<b>\$ 99,775</b>

**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 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 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Financial Statements of the 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, 2013, and the related notes to the financial statements, which collectively comprise PERA's basic financial statements and have issued our report thereon dated December 13, 2013. Our report includes a reference to other auditors who audited the financial statements of the Deferred Compensation (IRC 457) Fund as described in our report on PERA's financial statements. This report does not include the results of other auditors' testing of internal controls over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered PERA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PERA's internal control. Accordingly, we do not express an opinion on the effectiveness of PERA's internal control.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the Schedule of Findings and Responses as items 2012-01, 2012-03, 2013-01, 2013-02, and 2013-03 to be significant deficiencies in internal control over financial reporting.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether PERA's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* as item 2010-02.

### **Management's Response to Findings**

Management's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Albuquerque, New Mexico  
December 13, 2013

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2013**

2009-01	Member Account Interest	Resolved
2010-02	Performance Appraisals	Repeated and revised
2012-01	Participant Enrollment Forms and Completeness of Census Data	Repeated and revised
2012-02	Administrative Payroll Segregation of Duties	Resolved
2012-03	Improve Information Technology Controls	Repeated and revised

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT**

**2012-01 Participant Enrollment Forms and Completeness of Census Data – (Significant Deficiency)**

**CONDITION**

During our testing of participant data and walkthrough's of the Plan's internal controls over contributions in 2012, we observed 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.

In 2013, we again considered the accuracy of census data maintained for participants of the plan. We found that two of eighteen randomly selected plan participants did not have participant enrollment forms on hand at the plan. Additionally, we observed certain instances within the census data that a member's beneficiary, although clearly associated with a member through use of a PERA identification number, some lacked having social security number information. In those instances the Organization had been assigned generic social security information, such as 000-00-0000.

**CRITERIA**

Enrollment applications should be reviewed to ensure the accuracy of participant data and maintained for future reference. The census information residing within the Plan's records also should be researched and corrected, if necessary, to ensure that information about plan participants and member beneficiaries are complete.

**CAUSE**

Management has not effectively enforced its requirement that all cost share employers send in the application for new members or completed a review of its census records for completeness.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2012-01 Participant Enrollment Forms and Completeness of Census Data - (Significant Deficiency) (Continued)**

**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 required disclosures for the Plan's financial statements. Additionally, basic participant information is used for processing contributions and for determining benefit payments to retirees.

**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 also should perform a comprehensive review of the Plan's census data records for completeness or missing information.

**MANAGEMENT RESPONSE**

PERA has put the Membership Application into a workflow process. These forms are now scanned into the imaging system once received and become part of a data entry queue within the RIO system. Staff enters the forms as they become part of the queue.

PERA is developing reports that can identify members within the RIO database that have wages reported with no form on file and vice versa. This will allow PERA to follow up with the employers to provide the forms promptly. Management agrees that these forms are important in gathering census data on our members; however, it is important to note that PERA will not process a pension or refund payment without having the form on file.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2012- 03 Improve Information Technology Controls (Significant Deficiency)**

**CONDITION**

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

- (a) 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. We noted however that PERA is in the process of making the change and that it is already in the process of testing the change in the test environment.
- (b) 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.
- (c) 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.
- (d) There is no formal change management policy in place for programming changes being made in the RIO system. There are documentations available based on work order or ticket and email exchanges within PERA and its consultants.

**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, a change management process (AI6 and AI7) includes controls that provide reasonable assurance that system changes of financial reporting significance are authorized, appropriately tested before being moved to production and that segregation of duties exist between IT staff responsible for moving a system change into production and the IT staff involved in the development.

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, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2012- 03 Improve Information Technology Controls (Significant Deficiency - (Continued))**

**CAUSE**

PERA is in the process of developing a change management policy and updating the password policy for members' domain. PERA made significant progress and changes on IT security and will continue to improve its existing controls.

