

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

**JUNE 30, 2014**



**Public Employees  
Retirement Association**  
*of New Mexico*

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**Public Employees  
Retirement Association**  
*of New Mexico*

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**Public Employees  
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**Public Employees  
Retirement Association**  
*of New Mexico*

***Official Roster  
As of June 30, 2014***

<b><u>NAME</u></b>	<b><u>TITLE</u></b>
Ms. Patricia French	Chair, Municipal Member
Mr. Dan Mayfield	Vice Chair, Retiree Member
Mr. James B. Lewis	Ex-Officio, State Treasurer
Ms. Dianna Duran	Ex-Officio, Secretary of State
Ms. Jackie Kohlasch	State Member
Mr. Roman Jimenez	State Member
Ms. Paula Fisher	State Member
Mr. John J. Reynolds	State Member
Mr. Louis Martinez	Municipal Member
Mr. Daniel Esquibel	Municipal Member
Mr. Stewart Logan	County 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, 2014, as listed in the table of contents. We also have audited the Schedule of Revenues, Appropriations, and Expenses—Budget and Actual Public Employees Retirement Fund Only, presented as supplementary information, as defined by the Governmental Accounting Standards Board, in the accompanying financial statements as of and for the year ended June 30, 2014, as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the State of New Mexico Public Employees' Deferred Compensation Plan, which represent 100 percent, 100 percent, and 100 percent, respectively, of the assets, net position, and additions of the accompanying Statements of Plan Net Position and Statements of Changes in Plan Net Position of the State of New Mexico Public Employees' Deferred Compensation Plan. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for State of New Mexico Public Employees' Deferred Compensation Plan, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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  
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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, 2014, 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, 2014, 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, 2014, 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 Changes in the Net Pension Liability, Schedule of the Net Pension Liability, Schedule of Employer Contributions, Schedule of Investment Returns and Notes to Required Supplementary Information on pages 6 through 20 and 79 through 90, 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 and other auditors 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 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 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, 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, 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 15, 2014 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
December 15, 2014



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**



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, 2014 and 2013 provides a summary of the financial position of the Funds, including highlights and comparisons.

The Public Employees Retirement Association (PERA) administers 31 different types of retirement coverage, 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 FY13, PERA reported an Unfunded Actuarial Accrued Liability (UAAL) of \$4.6 billion, approximately \$1.6 billion less than the previous year. The decline in the UAAL was the result of comprehensive pension reform legislation proposed by the PERA Board and enacted by the Legislature during the 2013 legislative session. Also as a result of the passage of pension reform legislation, PERA’s 30 year projected funded ratio increased from 29% to 108.8%. PERA saw a further \$300 million decline in the UAAL, and increase in the 30 year projected funded ratio to 133% at the end of FY14. The improvement in FY14 was due largely to excess investment returns. PERA’s FY14 return was 17.03%, significantly higher than the 7.75% return assumption.

During the 2014 legislative session, the PERA Board worked to pass comprehensive reform for both the Judicial and Magistrate plans after Governor Martinez vetoed legislation in the 2013 session. Reform bills for both plans passed the Legislature with overwhelming margins and Governor Martinez signed the bills into law. Updated FY14 30 year funded projections show the Judicial plan’s 2043 funded ratio at 92.48%, up from a projected insolvency date of 2036 in FY13 and the Magistrate plan’s 2043 funded ratio at 79.9%, up from a projected insolvency date of 2030 in FY13.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**



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 has been working to implement the new rules, in conjunction with the agency's actuaries in order to comply with the new accounting requirements. During the year, PERA staff took 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.
- Staff attended multiple educational trainings on the subject matter of GASB 67 and 68.
- Active and ongoing communication, including site trainings and presentations to educate employer participants, board members and legislators of the impact of GASB 68 and PERA's role in the implementation process.

Included in this year's financial statement are the newly required GASB 67 disclosures. The table below includes the Net Pension Liability as required under GASB 67. For further detail, please see Note 12 and required supplementary information specific to GASB 67, by fund. Employers participating in PERA plans are required to implement GASB 68 in their FY 2015 financial statements.

PERA will provide a separate "Schedule of Employer Allocations" in the spring of 2015 in order to provide employer participants with the required data in order for them to be able to comply with GASB 68 in FY 2015.

PERA Calculation of the Net Pension Liability (NPL) as of Fiscal Year Ending June 30, 2014	
Total Pension Liability (TPL)	17,744,186,900
Plan's Fiduciary Net Position (FNP)	14,428,500,519
Net Pension Liability (NPL)	3,315,686,381
Ratio of Fiduciary Net Position to Total Pension Liability	81.31%

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**



<b>JUDICIAL</b> Calculation of the Net Pension Liability (NPL) as of Fiscal Year Ending June 30, 2014	
Total Pension Liability (TPL)	132,451,573
Plan's Fiduciary Net Position (FNP)	91,141,300
Net Pension Liability (NPL)	41,310,273
Ratio of Fiduciary Net Position to Total Pension Liability	68.81%

<b>MAGISTRATE</b> Calculation of the Net Pension Liability (NPL) as of Fiscal Year Ending June 30, 2014	
Total Pension Liability (TPL)	56,401,059
Plan's Fiduciary Net Position (FNP)	35,184,910
Net Pension Liability (NPL)	21,216,149
Ratio of Fiduciary Net Position to Total Pension Liability	62.38%

<b>Volunteer Firefighter</b> Calculation of the Net Pension Liability (NPL) as of Fiscal Year Ending June 30, 2014	
Total Pension Liability	40,881,090
Plan's Fiduciary Net Position	61,923,262
Net Pension Liability	(21,042,172)
Ratio of Fiduciary Net Position to Total Pension Liability	150.47%

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**



*Actuarial assumptions*—The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2013. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2014. These assumptions were adopted by the Board for use in the June 30, 2014 actuarial valuation.

**Financial Highlights**

- The plan net position held in trust to pay pension benefits was \$15.1 billion as of June 30, 2014. This amount reflects an increase of \$1.8 billion from the prior fiscal year. 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, for funding decision purposes, as of June 30, 2014 is 75.8%, and increase from 74.2% as of June 30, 2013.
- Retirement and death benefits paid this year (excluding Deferred Compensation) totaled \$919 million to 34,868 annuitants as compared to \$855 million to 32,042 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 \$250 million in FY13 to \$306 million in FY13, a difference of \$56 million. Contributions from members increased from \$228 million in FY13 to \$240 million in FY13, an increase of \$12 million.
- PERA's investments reported a total money-weighted average return of positive 17.4% for the current year and a return of positive 13.26% 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 employees of the state and other local bodies is administered by a contracted third party with oversight by the PERA Board and staff. The assets of that plan are included in these financial statements as a separate fund. The net operating account is funded by fees collected from the DC Plan participants and is used to pay administration expenses for the DC Plan. These amounts are included in the Public Employees Retirement Fund.
  - **The Statement of Plan Net Position:** 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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**

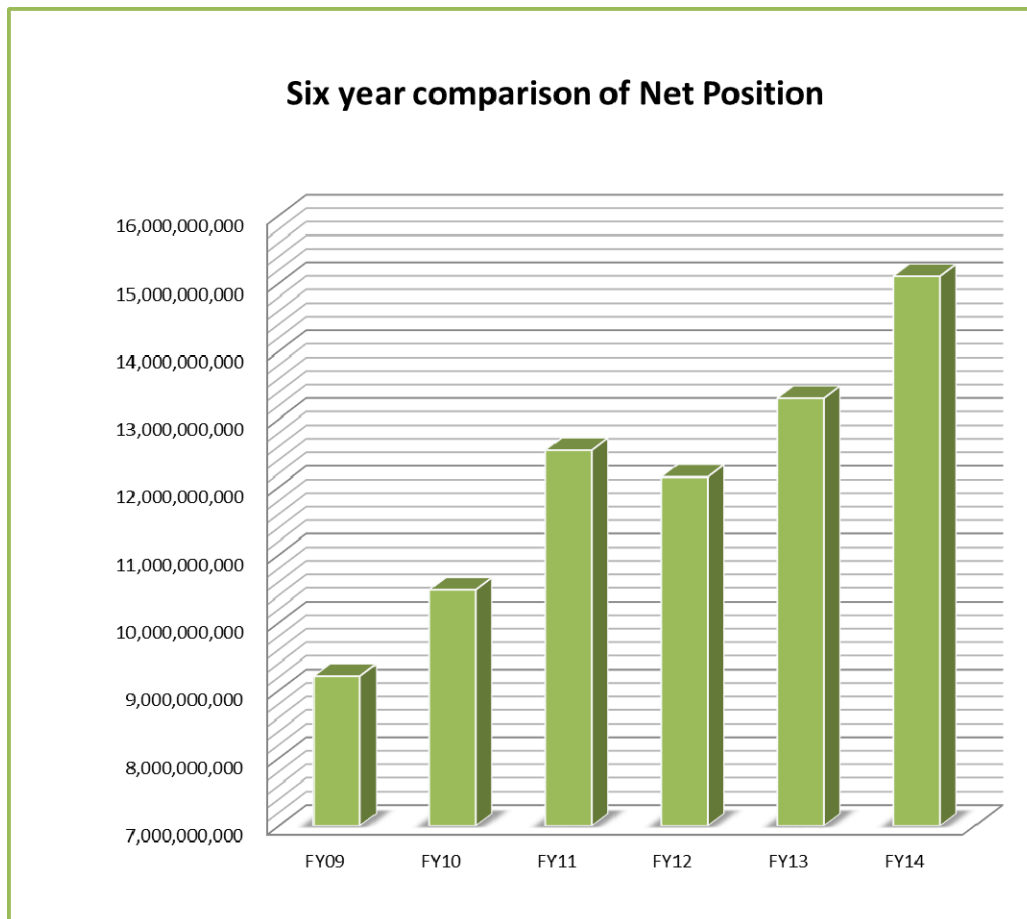


- **Required Supplementary Information:** The required supplementary information schedules include information regarding funding progress for current fiscal year and the previous five years. In addition, it includes employer annual required contributions for current year and previous five years. These 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.

**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, 2014**

**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, 2014:

	2014	2013	Dollar Change	Percentage Change
<b>Assets</b>	\$ 15,938,666,814	\$ 14,173,786,051	\$ 1,764,880,763	12.45 %
<b>Liabilities</b>	\$ (834,569,269)	(868,926,480)	34,357,211	(3.95) %
<b>Net Assets Held in Trust</b>	<u>\$ 15,104,097,545</u>	<u>\$ 13,304,859,571</u>	1,799,237,974	13.52 %
<b>Change in Net Position</b>	\$ 1,799,237,974	\$ (396,232,913)	2,195,470,887	(554.09) %

The total net position held by PERA increased during the fiscal year ended June 30, 2014 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 plans administered by PERA includes the following balances at the years ended June 30, 2014 and 2013:

**PUBLIC EMPLOYEES RETIREMENT FUND:**

The overall change in Net Position from FY2013 to FY2014 is an increase of 13.54%. 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, 2014, as compared to June 30, 2013, is as follows:

	2014	2013	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 519,285,099	\$ 532,300,770	\$ (13,015,671)	(2.45) %
Receivables	410,562,400	433,186,815	(22,624,415)	(5.22) %
Investments	14,309,119,133	12,586,928,439	1,722,190,694	13.68 %
Capital Assets, Net	13,699,469	13,065,907	633,562	4.85 %
<b>Total Assets</b>	<u>15,252,666,101</u>	<u>13,565,481,931</u>	<u>1,687,184,170</u>	<u>12.44 %</u>
<b>Liabilities:</b>				
Accounts Payable	418,502,212	488,231,225	(69,729,013)	(14.28) %
Other Liabilities	405,663,370	369,436,703	36,226,667	9.81 %
<b>Total Liabilities</b>	<u>824,165,582</u>	<u>857,667,928</u>	<u>(33,502,346)</u>	<u>(3.91) %</u>
<b>Statement of Net Position</b>	<u>\$ 14,428,500,519</u>	<u>\$ 12,707,814,003</u>	<u>\$ 1,720,686,516</u>	<u>13.54 %</u>

The net position of the Public Employees Retirement Fund amounts to 95.53% of the total net position of all funds.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**

**PUBLIC EMPLOYEES RETIREMENT FUND (continued)**

Statement of Changes in Plan Net Position as of June 30, 2014, as compared to June 30, 2013, is as follows:

	2014	2013	Dollar Change	Percentage Change
<b>Additions:</b>				
Contributions and service credit purchases	\$ 548,511,314	\$ 520,858,044	\$ 27,653,270	5.31 %
Net Investment Income	257,034,200	251,521,870	5,512,330	2.19 %
Net Appreciation (Depreciation) of Fair Value of Investments	1,860,873,802	1,222,051,776	638,822,026	52.27 %
Other Income	17,390,103	9,794,948	7,595,155	77.54 %
<b>Total Additions</b>	<u>2,683,809,419</u>	<u>2,004,226,638</u>	<u>679,582,781</u>	33.91 %
<b>Deductions:</b>				
Benefit Payments	(905,329,140)	(842,710,962)	(62,618,178)	7.43 %
Refunds	(47,376,975)	(45,113,887)	(2,263,088)	5.02 %
Administrative Expenses	(10,416,788)	(8,611,775)	(1,805,013)	20.96 %
<b>Total Deductions</b>	<u>(963,122,903)</u>	<u>(896,436,624)</u>	<u>(66,686,279)</u>	7.44 %
<b>Change in net position</b>	<u>\$ 1,720,686,516</u>	<u>\$ 1,107,790,014</u>	<u>\$ 612,896,502</u>	55.33 %

**JUDICIAL RETIREMENT FUND**

The overall change in Net Position from FY2013 to FY2014 is an increase of 11.8%. 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 0.60% of the total net position of all funds.