**EFFECT**

Absence of the other required processes for change management poses risks of unauthorized or incorrect modification in the RIO system. 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) Adopt and implement industry best practices as far as password management is concerned.
- (b) 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.
- (c) 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.
- (d) We recommend that a change management policy be developed and approved by the Board. This should cover authorization, testing, user's acceptance and deployment procedures, and a back-out plan. In addition, programming changes should be moved into production by someone other than the programmer. This will ensure that no subsequent changes are made after authorization of the change.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2012- 03 Improve Information Technology Controls (Significant Deficiency - (Continued))**

**MANAGEMENT RESPONSE**

Management concurs with the finding and has taken steps to address these issues as follows:

- a) The password properties have been implemented adhering to industry best practices in a test environment. This change will have a significant operational impact since all self-service users passwords will expire at the same time. Additional testing is currently taking place, as well as development of an implementation plan. PERA anticipates having this recommendation in the production environment by January 2014.
- b) PERA IT and User Administration Group have worked with PERA supervisors to identify what user roles are needed for PERA employees to perform their duties. Changes have been deployed in a test environment and are currently under review to verify the new roles do not negatively impact agency employee's duties.
- c) Management concurs and is working with the RIO vendor to restrict access to these fields.
- d) PERA does have a work ticket in place for changes to RIO, however, Management agrees that a more formalized policy should be put into place. A policy has been drafted and is currently being reviewed by the various stakeholders.

The need to implement the changes from SB 27 has slowed progress on some of these issues but Management expects to fully resolve them in FY14.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2013-01 Financial Close and Reporting of Plan Contributions (Significant Deficiency)**

**CONDITION**

The financial close and reporting process is important to achieving reliable financial reporting. Weaknesses in the financial close and reporting process can create risks of misstatement of the financial statements. In obtaining our understanding of management's procedures with regard to the financial close and reporting process, generally we consider processes and controls for the following areas:

- Communication of the financial close and reporting process to appropriate departments, individuals, and components.
- Authorization for significant transactions outside the normal course of business.
- Evaluation of significant accounting estimates.
- Procedures for summarizing general ledger data.
- Review and approval of the financial statements and disclosures.

In obtaining our understanding of management's procedures to summarize underlying subledger data obtained from the Plan's Retirement Information Online (RIO) employer/participant database, we observed the following with regard to plan contributions:

*Suspended Records*

Participating PERA employers are responsible for submitting contributions for active PERA members through their payroll cycles. If the Plan's RIO database identifies errors within an employer's data file, the record and the associated contribution are suspended until the errors are corrected. Suspended records do not post to RIO's contributions or the Plan's general ledger until problems with employer records are resolved. PERA's RIO data base automatically notifies employers that a problem exists with the data submitted to the plan. In addition, detailed information specific to correction of the data is provided to the employer so that the file can be corrected and resubmitted.

We observed that employers do not always correct files in a timely manner. For example, we observed a suspended record from March 2012 that was not corrected by the employer until October 2012. The timeliness of correcting suspended records is important to contribution recognition within RIO and the general ledger. Suspended records that are from previous reporting periods will post as contributions in current reporting periods. We believe management has had insufficient procedures to properly identify and track the posting of suspended records by specific reporting periods and that this situation has existed for some time. We believe suspended record information that is specific to reporting periods to be essential with regard to closing contributions properly for each period.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2013-01 Financial Close and Reporting of Plan Contributions (Significant Deficiency) - (Continued)**

**CONDITION (CONTINUED)**

Management has historically accounted for suspended records in its financial close and reporting process by posting a closing reclassification journal entry to take suspended records from that status and report them as contributions for the period. After the annual close, Plan staff then reinstates the suspended balances by posting a credit entry to the suspended account status for all open suspended records and a debit to contributions for the subsequent period. The closing reclassification journal entry is necessary in order to recognize contributions for the period regardless of whether cash was submitted. A reversing journal entry in the subsequent reporting period records a debit to contributions. As suspended files post, in theory, they are intended to offset in contributions and net to zero. We observed, however, that Plan staff did not have a procedure or a report in place that tracks suspended contributions by period and as such it's likely that contributions from previous periods closed to current period contributions as suspended balances were opened and closed and reopened.

*Contribution Accounts Payable/Receivables*

Next, in the contribution cycle, once suspended records are corrected they post to contributions in RIO and then to the general ledger, as a normal contribution. The RIO system automatically creates a receivable or a payable, by employer; when a submitted cash contribution fails to match the correct contribution amounts. Employers have the ability to see whether a receivable or a payable exists through their RIO interface. It is our understanding that for instances where a payable exists (an amount to be returned or utilized) by the employer, the balance will remain in that status until the employer requests a refund or requests that the balance be applied to future contributions.

**CRITERIA**

The financial close and reporting process over contributions should provide management with procedures and schedules that clearly articulate to the Plan's underlying accounting records in an understandable and reliable manner.

**CAUSE**

Management has not researched or developed reliable contribution reports from its primary subledger (RIO).