Statement of Plan Net Position as of June 30, 2014, as compared to June 30, 2013, is as follows:

	2014	2013	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 3,195,672	\$ 3,397,320	\$ (201,648)	(5.94) %
Receivables	2,494,076	2,856,027	(361,951)	(12.67) %
Investments	90,478,454	80,770,039	9,708,415	12.02 %
<b>Total Assets</b>	<u>96,168,202</u>	<u>87,023,386</u>	<u>9,144,816</u>	10.51 %
<b>Liabilities:</b>				
Accounts Payable	\$ 2,306,729	3,059,818	(753,089)	(24.61) %
Other Liabilities	2,720,173	2,444,939	275,234	11.26 %
<b>Total Liabilities</b>	<u>5,026,902</u>	<u>5,504,757</u>	<u>(477,855)</u>	(8.68) %
<b>Statement of Net Position</b>	<u>\$ 91,141,300</u>	<u>\$ 81,518,629</u>	<u>\$ 9,622,671</u>	11.80 %



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**

**JUDICIAL RETIREMENT FUND (continued)**

Statement of Changes in Plan Net Position as of June 30, 2014, as compared to June 30, 2013, is as follows:

	2014	2013	Dollar Change	Percentage Change
<b>Additions:</b>				
Contributions and service credit purchases	4,826,417	\$ 4,967,040	\$ (140,623)	(2.83) %
Net Investment Income	1,591,807	1,600,857	(9,050)	(0.57) %
Net Appreciation (Depreciation) of Fair Value of Investments	11,604,819	7,723,124	3,881,695	50.26 %
Other Income	485,977	170,913	315,064	184.34 %
<b>Total Additions</b>	<u>18,509,019</u>	<u>14,461,934</u>	<u>4,047,085</u>	<u>27.98 %</u>
<b>Deductions:</b>				
Benefit Payments	(8,770,177)	(8,224,778)	(545,399)	6.63 %
Refunds	(52,562)	(52,386)	(176)	0.00 %
Administrative Expenses	(63,610)	(26,075)	(37,535)	143.95 %
<b>Total Deductions</b>	<u>(8,886,349)</u>	<u>(8,303,239)</u>	<u>(583,110)</u>	<u>7.02 %</u>
<b>Change in net position</b>	<u>\$ 9,622,671</u>	<u>\$ 6,158,695</u>	<u>\$ 3,463,976</u>	<u>56.25 %</u>

**MAGISTRATE RETIREMENT FUND**

The overall change in Net Position from FY2013 to FY2014 is an increase of 8.46%. 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 0.23% of the total net position of all funds.

Statement of Plan Net Position as of June 30, 2014, as compared to June 30, 2013, is as follows:

	2014	2013	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 1,219,524	\$ 1,294,217	\$ (74,693)	(5.77) %
Receivables	906,080	1,080,306	(174,226)	(16.13) %
Investments	34,973,172	32,166,134	2,807,038	8.73 %
<b>Total Assets</b>	<u>37,098,775</u>	<u>34,540,657</u>	<u>2,558,118</u>	<u>7.41 %</u>
<b>Liabilities:</b>				
Accounts Payable	\$ 880,288	1,165,645	(285,357)	(24.48) %
Other Liabilities	1,033,578	935,695	97,883	10.46 %
<b>Total Liabilities</b>	<u>1,913,865</u>	<u>2,101,340</u>	<u>(187,475)</u>	<u>(8.92) %</u>
<b>Statement of Net Position</b>	<u>\$ 35,184,910</u>	<u>\$ 32,439,317</u>	<u>\$ 2,745,593</u>	<u>8.46 %</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**

***MAGISTRATE RETIREMENT FUND (continued)***

Statement of Changes in Plan Net Position as of June 30, 2014, as compared to June 30, 2013, is as follows:

	2014	2013	Dollar Change	Percentage Change
<b>Additions:</b>				
Contributions and service credit purchases	1,059,164	\$ 1,158,405	\$ (99,241)	(8.57) %
Net Investment Income	624,968	636,384	(11,416)	(1.79) %
Net Appreciation (Depreciation) of Fair Value of Investments	4,574,241	3,172,637	1,401,604	44.18 %
Other Income	216,853	66,507	150,346	226.06 %
<b>Total Additions</b>	<u>6,475,225</u>	<u>5,033,933</u>	<u>1,441,292</u>	<u>28.63 %</u>
<b>Deductions:</b>				
Benefit Payments	(3,689,881)	(3,379,097)	(310,784)	9.20 %
Refunds	(15,477)	(53,550)	38,073	0.00 %
Administrative Expenses	(24,275)	(14,223)	(10,052)	70.67 %
<b>Total Deductions</b>	<u>(3,729,633)</u>	<u>(3,446,870)</u>	<u>(282,763)</u>	<u>8.20 %</u>
<b>Change in net position</b>	<u>\$ 2,745,593</u>	<u>\$ 1,587,063</u>	<u>\$ 1,158,530</u>	<u>73.00 %</u>

The overall change in Net Position from FY2013 to FY2014 is an increase of 16.15%. 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 0.41% of the total net position of all funds.

Statement of Plan Net Position as of June 30, 2014, as compared to June 30, 2013, is as follows:

	2014	2013	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash & equivalents	\$ 2,226,368	\$ 2,264,880	\$ (38,512)	(1.70) %
Receivables	1,520,192	1,692,594	(172,402)	(10.19) %
Investments	61,639,621	53,007,454	8,632,167	16.28 %
<b>Total Assets</b>	<u>65,386,181</u>	<u>56,964,928</u>	<u>8,421,253</u>	<u>14.78 %</u>
<b>Liabilities:</b>				
Accounts Payable	\$ 1,607,057	2,039,879	(432,822)	(21.22) %
Other Liabilities	1,855,862	1,612,576	243,286	15.09 %
<b>Total Liabilities</b>	<u>3,462,920</u>	<u>3,652,455</u>	<u>(189,535)</u>	<u>(5.19) %</u>
<b>Statement of Net Position</b>	<u>\$ 61,923,261</u>	<u>\$ 53,312,473</u>	<u>\$ 8,610,788</u>	<u>16.15 %</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**

**VOLUNTEER FIREFIGHTERS RETIREMENT FUND (continued)**

Statement of Changes in Plan Net Position as of June 30, 2014, as compared to June 30, 2013, is as follows:

	2014	2013	Dollar Change	Percentage Change
<b>Additions:</b>				
Appropriations from State of NM	\$ 750,000	\$ 750,000	\$ -	0.00 %
Net Investment Income	1,084,937	1,042,218	42,719	4.10 %
Net Appreciation (Depreciation) of Fair Value of Investments	7,834,319	5,023,400	2,810,919	55.96 %
Other Income	404,792	102,318	302,474	295.62 %
<b>Total Additions</b>	<u>10,074,047</u>	<u>6,917,936</u>	<u>3,156,111</u>	45.62 %
<b>Deductions:</b>				
Benefit Payments	(1,418,943)	(968,742)	(450,201)	46.47 %
Administrative Expenses	(44,316)	-	(44,316)	100.00 %
<b>Total Deductions</b>	<u>(1,463,259)</u>	<u>(968,742)</u>	<u>(494,517)</u>	51.05 %
<b>Change in net position</b>	<u>\$ 8,610,788</u>	<u>\$ 5,949,194</u>	<u>\$ 2,661,594</u>	44.74 %

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 a plan administrator under contract with PERA.

The overall change in Net Position from FY2013 to FY2014 is an increase of 13.40%. This increase was primarily due to interest income on investments earned during the current year. Net position available for Plan benefits increased by approximately \$57.6 million during the current period.

Statement of Plan Net Position as of June 30, 2014, as compared to June 30, 2013, is as follows:

	2014	2013	Dollar Change	Percentage Change
<b>Assets:</b>				
Receivables	8,080,953	\$ 7,229,224	\$ 851,729	11.78 %
Investments	479,266,602	422,545,925	56,720,677	13.42 %
<b>Total Assets</b>	<u>487,347,555</u>	<u>429,775,149</u>	<u>57,572,406</u>	13.40 %
<b>Statement of Net Position</b>	<u>\$ 487,347,555</u>	<u>\$ 429,775,149</u>	<u>\$ 57,572,406</u>	13.40 %

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**

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

Statement of Changes in Plan Net Position as of June 30, 2014, as compared to June 30, 2013, is as follows:

	2014	2013	Dollar Change	Percentage Change
<b>Additions:</b>				
Contributions and service credit purchases	35,910,846	\$ 35,920,698	\$ (9,852)	(0.03) %
Net Investment Income	427,252	2,585,637	(2,158,385)	(83.48) %
Net Appreciation (Depreciation) of Fair Value of Investments	59,542,936	37,604,199	21,938,737	58.34 %
<b>Total Additions</b>	<u>95,881,034</u>	<u>76,110,534</u>	<u>19,770,500</u>	25.98 %
<b>Deductions:</b>				
Benefit Payments	(37,302,918)	(36,193,619)	(1,109,299)	3.06 %
Life Insurance Premiums	(75,555)	(91,787)	16,232	(17.68) %
Administrative Expenses	(930,155)	(917,513)	(12,642)	1.38 %
<b>Total Deductions</b>	<u>(38,308,628)</u>	<u>(37,202,919)</u>	<u>(1,105,709)</u>	2.97 %
<b>Change in net position</b>	<u>\$ 57,572,406</u>	<u>\$ 38,907,615</u>	<u>\$ 18,664,791</u>	47.97 %

Benefits paid to participants increased from \$36.2 million for the year ended June 30, 2013 to \$37.3 million for year ended June 30, 2014. This increase was primarily due to an increase in the average benefit payment and an increase in the number of retirees from 2,774 in 2013 to 2,860 in 2014.

Variable earnings investment income increased from a \$37.6 million for the year ended June 30, 2013 to a \$59.5 million gain for the year ended June 30, 2014. This increase was due to more favorable market conditions in 2014 as compared to 2013.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**

**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, 2014, as compared to June 30, 2013, follows:**

<b>Investment Category</b>	<b>June 30 2014</b>	<b>June 30 2013</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
U.S. Government and Agency Securities	1,196,712,540	\$ 1,173,749,124	\$ 22,963,416	1.96 %
Municipal Bonds	34,312,052	33,783,776	528,276	1.56 %
Variable Earning Investments (IRC 457)	337,693,602	281,962,370	55,731,232	19.77 %
Stable Value Option & Other (IRC 457)	141,573,000	140,583,555	989,445	0.70 %
Corporate Equity Securities	4,325,893,864	3,581,996,306	743,897,558	20.77 %
Corporate Obligations	1,702,430,423	1,541,406,506	161,023,917	10.45 %
International Securities	4,086,453,597	3,331,404,452	755,049,145	22.66 %
Venture Capital and Partnerships and Alternatives	2,712,033,441	2,745,035,668	(33,002,227)	(1.20) %
Securities Lending Collateral	400,719,677	338,166,311	62,553,366	18.50 %
Investment in State General Fund	37,654,784	7,329,923	30,324,861	413.71 %
<b>Total Investments</b>	<b>\$ 14,975,476,982</b>	<b>\$ 13,175,417,991</b>	<b>\$ 1,800,058,991</b>	<b>13.66 %</b>

With the total fund returning 13.66% (excluding Deferred Compensation) for the fiscal year ending June 30, 2014, market values increased across most investment categories and at the total investment level.

During FY 2014, markets rallied as a high level of Federal Reserve and other central bank stimulus pushed financial assets higher even as global growth remained subdued. This manifested itself in higher equity prices, tighter credit spreads, and low interest rates. After a short lived increase in market volatility in the lead up to the U.S. government shutdown in October 2013, equity markets continued to rally into the end of the 2013 and benchmark interest rates rose to 3%. The start of 2014 presented an environment in which markets were generally discounting positive economic conditions with healthy growth, low levels of inflation, and moderate volatility. However, volatility returned to capital markets in early 2014 as the Federal Reserve began tapering their quantitative easing program and geopolitical concerns ratcheted higher. Equity markets fell while benchmark interest rates declined to around 2.75%. Global stock markets dealt with lingering concerns over economic and political uncertainty, especially in emerging market economies; the turmoil between Russia and Ukraine in particular exacerbated tensions and drove some investors into safe haven trades, such as U.S. Treasuries. The fall in equity prices was temporary though as improving growth in the U.S. and central bank stimulus globally helped buoy the market. Through the end of the fiscal year, global equity markets continued to make new highs and the 10 Year Treasury stabilized around 2.5% providing a tailwind for fixed income returns as well.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**

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 six budget adjustments made to the beginning budget during fiscal year 2014, for an increase of \$5,714,871 from the original budget. The FY14 appropriation of \$35,406,900 was supplemented by increases of \$5,714,871 for the following: 1) to provide funds for upgrades to the Retirement Online System (RIO) to meet legislative pension reform; 2) for actuarial studies and audit fees to meet compliance with GASB 67 and 68 requirements; 3) for contractual assistance to upgrade new strategic plan; 3) for operational needs such as building maintenance, utilities and safety and, 4) for payment for services to investment fund managers who are paid performance fees. The amounts requested for performance fees for investment fund managers in FY14 was \$4,932,551. Three additional BARs were submitted to move funds between accounts totaling \$199,500 for contractual and operational needs. See Note 14 for an explanation of upcoming changes to the pension plans. 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.

**Capital Assets**

Capital assets, at carrying value, are listed for the years ended June 30, 2014 and 2013:

<b>CAPITAL ASSETS:</b>	2014	2013
Land	\$ 1,548,990	\$ 1,548,990
<b>Capital Assets: Net of Depreciation</b>		
Building	\$ 10,924,916	11,346,456
Computer Equipment and Software	1,221,481	161,125
Property and Equipment	2,444	2,778
Automobile	1,638	6,559
<b>Total</b>	<b>\$ 13,699,469</b>	<b>\$ 13,065,908</b>

Depreciation and amortization expense, reported as part of administrative expenses, for the year ended June 30, 2014 was \$502,526. See Note 6 in the notes to the financial statements for further detail on capital assets.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2014**

**Currently Known Facts and Conditions**

Since the end of the 2014 fiscal year the US economy has continued to expand with US GDP growing by 3.5% in the quarter ending September 30, 2014, even as the Federal Reserve has pulled back on stimulation. Gains in employment in the US over the last several months have pushed the jobless rate to a six-year low of 5.8%. Continued employment gains have boosted incomes, which should help to sustain demand going forward in the US. Consumer confidence measures are at cyclical highs and retail sales are moderately strong. In Europe economic growth and inflation expectations are nearly flat with respective readings of 0.2% and 0.4% in the quarter ending September 30, 2014. The broad US stock indices are up 3% since June while Europe, Asia, and Emerging Markets have declined 10%, 3% and 7%, respectively. Recently, a sharp sell-off in oil has caused prices to fall to five-year lows, which has varied impacts on the broad global markets based on each country's exposure to the commodity.

The PERA Fund has exposure to these various macro factors. As these factors move and vary, PERA's investments are impacted. PERA continues to deepen the Fund diversification across asset type, geography, and macroeconomic factors, which helps to reduce the total Fund volatility. In periods when capital market correlations are elevated the benefits of diversification are diminished.

PERA received favorable determination letters on its tax-qualified status as a governmental plan from the Internal Revenue Service with regard to the Public Employees Retirement Plan, Magistrate Retirement Plan, and the Judicial Retirement Plan.

**Request for Information**

Any questions regarding the financial statements of PERA should be directed to the Executive Director, at (505) 476-9301; Chief Investment Officer at (505) 476-9338, ASD Director at (505) 476-9304 or Chief Financial Officer 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, 2014**

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 519,285,099	\$ 3,195,672	\$ 1,219,524
Receivables			
Accrued Investment Income	50,850,158	312,100	119,103
Accounts Receivable-Brokers	303,859,047	1,869,944	713,603
Contributions Receivable	54,715,253	-	-
Accounts Receivable - Other	735,085	312,032	73,374
Participant Loans Receivable	-	-	-
Interfund Receivable	402,856	-	-
	<u>410,562,400</u>	<u>2,494,076</u>	<u>906,080</u>
Investment in State Treasurer Investment Pool	33,150,661	2,624,366	1,446,528
Investments, at fair value			
U.S. Government and Agency Securities	1,181,600,083	7,271,549	2,774,949
Municipal Bonds	33,878,749	208,489	79,563
Variable Earning Investments (IRC 457)	-	-	-
Stable Value Option & Other (IRC 457)	-	-	-
Corporate Equity Securities	4,271,265,135	26,285,299	10,030,926
Corporate Obligations	1,680,931,604	10,344,427	3,947,613
International Securities	4,034,848,595	24,830,395	9,475,709
Venture Capital and Partnerships and Alternatives	2,677,785,042	16,479,047	6,288,690
Other Assets	-	-	-
	<u>13,913,459,869</u>	<u>88,043,573</u>	<u>34,043,979</u>
Securities Lending Collateral Investments	395,659,264	2,434,881	929,193
	<u>14,309,119,133</u>	<u>90,478,454</u>	<u>34,973,172</u>
Capital Assets, Net	13,699,469	-	-
	<u>15,252,666,101</u>	<u>96,168,202</u>	<u>37,098,775</u>
<b>LIABILITIES</b>			
Accounts Payable - Brokers	374,835,051	2,306,729	880,288
Accounts Payable - Other	43,676,834	22,889	93
Accrued Expenses	121,088	-	-
Compensated Absences	242,920	-	-
Interfund Payable	-	203,138	81,675
Securities Lending Liability	405,289,689	2,494,146	951,810
	<u>824,165,582</u>	<u>5,026,902</u>	<u>1,913,865</u>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 14,428,500,519</u>	<u>\$ 91,141,300</u>	<u>\$ 35,184,910</u>

*See Accompanying Notes to the Financial Statements.*



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**STATEMENT OF PLAN NET POSITION (CONTINUED)**  
**JUNE 30, 2014**

	Volunteer Firefighters Retirement Fund	Deferred Compensation (IRC 457) Fund	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 2,226,368	\$ -	\$ 525,926,664
Receivables			
Accrued Investment Income	217,435	-	51,498,796
Accounts Receivable-Brokers	1,302,757	-	307,745,351
Contributions Receivable	-	201,333	54,916,586
Accounts Receivable - Other	-	-	1,120,491
Participant Loans Receivable	-	7,879,620	7,879,620
Interfund Receivable	-	-	402,856
	<u>1,520,192</u>	<u>8,080,953</u>	<u>423,563,700</u>
Investment in State Treasurer Investment Pool	433,229	-	37,654,784
Investments, at fair value			
U.S. Government and Agency Securities	5,065,959	-	1,196,712,540
Municipal Bonds	145,251	-	34,312,052
Variable Earning Investments (IRC 457)	-	337,693,602.00	337,693,602
Stable Value Option & Other (IRC 457)	-	141,573,000.00	141,573,000
Corporate Equity Securities	18,312,504	-	4,325,893,864
Corporate Obligations	7,206,780	-	1,702,430,423
International Securities	17,298,898	-	4,086,453,597
Venture Capital and Partnerships and Alternatives	11,480,661	-	2,712,033,441
Other Assets	-	-	-
	<u>59,943,282</u>	<u>479,266,602</u>	<u>14,574,757,304</u>
Securities Lending Collateral Investments	1,696,339	-	400,719,677
	<u>61,639,621</u>	<u>479,266,602</u>	<u>14,975,476,982</u>
Capital Assets, Net	-	-	13,699,469
	<u>65,386,181</u>	<u>487,347,555</u>	<u>15,938,666,814</u>
<b>LIABILITIES</b>			
Accounts Payable - Brokers	1,607,057	-	379,629,126
Accounts Payable - Other	192	-	43,700,008
Accrued Expenses	-	-	121,088
Compensated Absences	-	-	242,920
Interfund Payable	118,042	-	402,855
Securities Lending Liability	1,737,628	-	410,473,273
	<u>3,462,920</u>	<u>-</u>	<u>834,569,269</u>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 61,923,261</u>	<u>\$ 487,347,555</u>	<u>\$ 15,104,097,545</u>

*See Accompanying Notes to the Financial Statements.*

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**STATEMENT OF CHANGES IN PLAN NET POSITION**  
**For the Year Ended June 30, 2014**

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 301,601,232	\$ 3,740,786	\$ 793,044
Member	238,695,585	1,085,631	266,120
Appropriations from State of New Mexico - Fire Protection Fund	-	-	-
Service Credits Purchased	8,214,497	-	-
<b>Total Contributions</b>	<u>548,511,314</u>	<u>4,826,417</u>	<u>1,059,164</u>
Investment Income			
Interest	122,473,577	757,502	296,124
Dividends	174,628,649	1,080,808	422,807
Net Appreciation in Fair Value of Investments	1,860,873,802	11,604,819	4,574,241
Securities Lending Income	(8,310,983)	(51,076)	(19,385)
	<u>2,149,665,044</u>	<u>13,392,052</u>	<u>5,273,787</u>
Securities Lending Expenses	(334,827)	(2,055)	(784)
Other Investment Expenses	(31,422,215)	(193,372)	(73,794)
<b>Net Investment Income</b>	<u>2,117,908,002</u>	<u>13,196,625</u>	<u>5,199,209</u>
Other Income	<u>17,390,103</u>	<u>485,977</u>	<u>216,853</u>
<b>Total Additions</b>	<u>2,683,809,419</u>	<u>18,509,019</u>	<u>6,475,225</u>
<b>DEDUCTIONS</b>			
Benefit Payments	905,329,140	8,770,177	3,689,881
Refunds to Terminated Employees	47,376,975	52,562	15,477
Life Insurance Premiums	-	-	-
Administrative Expenses	10,416,788	63,610	24,275
<b>Total Deductions</b>	<u>963,122,903</u>	<u>8,886,349</u>	<u>3,729,633</u>
<b>Increase in Net Position</b>	1,720,686,516	9,622,671	2,745,593
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>			
<b>Beginning of Year</b>	<u>12,707,814,003</u>	<u>81,518,629</u>	<u>32,439,317</u>
<b>End of Year</b>	<u>\$ 14,428,500,519</u>	<u>\$ 91,141,300</u>	<u>\$ 35,184,910</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, 2014**

	Volunteer Firefighters Retirement Fund	Deferred Compensation (IRC 457) Fund	Total
<b>ADDITIONS</b>			
Contributions			
Employer	\$ -	\$ -	\$ 306,135,062
Member	-	35,910,846	275,958,182
Appropriations from State of New Mexico - Fire Protection Fund	750,000	-	750,000
Service Credits Purchased	-	-	8,214,497
<b>Total Contributions</b>	<u>750,000</u>	<u>35,910,846</u>	<u>591,057,741</u>
Investment Income			
Interest	518,764	427,252	124,473,219
Dividends	738,067	-	176,870,331
Net Appreciation in Fair Value of Investments	7,834,319	59,542,936	1,944,430,116
Securities Lending Income	(35,744)	-	(8,417,188)
	<u>9,055,406</u>	<u>59,970,188</u>	<u>2,237,356,478</u>
Securities Lending Expenses	(1,432)	-	(339,098)
Other Investment Expenses	(134,719)	-	(31,824,100)
<b>Net Investment Income</b>	<u>8,919,255</u>	<u>59,970,188</u>	<u>2,205,193,279</u>
Other Income	404,792	-	18,497,724
<b>Total Additions</b>	<u>10,074,047</u>	<u>95,881,034</u>	<u>2,814,748,745</u>
<b>DEDUCTIONS</b>			
Benefit Payments	1,418,943	37,302,918	956,511,059
Refunds to Terminated Employees	-	-	47,445,014
Life Insurance Premiums	-	75,555	75,555
Administrative Expenses	44,316	930,155	11,479,143
<b>Total Deductions</b>	<u>1,463,259</u>	<u>38,308,628</u>	<u>1,015,510,771</u>
<b>Increase in Net Position</b>	8,610,788	57,572,406	1,799,237,974
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>			
<b>Beginning of Year</b>	<u>53,312,473</u>	<u>431,728,272</u>	<u>13,306,812,694</u>
Restatement		1,953,123	
<b>Beginning of Year, Restated</b>		<u>429,775,149</u>	
<b>End of Year</b>	<u>\$ 61,923,261</u>	<u>\$ 487,347,555</u>	<u>\$ 15,104,097,545</u>

See Accompanying Notes to the Financial Statements.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**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 twelve Board members are elected by PERA active and retired members under state, municipal and county coverage plans. Two of the twelve 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 further detail and information on the Deferred Compensation Fund and how to obtain separate financial statements of the Deferred Compensation Fund in Note 1.C.