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2013-01 Financial Close and Reporting of Plan Contributions (Significant Deficiency) - (Continued)**

**EFFECT**

There exists a likelihood that contributions may not be reported accurately and accounting errors may go undetected. This condition has prompted the Plan to rely on alternative methods of summarizing plan contribution receivables and payables for financial closing purposes. Rather than relying on the RIO's information as the sole basis for recording contribution receivables and payables, the Plan has historically relied upon its ability to separately monitor subsequent cash receipts and disbursements to determine the balances reported in its financial statements. We believe this method provides a reasonable basis to estimate receivables for financial reporting purposes; however, contribution receivables and payables are not fully reconciled with the RIO subsidiary ledger. The over and under contributions in the RIO subsidiary ledger has generally been isolated to amounts due to and due from primarily the New Mexico's Department of Finance and Administration.

**RECOMMENDATION**

We believe management of the Plan has made progress in 2013 with regard to determining the actual amounts owed by or due to the Plan for that agency. Management has taken, and is proactively taking, steps to address this issue including dedicating additional staff to these functional areas and conducting a contribution accounting needs assessment in June of 2013. We recommend management further study the RIO reporting capabilities for capturing reliable and understandable contribution data to create closing reports and a process that ensures the accuracy, verifiability, and reliability of the contributions reported by the Plan an annual basis.

**MANAGEMENT RESPONSE**

Suspended Records

During the 2013 Legislative session, an additional expansion position was approved for the Contribution Accounting Unit. Adding an additional FTE gives the Unit additional resources to address the long standing issue of suspended records.

The Unit now consists of a Bureau Chief and three accountant auditors who will be assigned specific employers and will work with them directly on a one-on-one basis to continually monitor suspended records. Additionally, Management has put together a Task Force, with staff from all Bureaus, that meets weekly to address issues related to the posting of employer contributions. A report identifying late reporting by employers is now being utilized which will assist Contribution Accounting staff in immediately identifying late reporting and contact employers who do not report timely.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2013-01 Financial Close and Reporting of Plan Contributions (Significant Deficiency) -  
(Continued)**

**MANAGEMENT RESPONSE (CONTINUED)**

Contribution Accounts Payable/Receivables

As previously stated, progress has been made to accurately report accounts payable and receivables by employers. The Task Force is working together to identify reports from RIO that will assist with this process and establish regular reconciliation of the accounts.

Management is in the process of preparing a contract with a consultant to formally document the business processes of the contribution accounting functions and identify areas of deficiency and recommend changes for efficiency. A needs assessment done in June 2012 already identified issues related to this finding and will serve as a basis for developing long-term solutions to improve contribution accounting.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2013-02 Exception Reporting and Monitoring (Significant Deficiency)**

**CONDITION**

Management reported to us certain deficiencies with regard to the Plan's monitoring controls for payments to beneficiaries and member refunds. The Plan's RIO system provides reports to be used for monitoring discrepancies between the amounts paid for member benefits (or refunds) compared to amounts calculated by the Plan's RIO system. Management reported to us that the monitoring reports provided by the Plan's RIO system generally were not utilized by PERA staff during the period. Management of the Plan discussed with us their efforts to more fully utilize the reporting available to them for monitoring purposes. Management described that the largest discrepancies reported to them have been researched and corrected and the remaining discrepancies are minor in nature. We viewed the June 2013 monitoring report and noted that there exist additional instances to be further researched; however each appear minor in nature.

**CRITERIA**

Control activities are the policies and procedures that help ensure management directives are properly carried out. These activities help ensure that necessary actions are taken to address risks to achievement of an organizations objectives. Benefit payments (or refunds) are considered to be an essential function of the Plan's operations.

**CAUSE**

Management of the Plan has not fully studied the reporting capabilities of its RIO database.

**EFFECT**

An unreliable monitoring system may result in future instances of either over or underpayment of retirement benefits (or refunds.)

**RECOMMENDATION**

We recommend that management further study the RIO reporting capabilities for monitoring purposes and perform sufficient testing to ensure the accuracy, relevancy, and reliability of the reports generated by RIO. Further, upon development of reliable reporting by RIO, we recommend that management develop and implement procedures for monitoring and for completing corrective actions for those instances in which errors are identified.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2013-02 Exception Reporting and Monitoring (Significant Deficiency) - (Continued)**

**MANAGEMENT RESPONSE**

Management has made significant progress in effectively utilizing the Final Calculation Difference Report (Report) capability in RIO to monitor and test member accounts. Prior Management allowed significant numbers of accounts which appeared on the Report to go unaudited for years, thereby resulting in substantial balances owed and owing once the accounts were audited.