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, 2014**

**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

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 24 different types of coverage within the PERA plan. All assets accumulated 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 for Tier I members. Generally, the amount retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service;

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

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 90% 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 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 if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

*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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

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, 2014 was determined by the actuary to be \$53,753. 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, 2014 is \$159. The per diem rate starting January 1, 2015 will increase to \$165.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

The following tables illustrate the various coverage options under the PERA plan and the contribution rates effective during the year.

<b><u>PERA Contribution Rates and Pension Factors for the year ended 6/30/2014</u></b>						
Retirement Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per Year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
State Plan 3	7.42%	8.92%	16.59%	3.0%	2.5%	90%
State Plan 3 – Peace Officer	7.42%	8.92%	16.59%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	25.72%	3.0%	3.0%	90%
State Police and Adult Correctional Officer Plan 1	7.6%	9.1%	25.1%	3.0%	3.0%	90%
Municipal Plan 1 (plan open to new employers)	7.0%	8.5%	7.0%	2.0%	2.0%	90%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.15%	2.5%	2.0%	90%
Municipal Plan 3 (plan closed to new employers 6/95)	13.15%	14.65%	9.15%	3.0%	2.5%	90%
Municipal Plan 4 (plan closed to new employees 6/00)	15.65%	17.15%	11.65%	3.0%	2.5%	90%
Municipal Detention Officer Plan 1	16.65%	18.15%	16.65%	3.0%	3.0%	90%



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

<b><u>PERA Contribution Rates and Pension Factors for the year ended 6/30/2014</u></b>						
Retirement Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per Year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
Municipal Police Plan 1	7.0%	8.5%	10.0%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.0%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.5%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.5%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.5%	3.5%	3.0%	90%
Municipal Fire Plan 1	8.0%	9.5%	11.0%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.5%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.25%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.25%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.25%	3.5%	3.0%	90%

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

<b>PERA Public Safety Contribution Rates and Pension Factors for the year ended 6/30/2014</b>					
Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per Year of Service	Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary \$20,000 or less	Annual Salary greater than \$20,000			
Municipal Police Plan 1	7.0%	8.5%	10.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.0%	2.5%	90%
Municipal Police Plan 3	7.0%	8.5%	18.5%	2.5%	90%
Municipal Police Plan 4	12.35%	13.85%	18.5%	3.0%	90%
Municipal Police Plan 5	16.3%	17.8%	18.5%	3.5%	90%
Municipal Fire Plan 1	8.0%	9.5%	11.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.5%	2.5%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.25%	2.5%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.25%	3.0%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.25%	3.5%	90%
Municipal Detention Officer Plan 1	16.65%	18.15%	16.65%	3.0%	90%
State Police and Adult Correctional Officer Plan 1	7.6%	9.1%	25.1%	3.0%	90%
State Plan 3 – Peace Officer	7.42%	8.92%	16.59%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	25.72%	3.0%	90%

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

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

*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.

The retirement age and service credit requirements for normal retirement for judicial members who first take the bench on or after July 1, 2014 increased with the passage of House Bill 33 Substitute in the 2014 Legislative Session. Under the new requirements, judicial members are eligible to retire at age 65 with eight or more years of service or at age 60 with 15 or more years of service credit.

Effective July 1, 2014, membership is mandatory, all judicial pension factors were reduced, employee and employer contributions increased 3 percent and the computation of final average salary increased as the average of salary for the 60 consecutive months. In addition, cost-of-living increases were suspended for two consecutive fiscal years and future cost-of-living adjustments are reduced to 2% every third year until the Fund is projected to be 100% funded.

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 10.5% of their salaries and the member's court contributes at a rate of 15% of the member's salary. Additionally, the district court contributes \$38 for each civil case docket fee paid in the district court, \$25 from each civil docket fee paid in metropolitan court and \$10 for each jury fee paid in metropolitan court. Contribution rates are established by State statute.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1. GENERAL DESCRIPTION OF THE ASSOCIATION AND RETIREMENT FUNDS**  
**(CONTINUED)**

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

Certain changes took place under House Bill 33 and amends the Judicial Retirement Act (JRA) as follows:

Mandatory Membership

- Eliminates the ability for judges to exempt themselves from membership as an elected official.
- Requires those judges who have previously retired from another state system or the educational retirement system (“working retiree”) to make nonrefundable “working retiree contributions” during their terms of office as judges; working retirees will not be eligible to accrue a retirement benefit under the JRA.
- Judges who have previously retired from another state system or the educational retirement system will have their COLA suspended effective July 1, 2014 for the duration of their terms as magistrate.

Cost-of-Living Adjustment (COLA)

Establishes an independent COLA for judges and justices under the JRA, as follows:

- Suspends the COLA for all retired judges and justices for two years (July 1, 2014 and July 1, 2015).
- Beginning no later than May 1, 2016, PERA shall certify the projected funded ratio for the *next* succeeding year (based on the JRA Fund’s prior year actuarial valuation).
- Effective July 1, 2016, provides all eligible retirees with a 2% compounding COLA if the Judicial Fund (Fund) is at or greater than the 100% funded ratio threshold and projected to continue to be at or above 100% for the next successive year.
- Suspends the cost-of-living adjustment (COLA) for judges and magistrates if the Funds’ funded ratios fall below 100%. COLA suspensions shall only be implemented for two consecutive fiscal years.

Increased Employee Contributions

- Effective July 1, 2014, increases employee contributions 3% (from 7.5% to 10.5%);
- Effective July 1, 2014, increases employer contributions 3% (from 12% to 15%);
- Requires “non-member” contributions during employment for judges and justices that have filed an exemption from membership; non-members will receive a refund of contributions, with interest, upon termination of employment.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

New Benefit Structure

- Raises age and service for normal retirement for judges who initially became members:
  - Prior to July 1, 2005: 60 years with 15 years of service credit; or 65 years (*from 64*) with 5 years of service credit (Early retirement and 18 years w/ actuarial discount)
  - July 1, 2005 through June 30, 2014: 55 years with 16 years of service credit; or 65 years (*from 64*) with 5 years of service credit
  - On or after July 1, 2014: 60 years with 15 years of service credit; or 65 years with 8 years of service credit
- Lowers the pension multiplier to 3.5% (from 3.75%) and prorates future service credit for active members for a “blended” pension benefit for active JRA members.
- Increases the pension maximum to 85%, (from 75%).
- Increases the vesting period for judges who first take office after July 1, 2014 to 8 years (from 5).
- Changes form of benefit payments for those judges retiring on or after July 1, 2014. Currently, a judge’s surviving spouse or designated beneficiary receives 75% of the judge’s retirement pension until death. HB 33 provides for Normal and Optional forms of payments, similar to all other PERA member coverage plans. The normal form of payment is for life (Option A). Optional contingent survivor beneficiary forms of payment (Options B, C and D) are available on an actuarial equivalent basis. Total pension payments can never be less than the judge’s accumulated contributions.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

*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.

The retirement age and service credit requirements for normal retirement for magistrate members who first take the bench on or after July 1, 2014 increased with the passage of House Bill 216 Substitute in the 2014 Legislative Session. Under the new requirements, magistrates are eligible to retire at age 65 with eight or more years of service, at age 60 with 15 or more years of service credit or at any age with 24 years of service credit.

Effective July 1, 2014, membership is mandatory, all magistrate pension factors were reduced, employee contributions increased 3 percent and the computation of final average salary increased as the average of salary for the 60 consecutive months. Employer will increase by 4 percent effective July 1, 2015. In addition, cost-of-living increases were suspended for two consecutive fiscal years and future cost-of-living adjustments are reduced to 2% every third year until the Fund is projected to be 100% funded.

Member contributions are based on 10.5% 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. Beginning July 1, 2015, the employer contribution will increase to 15% of a member's salary. Additionally, the magistrate or metropolitan courts contribute \$25 for each civil case docket fee paid and \$10 for each civil jury fee paid in magistrate court. Contribution rates are established by State statute.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

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

Certain changes took place under House Bill 216 and amends the Magistrate Retirement Act (MRA) as follows:

Cost-of-Living Adjustment (COLA)

Establishes an independent COLA for magistrates under the MRA, as follows:

- Suspends the COLA for all retired magistrates for two years (July 1, 2014 and July 1, 2015).
- Beginning no later than May 1, 2016, PERA shall certify the projected funded ratio for the *next* succeeding year (based on the MRA Fund's prior year actuarial valuation).
- Effective July 1, 2016, provides all eligible retirees with a 2% compounding COLA if the Magistrate Fund (Fund) is at or greater than the 80% funded ratio threshold and projected to continue to be at or above 80% for the next successive year.
- Suspends the cost-of-living adjustment (COLA) for magistrates if the Funds' funded ratios fall below 80%. COLA suspensions shall only be implemented for two consecutive fiscal years.

Increased Employee Contributions

- Effective July 1, 2014, increases employee contributions 3% (from 7.5% to 10.5%);
- Effective July 1, 2014, increases employer contributions 4% (from 11% to 15%);
- Requires "non-member" contributions during employment for magistrates that have filed an exemption from membership; non-members will receive a refund of contributions, with interest, upon termination of employment.

New Benefit Structure

- Raises age and service for normal retirement for magistrates who initially became members:
  - Before July 1, 2014:
    - Any age and 24 years of service credit;
    - 60 years with 15 years of service credit; or
    - 65 years (*from 64*) with 5 years of service credit
  - On or after July 1, 2014:
    - Any age and 24 years of service credit;
    - 60 years with 15 years of service credit; or
    - 65 years with 8 years of service credit

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

- Lowers the pension multiplier to 3.5% (from 5.0%) and prorates future service credit for active members for a “blended” pension benefit for active MRA members.
- Increases the pension maximum to 85%, (from 75%).
- Increases the vesting period for magistrates who first take office after July 1, 2014 to 8 years (from 5).
- Changes form of benefit payments for those magistrates retiring on or after July 1, 2014. Currently, a judge’s surviving spouse or designated beneficiary receives 75% of the judge’s retirement pension until death. HB 216 provides for Normal and Optional forms of payments, similar to all other PERA member coverage plans. The normal form of payment is for life (Option A). Optional contingent survivor beneficiary forms of payment (Options B, C and D) are available on an actuarial equivalent basis. Total pension payments can never be less than the judge’s accumulated contributions.

**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, 2014**

**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) 476-9338.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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, 2014**

**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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
NOTES TO THE FINANCIAL STATEMENTS  
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**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 effective July 1, 2013.

**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)

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**E. Membership of the Plans**

At June 30, 2014, the number of participating government employers were as follows:

**Public Employees Retirement Fund**

State Agencies	132
Cities	36
Legislative	6
Towns	16
Villages	36
Counties	33
Special Districts	48
Housing Authorities	15
Hospitals	2
Other	<u>19</u>
<b>Total PERA</b>	<b><u><u>343</u></u></b>

<b>Judicial Retirement Fund</b>	16
<b>Magistrate Retirement Fund</b>	5
<b>Volunteer Firefighters Retirement Fund</b>	365

At June 30, 2014, 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	33,740	141	94	893	34,868
Terminated plan members not yet receiving benefits	9,897	23	12	737	10,669
Active plan members	49,414	121	45	7,499	57,079

\*Note: PERA Retirement Fund includes the Legislative Fund

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

**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), subject to certain conditions. The 2% 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. The COLA for disability retired 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% COLA recipients receive a notification letter each July advising them of the increase in their pension payments. The total annual COLA payments for FY14 were \$15,583,869 (average of \$1,730,799 per month). See Note 14 for more information regarding benefit changes effective July 1, 2013.

**G. New Accounting Pronouncements**

*New Accounting Pronouncements* - Governmental Accounting Standards Board (GASB) 67, Financial Reporting for Pension Plans and GASB 68, Accounting & Financial Reporting for Pensions (Employer), address accounting and financial reporting requirements for pension plans activities. The Public Employees Retirement Association of New Mexico is a cost-sharing multiple employer pension plan as defined by GASB 67. The requirements of GASB 67 include changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. GASB 67 is effective for fiscal years beginning after June 15, 2013. PERA's implementation consists of the assumptions and actuarial calculation of total and net pension liability, comprehensive footnote disclosures regarding the pension liability calculation and assumptions, and additional investment activity disclosures. See Note 12 for detailed Net Pension Liability information.

**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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**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.** The PERA Board of Trustees has the sole authority to make changes to PERA's investment policies. There were no significant changes to investment policy during the year. For the year ended 6/30/2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.4%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2014**

**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, or allocation, in the pool is based on the dollar weighted average methodology. In this method, a factor is generated for each plan account based on the average daily balance (beginning market value adjusted for cash flows on a daily basis) during the period. The factor is the proportion of the average daily balance for each plan account, in relation to all plans under the master trust. The factor of each plan account is applied to the investment results (income, allocated expenses, realized gain/loss and unrealized gain/loss). Cash flows (contributions, benefit payments, transfers and plan-specific expenses) are applied directly to each of the plan accounts. Ownership percentages (rounded to the nearest hundredth of a percent) in the investment pool at June 30, 2014, are as follows:

Public Employees Retirement Fund	98.74%
Magistrate Retirement Fund	0.23
Judicial Retirement Fund	0.61
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, 2014**

**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.

**Deferred Compensation Plan.** At June 30, 2014, PERA had \$95,008 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.

**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.

**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.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**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	\$ 33,055,653	\$ 33,055,653
Deferred Compensation Operating Account	95,008	95,008
Judicial Retirement Fund	2,624,366	2,624,366
Magistrate Retirement Fund	1,446,528	1,446,528
Volunteer Firefighters Retirement Fund	433,229	433,229
Total deposits at State Treasurer's Office	\$ 37,654,784	\$ 37,654,784

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 \$525,926,664 as of June 30, 2014.

**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) 476-9338.

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

**Government Agency Mortgage-backed Securities.** As of June 30, 2014, the Funds' investment portfolios, excluding securities lending collateral investments, included mortgage-backed securities issued by agencies of the United States government of \$36,263,969 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, 2014, the Funds' investment portfolio, excluding securities lending collateral investment, included corporate asset-backed securities with a fair value of \$216,646,956. 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.

**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)*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.

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, 2014 and its exposure to custodial credit risk are as follows:

Asset Type	Held in the name of the Fund by the Fund's custodian bank	Custody arrangements contracted by fund manager	Total
U.S. Government Bonds and Agency Securities	\$ 1,006,085,973	-	\$ 1,006,085,973
International Government Bonds & Agency Securities	547,698,767	-	547,698,767
U.S. Municipal Bonds	34,312,052	-	34,312,052
Mutual Bonds	154,362,597	-	154,362,597
Corporate Bonds	1,213,312,430	-	1,213,312,430
Corporate Bond Fund	27,727,462	-	27,727,462
International Corporate Bonds	138,667,415	-	138,667,415
U.S. Government MBS	36,263,969	-	36,263,969
Commercial MBS	211,692,684	-	211,692,684
Asset Backed Securities	216,646,956	-	216,646,956
International Asset Backed Securities	19,536,428	-	19,536,428
Non-government C.M.O.	33,050,891	-	33,050,891
International Non-government C.M.O.	474,233	-	474,233
<b>Total Fixed Income Investments</b>	<b>3,639,831,857</b>	<b>-</b>	<b>3,639,831,857</b>
International Common Stock	2,952,236,966	-	2,952,236,966
Domestic Common Stock	3,990,358,201	-	3,990,358,201
US Venture Capital & Partnerships	2,712,033,441	-	2,712,033,441
International Venture Capital & Partnerships	-	-	-
International Preferred Stock	47,695,249	-	47,695,249
Domestic Preferred Stock	23,402,527	-	23,402,527
Domestic MLP	53,530,310	-	53,530,310
Domestic American Depository Receipt (ADR)	27,289,619	-	27,289,619
International American Depository Receipt (ADR)	4,336,145	-	4,336,145
Domestic Global Depository Receipt (GDR)	13,564,947	-	13,564,947
International Global Depository Receipt (GDR)	22,085,866	-	22,085,866
Domestic Real Estate Investment Trust (REIT)	180,820,869	-	180,820,869
International Real Estate Investment Trust (REIT)	22,808,685	-	22,808,685
Domestic Comingled Fund	35,720,453	-	35,720,453
International Comingled Fund	329,687,095	-	329,687,095
International Exchange Traded Fund	507,825	-	507,825
International Mutual Fund	390,330	-	390,330
Misc (Eaton Vance)	193,951	-	193,951
Domestic Rights/Warrants	1,012,987	-	1,012,987
International Rights/Warrants	328,594	-	328,594
<b>Total Equities</b>	<b>10,418,004,061</b>	<b>-</b>	<b>10,418,004,061</b>
<b>Subtotal Equities and Fixed Income</b>	<b>\$ 14,057,835,918</b>	<b>\$ -</b>	<b>\$ 14,057,835,918</b>

**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, 2014 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		\$ 400,719,677	400,719,677
<b>Total Investments as presented above</b>		\$ 400,719,677	\$ 14,458,555,596
IRC 457 fund investments directed by participants			479,266,602
Investments in State General Fund Investment Pool			37,654,784
Total Investments per the Statement of Plan Net Position			\$ 14,975,476,982

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

A summary of PERA's investments at June 30, 2014 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	\$ 47,977,819	1.22%
	AA+	460,580,029	11.69%
	AA	457,000	0.01%
	AA-	87,758,416	2.23%
	A+	6,270,918	0.16%
	A	37,169,786	0.94%
	A-	33,229,666	0.84%
	BBB+	73,813,865	1.87%
	BBB	31,742,560	0.81%
	BBB-	32,594,597	0.83%
	BB+	10,558,710	0.27%
	BB	50,226,463	1.27%
	B+	4,734,373	0.12%
	B	5,600,925	0.14%
	B-	1,200,786	0.03%
	CCC-	17,976,823	0.46%
Not Rated	80,095,775	2.01%	
Municipal Bonds:	AAA	1,459,327	0.04%
	AA+	4,001,899	0.10%
	AA	7,956,945	0.20%
	AA-	7,527,609	0.19%
	A+	3,946,004	0.10%
	A	3,289,072	0.08%
	A-	6,131,196	0.16%
Corporate Bonds:	AAA	9,547,454	0.24%
	AA+	6,118,753	0.16%
	AA	10,950,441	0.28%
	AA-	29,905,000	0.76%
	A+	58,032,504	1.47%
	A	73,331,943	1.86%
	A-	103,680,087	2.63%
	BBB+	169,648,248	4.30%
	BBB	238,275,108	6.05%
	BBB-	205,255,741	5.21%
	BB+	73,863,924	1.87%
	BB	37,431,984	0.95%
	BB-	82,255,074	2.09%
	B+	72,143,997	1.83%
	B	28,306,667	0.72%
	B-	32,094,614	0.81%



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

<b>Type</b>	<b>S &amp; P Ratings</b>	<b>Market Value</b>	<b>% of Portfolio</b>
Corporate Bonds:	CCC+	\$ 18,062,742	0.46%
	CCC	3,084,225	0.08%
	CCC-	2,109,375	0.05%
	Not Rated	67,634,605	1.72%
Government MBS:	AA+	494,650,439	12.55%
Commercial MBS:	AAA	125,339,918	3.18%
	AA+	12,199,020	0.31%
	AA	15,636,678	0.40%
	AA-	3,533,325	0.09%
	A+	15,344,448	0.39%
	A	5,986,807	0.15%
	A-	6,412,994	0.16%
	BBB+	15,441,049	0.39%
	BBB	1,221,756	0.03%
	BBB-	8,450,849	0.21%
	BB+	1,059,833	0.03%
	BB	1,281,671	0.03%
	B+	731,733	0.02%
	B	260,325	0.01%
	NR	3,604,096	0.09%
	Asset Backed Securities:	AAA	101,910,263
AA+		15,757,854	0.40%
AA		32,603,221	0.83%
AA-		4,059,598	0.10%
A+		6,426,160	0.16%
A		7,486,806	0.19%
A-		6,611,491	0.17%
BBB+		14,103,778	0.36%
BBB		6,769,240	0.17%
BBB-		8,229,204	0.21%
BB+		4,626,908	0.12%
BB		7,141,904	0.18%
BB-		3,219,912	0.08%
B+		653,533	0.02%
B		2,868,123	0.07%
B-		8,148,431	0.21%
CCC		3,616,115	0.09%
CC		197,030	0.00%

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

<b>Type</b>	<b>S &amp; P Ratings</b>	<b>Market Value</b>	<b>% of Portfolio</b>
Cash Collateral:	Not Rated	\$ (190,000)	0.00%
Certificate of Deposit:	A-1	3,994,712	0.10%
Commercial Paper:	A-2	6,384,170	0.16%
Commercial Paper:	A-3	18,088,910	0.46%
Miscellaneous:	Not Rated	10,369,878	0.26%
Money Markets:	Not Rated	32,246,578	0.82%
STIF:	Not Rated	441,108,377	11.19%
Treasury Bills:	A-1	8,602,887	0.22%
Treasury Bills:	Not Rated	70,322,470	1.78%
Non government Backed C.M.O.:	AAA	3,351,154	0.09%
	AA+	31,414,519	0.80%
	AA	1,479,700	0.04%
	AA-	290,222	0.01%
	A+	1,520,195	0.04%
	A	1,306,976	0.03%
	A-	2,738,591	0.07%
	BBB+	4,512,693	0.11%
	BBB	1,417,957	0.04%
	BBB-	2,072,182	0.05%
	BB+	302,579	0.01%
	BB	2,259,477	0.06%
	BB-	4,049,245	0.10%
	B+	832,941	0.02%
	B	175,340	0.00%
	B-	4,572,075	0.12%
	CCC	747,110	0.02%
	CCC-	92,603	0.00%
	CC	994,499	0.03%
	D	270,449	0.01%
	Not Rated	2,330,580	0.06%
		<u>\$ 3,941,276,631</u>	<u>100.00%</u>

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

***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.

A summary of PERA's investments and its respective maturities at June 30, 2014 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>Percent of Fixed Income Portfolio</b>
Government Bonds	6.16	\$ 993,325,398	28.49%
Government Agencies	22.57	\$ 571,451,933	16.39%
Government MBS	22.86	\$ 36,452,581	1.05%
Municipal Bonds	31.44	\$ 34,737,646	1.00%
Corporate Bonds	9.59	\$ 1,367,794,731	39.23%
Commercial Mortgage Backed Securities	30.21	\$ 212,478,290	6.09%
Asset Backed Securities	14.00	\$ 236,615,123	6.79%
Non-Government Backed C.M.O.s	22.26	\$ 33,613,044	0.96%
<b>SUBTOTAL Fixed Income Investments</b>		<b>\$ 3,486,468,746</b>	<b>100.00%</b>
Fixed Income Derivatives		\$ 1,143,870	
		<u>\$ 3,487,612,616</u>	
Cash & Cash Equivalents		<u>\$ 528,843,957</u>	
<b>TOTAL INVESTMENTS SUBJECT TO INTEREST RATE RISK</b>		<b><u>\$ 4,016,456,573</u></b>	

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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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, 2014, 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, 2014.