Given that prior Management allowed the Report to go unaddressed for years, it will take time to fully clear the backlog. However, Management has made clearing the backlog a priority and, as noted in the finding, significant progress has been made in more effectively utilizing the Report to ensure accuracy in member payments. The most recent Report provided to Management contained approximately 300 member records, a reduction from 700 records in January of 2013. Of the 300 accounts on the most recent Report, 174 are for difference of \$10 or less, with the largest current difference being \$65.54. The 300 accounts on the most recent report represent less than .009% of the Plan members who receive a monthly benefit.

Management has also undertaken reorganization of the Plan's Retirements and Payroll Division that included dedicating one full time employee to monitoring and testing accounts that appear on the Report. Additionally, senior Management meets on a biweekly basis to review the most recent Report and provide direction on clearing the backlog of accounts. Management is also in the process of developing policies and procedures for ensuring testing of member's accounts that appear on the Report to ensure timelier auditing of accounts going forward. The Plan is dependent on employer cooperation to clear many of the accounts that appear on the Report and is considering implementing an automated system to ensure better response from employers when questions occur about a member's account.

Management notes that the Report is an important tool in ensuring accuracy in member payments and is committed to continuing to more effectively utilize the Report.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2013-03 Retirement System Staffing (Significant Deficiency)**

**CONDITION**

During our audit, we had a substantial number of discussions with the Comptroller, key investment personnel and management regarding the requirements of highly complex technical accounting and financial reporting pronouncements. Based on the results of these discussions, it is our observation that the Plan is lacking personnel that have experience and expertise with complex accounting and financial reporting matters commonly encountered by large public employee retirement systems and sophisticated institutional investors.

**CRITERIA**

Given the level and complexities of accounting and financial reporting issues of public pension retirement systems, the importance of technically proficient personnel will only become more important in order to analyze and implement financial reporting and control policies. Public pension retirement systems generally must confront a variety of highly complex technical accounting requirements. The required accounting experience generally includes investments, application of fair value techniques, deposit and investment risk disclosures, derivatives, hedging activities, securities lending transactions and actuarial valuations.

In addition we observe that GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time beginning in 2015. PERA will play a significant role for purposes of communicating pension liability information to employers and employer auditors and will verify or confirm the accuracy of pension information.

Furthermore, we note GASB's current agenda project with regard to the definition of *fair value*; this includes the methods used to measure fair value, the applicability of fair value guidance to investments and other items currently reported at fair value, and potential disclosures about fair value measurements. These calculations, measurements and disclosures will likely be complex based on our experience with other reporting entities whose fair value accounting standards have been in existence for several years.

**CAUSE**

The Plan does not have suitable expertise with complex accounting and financial reporting matters commonly encountered by large public employee retirement systems and sophisticated institutional investors.

**EFFECT**

Given the complexity of potential accounting and financial reporting issues facing public employee retirement systems today; the effect of the condition reported is that the Organization may be at risk of failing to detect or prevent material misstatements, including relevant disclosures, of its financial statements on a timely basis.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2013-03 Retirement System Staffing (Significant Deficiency) (Continued)**

**RECOMMENDATION**

We recommend management consider hiring staff or consultants with the skills and proficiency to be able to address the technical areas commonly encountered by public pension retirement systems. Additionally, we recommend that management provide training to the Comptroller to financial develop the needed competencies where they can be developed.

**MANAGEMENT RESPONSE**

Management acknowledges the need for a Comptroller and financial staff with the requisite educational and professional experience to properly address technical areas, including investments and general accounting, necessary to the proper accounting of a public pension retirement system. Management will work to develop a staff structure that will ensure proper levels of expertise in financial staff to address the growing complexity of public pension finance, as well as meet the needs of the Plan regarding implementation of new GASB requirements, fair value, etc. The growing complexity in public pension accounting is likely to require additional staff requested through the legislative process, as well as internal realignments where possible. Management will look for opportunities to enhance the competencies of the Comptroller. Management notes that the recently completed search for a Chief Investment Officer (CIO) resulted in the hiring of a CIO who is a Certified Public Accountant.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2013**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**2010-02 Performance Appraisals. (Non-Compliance in Accordance with New Mexico State Audit Rule)**

**CONDITION**

For the year ended June 30, 2013, we noted 23 evaluations not performed in conformity with the prescribed manner by the State.