**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, 2014 are as follows:

		Market Value (included in investments)					
	Currency	Equity	Fixed Income	Venture Capital & Partnerships	Total	Deposits	
AED	UAB Dirham	\$ 4,286,073	\$ -	\$ -	\$ 4,286,073	\$ 81,106	
AUD	Australian Dollar	165,342,731	22,261,942	-	187,604,673	821,176	
BGN	Bulgarian New Lev	89,281	-	-	89,281	-	
BRL	Brazilian Real	55,537,499	17,315,872	-	72,853,371	1,360,017	
BWP	Botswana Pula	1,187,889	-	-	1,187,889	14,355	
CAD	Canadian Dollar	169,633,592	19,395,309	-	189,028,901	1,323,264	
CHF	Swiss Franc	213,630,012	-	-	213,630,012	468,043	
CLP	Chilean Peso	11,685,452	-	-	11,685,452	176,041	
CNH	Chinese Offshore Renminbi	-	-	-	-	-	
CNY	Chinese Renminbi	-	-	-	-	-	
COP	Columbian Peso	6,906,063	-	-	6,906,063	474,397	
CZK	Czech Koruna	4,509,810	-	-	4,509,810	77,211	
DKK	Danish Krone	41,352,836	-	-	41,352,836	176,570	
EGP	Egyptian Pound	5,047,698	-	-	5,047,698	559,596	
EUR	Euro	706,558,543	98,425,676	73,154,058	878,138,277	12,413,831	
GBP	British Pound Sterling	508,653,727	5,651,412	8,133,517	522,438,656	2,516,607	
GHS	New Ghana Cedi	849,014	10,745,779	-	11,594,793	560,514	
HKD	Hong Kong Dollar	152,092,404	-	-	152,092,404	940,711	
HRK	Croatia Kuna	1,740,573	-	-	1,740,573	11,790	
HUF	Hungarian Forint	4,199,198	29,560,302	-	33,759,500	907,112	
IDR	Indonesian Rupiah	16,488,623	-	-	16,488,623	398,166	
ILS	New Israeli Shekel	8,968,327	-	-	8,968,327	61,238	
INR	Indian Rupee	38,247,252	-	-	38,247,252	793,378	
JOD	Jordanian Dinar	1,697,158	-	-	1,697,158	9,196	
JPY	Japanese Yen	507,845,933	2,643,388	-	510,489,321	4,033,764	
KES	Kenyan Shilling	1,709,215	-	-	1,709,215	18,317	
KRW	South Korean Won	78,977,758	86,368,264	-	165,346,022	1,761,021	
KWD	Kuwaiti Dinar	3,963,985	-	-	3,963,985	44,762	
LKR	Sri Lankan Rupee	624,030	7,341,908	-	7,965,938	201,458	
LTL	Lithuanian Litas	19,025	-	-	19,025	13,632	
LVL	Latvia Lats	-	-	-	-	-	
MAD	Moroccan Dirham	1,802,925	-	-	1,802,925	36,512	
MUR	Mauritian Rupee	1,849,657	-	-	1,849,657	66,000	
MXN	Mexican Peso	33,276,613	54,446,345	-	87,722,958	368,628	
MYR	Malaysian Ringgit	22,702,338	48,439,979	-	71,142,317	2,994,205	
NGN	Nigerian Naira	1,845,528	-	-	1,845,528	16,185	

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

Market Value (included in investments)							
	Currency	Equity	Fixed Income	Venture Capital & Partnerships	Total	Deposits	
NOK	Norwegian Krone	\$ 24,368,917	\$ 6,592,557	\$ -	\$ 30,961,474	\$ 295,016	
NZD	New Zealand Dollar	4,580,704	21,041,520	-	25,622,224	454,158	
OMR	Omani Rial	1,984,382	-	-	1,984,382	7,826	
PEN	Peruvian Nuevo Sol	1,469,665	-	-	1,469,665	38,268	
PHP	Philippine Peso	7,740,217	11,439,887	-	19,180,104	244,774	
PKR	Pakistan Rupee	1,834,559	-	-	1,834,559	39,983	
PLN	Polish Zloty	13,660,698	37,169,786	-	50,830,484	367,015	
QAR	Qatari Riyal	4,877,624	-	-	4,877,624	451,759	
RON	New Romanian Leu	1,817,173	-	-	1,817,173	71	
RSD	Servia & Montenegro Dinar	-	8,054,588	-	8,054,588	40,594	
RUB	Russian Ruble	369,592	-	-	369,592	1,473,482	
SEK	Swedish Krona	73,639,713	9,058,887	-	82,698,600	275,175	
SGD	Singapore Dollar	29,868,489	16,227,667	-	46,096,156	707,859	
THB	Thai Baht	17,048,207	6,679,959	-	23,728,166	383,292	
TND	Tunisian Dinar	647,179	-	-	647,179	-	
TRY	Turkish Lira	14,094,909	-	-	14,094,909	139,132	
TWD	New Taiwan Dollar	66,233,760	-	-	66,233,760	396,698	
UYU	Uruguayan New Pesos	-	37,320,650	-	37,320,650	611,063	
VND	Vietnam Dong	1,291,126	-	-	1,291,126	33,762	
ZAR	South African Rand	45,829,694	-	-	45,829,694	599,694	
		<u>\$ 3,084,677,370</u>	<u>\$ 556,181,677</u>	<u>\$ 81,287,575</u>	<u>\$ 3,722,146,622</u>	<u>\$ 40,258,424</u>	
	% of total investments				26%	8%	

**C. ALTERNATIVE INVESTMENTS**

Alternative Investments are described as investments that are not traditional assets such as: stocks, bonds or cash. For the purposes of PERA's investment portfolio, Alternative Investments are classified by investment strategies that include Absolute Return (Hedge Funds), Private Equity, Real "Tangible" Assets, and Real Estate. As of June 30, 2014, the total allocation to Alternative Investments was 23% of the investment portfolio (7% to Private Equity, 7% to Real Assets, 5% to Real Estate, and 4% to Absolute Return).

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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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 +5%. Absolute Return portfolio is comprised of 100% single manager or direct hedge funds in such strategies as: Market Neutral, Discretionary Macro, Systematic Macro and Multi-Strategy. As of June 30, 2014, PERA had a total market value of \$1,589,134,652 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 corporations' development via limited partnership vehicles. Private Equity investments are illiquid and long term in nature (10-12 years). 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 yet to be realized. PERA's Private Equity investments are made in such strategies as: Buyouts, Venture Capital, and Distressed Debt. As of June 30, 2014, PERA had committed \$977,022,000 to Private Equity limited partnerships and funded a portion of the total commitment for a market value of \$621,395,859.

**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, publicly traded assets and limited liability companies that have an ownership interest in properties where the majority value of the property is derived from income-producing energy-related businesses. As of June 30, 2014, PERA had committed \$552,000,000 to Real Assets partnerships and funded a portion of the total commitment for a market value of \$337,564,237, including the TIPS and Commodity allocations.

**Real Estate and 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, and "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, 2014, PERA had committed \$539,953,000 to Real Estate limited partnerships and funded a portion of the total commitment for a market value of \$442,653,952, including the REIT allocations.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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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, 2014, 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, 2014, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2014 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	\$ 4,580,599	Investments	\$625,909,000	714,114	\$ 1,125,951,180
Commodity Futures	Investment Revenue	599,374	Investments	60,080,676	622,927	59,481,302
Bond Index Futures	Investment Revenue	1,174,468	Investments	85,652,504	41,600,000	77,516,815
Interest Rate Futures	Investment Revenue	396,810	Investments	200,447,519	1,725,000	200,163,376
Fixed Income derivatives - options	Investment Revenue	(228,088)	Investments	10,496	17,686,711	182,203
Fixed Income derivatives - swaps	Investment Revenue	1,119,668	Investments	1,119,668	5,569,762,468	-
Other Derivatives	Investment Revenue	(292,942)	Investments	(115,275)	(44,040,000)	177,666

**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, 2014. 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, 2014, 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, 2014.



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

***Derivative Foreign Currency Risk.*** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. PERA's derivative exposure to foreign currency risk are in the markets of the Australian Dollar, Brazilian Real, Canadian Dollar, Chile Peso, Columbian Peso, Euro, British Pound Sterling, Hong Kong Dollar, Hungary Forint, Israel Shekel, 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.

<u>Currency</u>	<u>Description</u>	<u>Market Value</u>
AUD	Bond Index Futures	\$ 24,278,684
	Equity derivatives - futures	2,389,780
	Fixed Income derivatives - swaps	103,699
BRL	Fixed Income derivatives - swaps	(329,018)
CAD	Bond Index Futures	(8,988,643)
	Equity derivatives - futures	2,545,320
		-
CLP	Fixed Income derivatives - swaps	15,109
		-
COP	Fixed Income derivatives - swaps	(1,641)
		-
EUR		-
	Bond Index Futures	29,264,730
	Equity derivatives - futures	10,256,795
	Fixed Income derivatives - swaps	(1,346,311)
	Other Derivatives	42,228
GBP	Bond Index Futures	(187,947)
	Equity derivatives - futures	5,129,891
	Fixed Income derivatives - swaps	(484,932)
HKD	Equity derivatives - futures	2,384,560
HUF	Fixed Income derivatives - swaps	348,607
ILS	Fixed income derivatives - swaps	210,426
JPY	Bond Index Futures	-
	Equity derivatives - futures	4,809,976
	Fixed Income derivatives - swaps	(5,628)
MXN	Fixed Income derivatives - swaps	782,668
NZD	Fixed Income derivatives - swaps	(83,736)
PLN	Fixed Income derivatives - swaps	577,251
RUB	Fixed Income derivatives - swaps	(269,410)
ZAR	Equity derivatives - futures	1,658,927
	Fixed Income derivatives - swaps	66,756
	Total Derivative Foreign Currency Risk	<u>\$ 73,168,141</u>

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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.

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**NOTE 4. DERIVATIVES (CONTINUED)**

**Forward Currency Contracts** The Funds may enter into various currency contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. 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, 2014, the Funds had outstanding forward exchange currency contracts to purchase and sell foreign currencies of \$499,797,171. The fair values of these outstanding contracts were to purchase foreign currencies of \$501,142,698 and to sell foreign currencies of \$505,069,142, respectively. The fair values of the contracts are reflected in the Statement of Plan Net Position. Gains and losses on forward currency may occur to the extent that the fair value of the contracts varies from the actual contract amount and are recorded as incurred in the Statement Changes in Plan Net Position.

**NOTE 5. SECURITIES LENDING**

NMSA 1978 10-11-132 and PERA's policies permit the use of the Fund's investment holdings to enter into securities lending transactions - that is, lending securities to broker-dealers and other entities (borrowers) in exchange for a fee plus collateral. The fee is negotiated for each separate transaction and split 90%/10% between PERA and JP Morgan, PERA's current securities lending agent. Approved collateral accepted against loaned securities are held by PERA's custodial agent and marked to market daily. Such approved collateral is limited to USD cash, Overnight Treasury Repurchase Agreements, Treasuries, Agencies, Commercial Paper, and 2a-7 Money Market Funds. The securities lending agent may invest cash collateral received into 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. During FY 2014, the average securities loaned balance was \$402,332,500, on a base of average lendable assets of \$8,943,795,413. The utilization rate over the quarter was 5.4%, with earnings of \$1,246,866. As of June 30, 2014, cash collateral was reinvested into eligible short term investments and had a principal balance of \$410,393,107, a market value of \$400,719,676, and an unrealized loss value of \$9,753,596. The unrealized loss is reflected in the Statement of Changes in Plan Net Position, "Net Appreciation in Fair Value of Investments."