**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 appraisals were 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 that performance appraisals should be done in a timely manner and that performance appraisals should be completed prior to an employee's anniversary date. During fiscal year 2013, every PERA employee received performance appraisals. Management will continue to educate supervisors regarding the need to complete employee performance appraisals on a timely basis.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
EXIT CONFERENCE  
June 30, 2013**

We discussed the recommendations contained in this letter during the exit conference held December 10, 2013. The exit conference was attended by the following individuals:

**Public Employees Retirement Association**

Wayne Propst	Executive Director
Sylvia Barela	Administrative Services Director
Greg Trujillo	Deputy Director
Susan Pittard	Chief of Staff/General Counsel
Rena Herndon	Comptroller
Julian Baca	Acting Investment Director

Patricia French	Municipal Member
Roman Jimenez	State Member
Annette Martinez-Varela	State Member
Jackie Kohlasch	State Member
Susan Biernacki	Municipal Member
Daniel Esquibel	Municipal Member
Stewart Logan	County Member
Loretta Naranjo-Lopez	Retiree Member
Daniel Mayfield	Retiree Member
Paula Fisher	State Member
Diana Duran	State Member
James Lewis	State Member

**Moss Adams LLP**

Scott Eliason	Audit Partner
Jeff Bridgens	Audit Senior Manager

**BUDGETARY COMPARISONS – BUDGETARY BASIS**

## **Report of Independent Auditors on the Schedule of Budgetary Comparisons – Budgetary Basis**

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

We have audited the accompanying schedule of budgetary comparisons – budgetary basis of the Public Employees Retirement Association of New Mexico for the year ended June 30, 2013, and the related notes.

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this schedule of budgetary comparisons – budgetary basis in accordance with the budgetary basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule of budgetary comparisons – budgetary basis that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the schedule of budgetary comparisons – budgetary basis based on our audit. 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 schedule of budgetary comparisons – budgetary basis is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of budgetary comparisons – budgetary basis. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of budgetary comparisons – budgetary basis, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of budgetary comparisons – budgetary basis in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

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

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of budgetary comparisons – budgetary basis.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the schedule of budgetary comparisons – budgetary basis referred to above presents fairly, in all material respects, the budgetary comparison of Public Employees Retirement Association of New Mexico for the year ended June 30, 2013, in accordance with the budgetary basis of accounting described in Note 1.

***Basis of Accounting***

We draw attention to Note 1 to the schedule of budgetary comparisons – budgetary basis, which describes the basis of accounting. The schedule of budgetary comparisons – budgetary basis is prepared on the budgetary basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Mess Adams LLP*

Albuquerque, New Mexico  
December 13, 2013

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**SCHEDULE OF BUDGETARY COMPARISONS – BUDGETARY BASIS**  
**PUBLIC EMPLOYEES RETIREMENT FUND ONLY**  
**Year Ended June 30, 2013**

	<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	\$ 29,614,300	\$ 37,656,796	\$ 118,160,264	\$ 80,503,468
Deferred Comp Plan Income	107,900	107,900	69,867	(38,033)
<b>Total Revenue</b>	<u>\$ 29,722,200</u>	<u>\$ 37,764,696</u>	<u>\$ 118,230,131</u>	<u>\$ 80,465,435</u>
 Expenditures				
Administration				
Contractual services	23,244,300	31,105,800	29,576,169	1,529,631
Personnel services and benefits	5,448,500	5,360,000	4,902,968	457,032
Other operating costs	1,029,400	1,298,896	917,298	381,598
<b>Total Expenditures</b>	<u>\$ 29,722,200</u>	<u>\$ 37,764,696</u>	<u>\$ 35,396,435</u>	<u>\$ 2,368,261</u>
 <b>Change in net assets, budget items</b>			82,833,696	
 <b>Non-budget revenues and expenses:</b>				
Investment earnings and change in fair value			1,383,156,039	
Depreciation Expense			(666,124)	
Compensated Absences			(291,873)	
Contributions from members and employers			520,858,044	
Other Income			9,725,081	
Benefit payments to retirees and beneficiaries			(842,710,962)	
Refunds to terminated employees			<u>(45,113,887)</u>	
 <b>Increase (Decrease) in plan net assets</b>			1,107,790,014	
 <b>Net Position held in trust for pension benefits</b>				
Balance - beginning of year			<u>11,600,023,989</u>	
 Balance - end of year			<u>\$ 12,707,814,003</u>	

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO SCHEDULE OF BUDGETARY COMPARISONS – BUDGETARY BASIS**  
**PUBLIC EMPLOYEES RETIREMENT FUND ONLY**  
**Year Ended June 30, 2013**

**NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*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.