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**NOTE 6. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2014, is as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets at cost:				
Land	\$ 1,548,990	\$ -	\$ -	\$ 1,548,990
Building	12,646,204	-	-	12,646,204
Property and equipment	36,016	-	-	36,016
Computer equipment and software	14,038,510	1,136,087	-	15,174,597
Automobile	80,107	-	-	80,107
	<u>28,349,827</u>	<u>1,136,087</u>	<u>-</u>	<u>29,485,914</u>
Accumulated depreciation:				
Building	(1,299,748)	(421,540)	-	(1,721,288)
Property and equipment	(33,239)	(333)	-	(33,572)
Computer equipment and software	(13,877,385)	(75,732)	-	(13,953,117)
Automobile	(73,548)	(4,921)	-	(78,469)
	<u>(15,283,920)</u>	<u>(502,526)</u>	<u>-</u>	<u>(15,786,446)</u>
Total	<u>\$ 13,065,907</u>	<u>633,562</u>	<u>\$ -</u>	<u>\$ 13,699,469</u>

The following are included in the above schedule.

- Depreciation and amortization expense, reported as part of administrative expenses, for the year was \$502,526.
- PERA did not dispose of any capital assets in FY14.

**NOTE 7. CONTINGENCIES**

PERA has been named as a defendant in various administrative appeals and 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.

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**NOTE 8. 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 2014, plan members are required to contribute 7.42 (less than \$20,000 in salary) or 8.92% (greater than \$20,000 in salary) of their salary. 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 2014, PERA employers were required to contribute 16.59% of the gross covered salary. 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, 2014, 2013, and 2012, were \$596,543, \$565,115, and \$473,261, respectively, equal to the amount of the required contributions from the employer for each year. In addition, the employees contributed an additional \$321,884, \$334,051, and \$378,538, respectively, equal to the amount of the required contributions from employees for each year.

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**NOTE 9. 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

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**NOTE 9. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**  
**(CONTINUED)**

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.

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, 2014, 2013, and 2012 were \$71,172, \$74,948, and \$64,480, for employer contributions and \$36,085, \$37,474, and \$32,240 in employee contributions, respectively, which equal the required contributions for each year.

**NOTE 10. MARKET VOLATILITY**

During FY 2014, markets rallied as a high level of Federal Reserve and other central bank stimulus pushed financial assets higher even as global growth remained subdued. This manifested itself in higher equity prices, tighter credit spreads, and low interest rates. After a short lived increase in market volatility in the lead up to the U.S. government shutdown in October 2013, equity markets continued to rally into the end of the 2013 and benchmark interest rates rose to 3%. The start of 2014 presented an environment in which markets were generally discounting positive economic conditions with healthy growth, low levels of inflation, and moderate volatility. However, volatility returned to capital markets in early 2014 as the Federal Reserve began tapering their quantitative easing program and geopolitical concerns ratcheted higher. Equity markets fell while benchmark interest rates declined to around 2.75%. Global stock markets dealt with lingering concerns over economic and political uncertainty, especially in emerging market economies; the turmoil between Russia and Ukraine in particular exacerbated tensions and drove some investors into safe haven trades, such as U.S. Treasuries. The fall in equity prices was temporary though as improving growth in the U.S. and central bank stimulus globally helped buoy the market. Through the end of the fiscal year, global equity markets continued to make new highs and the 10 Year Treasury stabilized around 2.5% providing a tailwind for fixed income returns as well.

The first fiscal quarter was marked by strength in the US and non-US equity markets, while fixed income markets were lackluster. The Fed's decision to continue bond purchases and reasonable economic indicators supported positive sentiment within equity markets. Bond markets experienced significant intra-quarter volatility as a result of the Fed's decision to continue asset purchases. The yield on the 10-year Treasury spiked from 2.52% to over 3% in early September 2013, only to fall to 2.64% as the Fed held off on tapering.

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**NOTE 10. MARKET VOLATILITY (CONTINUED)**

During the second fiscal quarter, US stocks dominated the equity markets, with large-cap stocks gaining 10.5% as represented by the S&P 500 Index. Developed equity markets also experienced positive returns but trailed US stocks. Emerging economies struggled as commodity prices declined and many countries experienced slowing growth. In December 2013, the Fed announced a decrease in quantitative easing (QE3) asset purchases, reducing the monthly amount to \$75 billion down from \$85 billion, and this led to a rise in intermediate and long-term rates.

Equity markets experienced some volatility during the third fiscal quarter and ended the period with tepid results. Domestic equities were hampered by harsh winter conditions and delivered only small gains over the quarter. Developed international equities rose 0.7% as indicated by the MSCI EAFE Index, lagging US equities. Emerging market stocks lost 0.4% during the quarter, as macro and political conditions and slowing growth, weighed on investor sentiment. In a reversal from the prior quarter, interest rates decreased and the yield curve flattened as the Fed continued to trim asset purchases. The Barclays US Aggregate Index rose 1.9% during the quarter.

During the fourth quarter of the fiscal year, US GDP increased by 4.2% as exports and private inventory investment grew. Equity markets showed strength, with the S&P 500 Index rising 5.2%, and the MSCI EAFE gaining 4.1%. Emerging markets changed course and increased 6.6% during the quarter in good part due to a rise in commodity prices and stabilizing growth. Bond markets also experienced gains as rates continued to decline, and the yield curve flattened for a second consecutive quarter. It is largely expected that the Fed will continue to keep interest rates low until at least mid-2015.

**NOTE 11. 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 1% of PERA's private investments involve placement agents. In each case, the agent is an established firm as opposed to an individual. A typical agent's fee is 1 to 2 percent of the amount invested. PERA staff and consultant review affected managers on a quarterly basis.

Currently PERA fully 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 states in the Investment Policy the disclosure requirements of NMSA 1978, 10-11-133.1 as it pertains to private investments. PERA's two investment consultants, Wilshire 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 only recommends an investment management firm to PERA once they have extensively performed due diligence with the firm's portfolio management professionals.



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**NOTE 12. NET PENSION LIABILITY OF PLAN MEMBERSHIP**

The components of the net pension liability of the plan's membership at June 30, 2014, *by fund*, were as follows:

PERA	
Total Pension Liability (TPL)	17,744,186,900
Plan's Fiduciary Net Position (FNP)	14,428,500,519
Net Pension Liability (NPL)	3,315,686,481
Ratio of Fiduciary Net Position to Total Pension Liability	81.31%

Judicial	
Total Pension Liability (TPL)	132,451,573
Plan's Fiduciary Net Position (FNP)	91,141,300
Net Pension Liability (NPL)	41,310,700
Ratio of Fiduciary Net Position to Total Pension Liability	68.81%

Magistrate	
Total Pension Liability (TPL)	56,401,059
Plan's Fiduciary Net Position (FNP)	35,184,910
Net Pension Liability (NPL)	21,216,149
Ratio of Fiduciary Net Position to Total Pension Liability	62.38%

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**NOTE 12. NET PENSION LIABILITY OF PLAN MEMBERSHIP**

<b>Volunteer Firefighter</b>	
Total Pension Liability	40,881,090
Plan's Fiduciary Net Position	61,923,262
Net Pension Liability	(21,042,172)
Ratio of Fiduciary Net Position to Total Pension Liability	150.47%

*Actuarial assumptions*—The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2013. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2014. These assumptions were adopted by the Board for use in the June 30, 2014 actuarial valuation.

**Summary of Actuarial Methods and Assumptions, by fund**

<b>PERA</b>	
<b>Actuarial valuation date</b>	June 30, 2013
<b>Actuarial cost method</b>	Entry Age Normal
<b>Amortization method</b>	Level Percentage of Pay
<b>Amortization period</b>	Solved for based on statutory rates
<b>Asset valuation method</b>	Fair Value
<b>Actuarial Assumptions:</b>	
Investment rate of return	7.75% annual rate, net of investment expense
Payroll Growth	3.50% annual rate
Projected salary increases	3.50% to 14.25% annual rate
Includes inflation at	3.00% annual rate

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**NOTE 12. NET PENSION LIABILITY OF PLAN MEMBERSHIP (CONTINUED)**

<b>JUDICIAL</b>	
<b>Actuarial valuation date</b>	June 30, 2013
<b>Actuarial cost method</b>	Entry Age Normal
<b>Amortization method</b>	Level Percentage of Pay, Open
<b>Amortization period</b>	30 years
<b>Asset valuation method</b>	Fair Value
<b>Actuarial Assumptions:</b>	
Investment rate of return	7.75% annual rate, net of investment expense
Payroll Growth	3.50% annual rate
Projected salary increases	4.25% annual rate
Includes inflation at	3.0% annual rate

<b>MAGISTRATE</b>	
<b>Actuarial date</b>	June 30, 2014
<b>Actuarial cost method</b>	Entry Age Normal
<b>Amortization method</b>	Level Percent of Payroll, Open
<b>Amortization period</b>	30 years
<b>Asset valuation method</b>	Fair Value
<b>Actuarial Assumptions:</b>	
Investment rate of return	7.75% annual rate, net of investment expense
Municipal bond rate	4.25%
Discount rate	6.33%
Payroll Growth	3.50%
Projected salary increases	3.75%

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
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**NOTE 12. NET PENSION LIABILITY OF PLAN MEMBERSHIP (CONTINUED)**

<b>VOLUNTEER FIREFIGHTER</b>	
<b>Actuarial valuation date</b>	June 30, 2013
<b>Actuarial cost method</b>	Entry Age Normal
<b>Amortization method</b>	Level Dollar, Open
<b>Amortization period</b>	30 Years
<b>Asset valuation method</b>	Fair Value
<b>Actuarial Assumptions:</b>	
Investment rate of return	7.75% annual rate, net of investment expense
Payroll Growth	N/A
Projected salary increases	N/A

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**NOTE 12. NET PENSION LIABILITY OF PLAN MEMBERSHIP (CONTINUED)**

**Long-Term Expected Rate of Return**

The long-term expected rate of return on pension plan investments was determined using statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>ALL FUNDS - Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
US Equity	21.1%	5.00%
International Equity	24.8	5.20
Private Equity	7.0	8.20
Core and Global Fixed Income	26.1	1.85
Fixed Income Plus Sectors	5.0	4.80
Real Estate	5.0	5.30
Real Assets	7.0	5.70
Absolute Return	<u>4.0</u>	4.15
Total	100.0%	

*Discount rate.* The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB Statement No. 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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**NOTE 12. NET PENSION LIABILITY OF PLAN MEMBERSHIP (CONTINUED)**

*Sensitivity of the net pension liability to changes in the discount rate:*

The following presents the net pension liability of PERA, calculated using the discount rate of 7.75 percent, as well as what PERA's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate (\$ thousands):

<b>PERA</b>	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	5,500,961,947	3,315,686,381	1,640,688,851

<b>JUDICIAL</b>	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	54,080,005	41,310,273	30,327,805

<b>VOLUNTEER FIREFIGHTER</b>	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	(16,289,638)	(21,042,171)	(25,000,127)

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
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**NOTE 12. NET PENSION LIABILITY OF PLAN MEMBERSHIP (CONTINUED)**

*Discount rate.* The discount rate used to measure the Magistrate’s total pension liability was 5.96 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan’s fiduciary net position together with the expected future contributions are not sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB Statement No. 67. Therefore, a 5.96% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. This rate is a blend of the expected rate of return on assets of 7.75% and the 20-year tax-exempt municipal bond rate 4.25%.

The following presents the net pension liability of the Magistrate Fund, calculated using the discount rate of 5.96 percent, as well as what the Fund’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.96 percent) or 1-percentage-point higher (6.96 percent) than the current rate (\$ thousands):

<b>MAGISTRATE</b>	<b>1% Decrease (4.96%)</b>	<b>Current Discount Rate (5.96%)</b>	<b>1% Increase (6.96%)</b>
Net Pension Liability	27,210,573	21,216,149	16,139,410

June 30, 2013 is the actuarial valuation date upon which the TPL is based (paragraph 31(c)). Standard update procedures were used to roll forward the liabilities to the June 30, 2014 Measurement Data.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 13. CASH RECONCILIATION**

**General Fund Investment Pool Not Reconciled** For cash management and investment purposes, funds of various state agencies are required to be 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.

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. According to current management at DFA, Pool balances have 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, and differences between Pool bank balances and the corresponding general ledger balances and the effect of reconciling items were unknown. For further information, a 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).

A Remediation Project was undertaken by DFA to ensure accurate and comprehensive reconciliation of the Pool. DFA indicates it 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. DFA indicates it is now completing timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however has not resolved historical reconciling items.

DFA considers it unlikely that it 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.

**General Fund Investment Pool DFA Reconciliation Impact to PERA.** PERA believes the cash invested in the State Treasurer Overnight Pool is represented fairly and contains no material misstatements, due to the cash 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 and reported to the Department of Finance and Administration and State Treasurer Office.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

***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: \$37,654,784.

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, 2014.

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. RESTATEMENT**

During 2014, the Deferred Compensation Plan fund identified misstatements in the 2013 financial statements related to allocated insurance contracts, as generally accepted accounting principles require that contracts in a participants name be excluded from the face of the financial statements. The Plan has restated its beginning restricted plan net position as of July 1, 2012 as a result. The following is a summary of the effects of the restatement in the Plan's June 30, 2013 Statements of Net Position Held in Trust for Plan Benefits:

	As Previously Reported	Adjustment	As Restated
Policyholder Account Value of Life Insurance	\$ 1,953,123	\$ (1,953,123)	\$ -
Net Position Held in Trust for Plan Benefits	431,728,272	(1,953,123)	429,775,149

**REQUIRED SUPPLEMENTARY INFORMATION**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
Year Ended June 30, 2014**

**PERA**

	2014	2015	2016	2017	2018
<b>Total pension liability</b>					
Service Cost	418,995,891				
Interest	1,286,996,351				
Benefit changes	-				
Difference between expected and actual experience	-				
Changes of assumptions	(91,856,820)				
Benefit payments	(905,329,140)				
Refunds of contributions	(47,376,975)				
<b>Net change in total pension liability</b>	<b>661,429,307</b>				
<b>Total pension liability - beginning</b>	<b>17,082,757,593</b>				
<b>Total pension liability - ending (a)</b>	<b>17,744,186,900</b>				
<b>Plan net position</b>					
Contributions - employer	301,601,232				
Contributions - member	246,910,082				
Net investment income	2,118,284,927				
Benefit payments	(905,329,140)				
Administrative expense	(10,336,324)				
Refunds of contributions	(47,376,975)				
Other	17,005,791				
<b>Net change in plan net position</b>	<b>1,720,759,593</b>				
<b>Plan net position - beginning</b>	<b>12,707,740,926</b>				
<b>Plan net position - ending (b)</b>	<b>14,428,500,519</b>				
<b>Net pension liability - ending (a) - (b)</b>	<b>3,315,686,381</b>				

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
Year Ended June 30, 2014**

**JUDICIAL**

	2014	2015	2016	2017	2018
<b>Total pension liability</b>					
Service Cost	3,792,564				
Interest	10,798,432				
Benefit changes	(16,058,954)				
Difference between expected and actual experience	0				
Changes of assumptions	(1,003,702)				
Benefit payments	(8,770,177)				
Refunds of contributions	(52,562)				
<b>Net change in total pension liability</b>	<b>(11,294,399)</b>				
<b>Total pension liability - beginning</b>	<b>143,745,972</b>				
<b>Total pension liability - ending (a)</b>	<b>132,451,573</b>				
<b>Plan net position</b>					
Contributions - employer	3,740,786				
Contributions - member	1,085,631				
Net investment income	13,196,711				
Benefit payments	(8,770,177)				
Administrative expense	(63,610)				
Refunds of contributions	(52,562)				
Other	485,893				
<b>Net change in plan net position</b>	<b>9,622,672</b>				
<b>Plan net position - beginning</b>	<b>81,518,628</b>				
<b>Plan net position - ending (b)</b>	<b>91,141,300</b>				
<b>Net pension liability - ending (a) - (b)</b>	<b>41,310,273</b>				

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
Year Ended June 30, 2014**

**MAGISTRATE**

	2014	2015	2016	2017	2018
<b>Total pension liability</b>					
Service Cost	1,428,353				
Interest	3,688,653				
Benefit changes	(7,527,733)				
Difference between expected and actual experience	0				
Changes of assumptions	(7,643,920)				
Benefit payments	(3,689,881)				
Refunds of contributions	(15,477)				
<b>Net change in total pension liability</b>	<b>(13,760,005)</b>				
<b>Total pension liability - beginning</b>	<b>70,161,064</b>				
<b>Total pension liability - ending (a)</b>	<b>56,401,059</b>				
<b>Plan net position</b>					
Contributions - employer	793,044				
Contributions - member	266,120				
Net investment income	5,199,209				
Benefit payments	(3,689,881)				
Administrative expense	(24,275)				
Refunds of contributions	(15,477)				
Other	216,853				
<b>Net change in plan net position</b>	<b>2,745,593</b>				
<b>Plan net position - beginning</b>	<b>32,439,317</b>				
<b>Plan net position - ending (b)</b>	<b>35,184,910</b>				
<b>Net pension liability - ending (a) - (b)</b>	<b>21,216,149</b>				

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
Year Ended June 30, 2014**

**VOLUNTEER FIREFIGHTER**

	2014	2015	2016	2017	2018
<b>Total pension liability</b>					
Service Cost	1,253,736				
Interest	2,871,904				
Benefit changes	0				
Difference between expected and actual experience	0				
Changes of assumptions	408,092				
Benefit payments	(1,418,943)				
Refunds of contributions	0				
<b>Net change in total pension liability</b>	<b>3,114,789</b>				
<b>Total pension liability - beginning</b>	<b>37,766,301</b>				
<b>Total pension liability - ending (a)</b>	<b>40,881,090</b>				
<b>Plan net position</b>					
Contributions - employer	750,000				
Contributions - member	0				
Net investment income	9,728,540				
Benefit payments	(1,418,943)				
Administrative expense	(44,316)				
Refunds of contributions	0				
Other	(404,492)				
<b>Net change in plan net position</b>	<b>8,610,789</b>				
<b>Plan net position - beginning</b>	<b>53,312,473</b>				
<b>Plan net position - ending (b)</b>	<b>61,923,262</b>				
<b>Net pension liability - ending (a) - (b)</b>	<b>(21,042,172)</b>				

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE NET PENSION LIABILITY  
 Year Ended June 30, 2014**

**PERA**

	2014	2015	2016	2017	2018
Total pension liability	17,744,186,900				
Plan net position	14,428,500,519				
Net pension liability	3,315,686,381				
Ratio of plan net position to total pension liability	81.31%				
Covered-employee payroll	2,102,265,325				
Net pension liability as a percentage of covered-employee payroll	157.72%				

**JUDICIAL**

	2014	2015	2016	2017	2018
Total pension liability	132,451,573				
Plan net position	91,141,300				
Net pension liability	41,310,273				
Ratio of plan net position to total pension liability	68.81%				
Covered-employee payroll	13,163,305				
Net pension liability as a percentage of covered-employee payroll	313.83%				

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE NET PENSION LIABILITY  
 Year Ended June 30, 2014**

**MAGISTRATE**

	2014	2015	2016	2017	2018
Total pension liability	56,401,059				
Plan net position	35,184,910				
Net pension liability	21,216,149				
Ratio of plan net position to total pension liability	62.38%				
Covered-employee payroll	3,515,567				
Net pension liability as a percentage of covered-employee payroll	603.49%				

**VOLUNTEER FIREFIGHTER**

	2014	2015	2016	2017	2018
Total pension liability	40,881,090				
Plan net position	61,923,262				
Net pension liability	(21,042,172)				
Ratio of plan net position to total pension liability	151.47%				
Covered-employee payroll	N/A				
Net pension liability as a percentage of covered-employee payroll	N/A				



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
Year Ended June 30, 2014**

**PERA**

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Contractually required contributions	301,601,232	285,560,291	274,905,978	283,376,830	291,683,000	311,081,925	292,569,000	269,570,849	249,740,237	234,232,000
Actual employer contributions	<u>301,601,232</u>	<u>285,560,291</u>	<u>274,905,978</u>	<u>283,376,830</u>	<u>291,683,000</u>	<u>311,081,925</u>	<u>292,569,000</u>	<u>269,570,849</u>	<u>249,740,237</u>	<u>234,232,000</u>
Annual contribution deficiency (excess)	0	0	0	0	0	0	0	0	0	0
Covered-employee payroll	2,102,265,325	2,049,737,510	1,994,280,107	1,935,013,761	1,993,516,921	2,081,259,498	1,965,064,160	1,908,519,615	1,774,918,446	1,607,838,716
Actual contributions as a percentage of covered-employee payroll	14.35%	13.93%	13.78%	14.64%	14.63%	14.95%	14.89%	14.12%	14.07%	14.57%

**JUDICIAL**

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contributions	\$6,412,805	\$7,235,448	\$5,834,621	\$5,784,453	\$5,658,174	\$4,690,274	\$4,549,247	\$4,149,058	\$3,851,188	\$3,995,583
Actual employer contributions	<u>3,740,786</u>	<u>3,527,270</u>	<u>3,266,203</u>	<u>3,823,546</u>	<u>3,698,949</u>	<u>4,058,271</u>	<u>3,832,000</u>	<u>3,622,534</u>	<u>3,153,706</u>	<u>2,734,669</u>
Annual contribution deficiency (excess)	2,672,019	3,708,178	2,568,418	1,960,907	1,959,225	632,003	717,247	526,524	697,482	1,260,914
Covered-employee payroll	13,163,305	13,226,142	12,690,503	12,266,852	13,041,980	13,011,196	11,697,421	11,754,248	10,059,893	9,882,659
Actual contributions as a percentage of covered-employee payroll	28.42%	26.67%	25.74%	31.17%	28.36%	31.19%	32.76%	30.82%	31.35%	27.67%

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
Year Ended June 30, 2014**

**MAGISTRATE**

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contributions	\$1,992,392	\$2,286,413	\$1,793,261	\$2,013,684	\$1,698,108	\$1,151,061	\$1,029,865	\$943,884	\$1,009,203	\$927,233
Actual employer contributions	<u>793,044</u>	<u>805,337</u>	<u>676,073</u>	<u>894,644</u>	<u>825,317</u>	<u>1,000,180</u>	<u>981,000</u>	<u>920,000</u>	<u>848,975</u>	<u>763,074</u>
Annual contribution deficiency (excess)	1,199,348	1,481,076	1,117,188	1,119,040	872,791	150,881	48,865	23,884	160,228	164,159
Covered-employee payroll	3,515,567	3,136,834	3,213,712	3,405,121	3,519,570	4,128,599	3,363,342	3,464,587	3,149,560	3,196,052
Actual contributions as a percentage of covered-employee payroll	22.56%	25.67%	21.04%	26.27%	23.45%	24.23%	29.17%	26.55%	26.96%	23.88%

**VOLUNTEER FIREFIGHTER**

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined Contributions	\$4,264	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$406,000	\$0
Actual employer contributions	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>
Annual contribution deficiency (excess)	(745,736)	(750,000)	(750,000)	(750,000)	(750,000)	(750,000)	(750,000)	(750,000)	(344,000)	(750,000)
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Actual contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF INVESTMENT RETURNS  
Year Ended June 30, 2014**

**Annual money-weighted rate of return, net of investment expense**

**2014**

**17.4%**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**Year Ended June 30, 2014**

**PERA**

**Summary of Actuarial Methods and Assumptions**

<b>Actuarial valuation date</b>	June 30, 2013
<b>Actuarial cost method</b>	Entry Age Normal
<b>Amortization method</b>	Level Percentage of Pay
<b>Amortization period</b>	Solved for based on statutory rates
<b>Asset valuation method</b>	4 Year Smoothed Market Value
<b>Actuarial Assumptions:</b>	
Investment rate of return	7.75% annual rate, net of investment expense
Payroll Growth	3.50% annual rate
Projected salary increases	3.50% to 14.25% annual rate
Includes inflation at	3.00% annual rate

**JUDICIAL**

**Summary of Actuarial Methods and Assumptions**

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year Smoothed Market Value
<b>Actuarial Assumptions:</b>	
Investment rate of return	7.75% annual rate, net of investment expense
Payroll Growth	3.50% annual rate
Projected salary increases	4.25% annual rate
Includes inflation at	3.0% annual rate

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**Year Ended June 30, 2014**

**MAGISTRATE**

**Summary of Actuarial Methods and Assumptions**

Actuarial date	June 30, 2014
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll, Open
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year Smoothed Market Value
Actuarial Assumptions:	
Investment rate of return	7.75% annual rate, net of investment expense
Municipal bond rate	4.25%
Discount rate	5.96%
Payroll Growth	3.50%
Projected salary increases	3.75%

**VOLUNTEER FIREFIGHTER**

**Summary of Actuarial Methods and Assumptions**

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Amortization period	Solved for based on budgeted funding
Asset valuation method	4 Year Smoothed Market Value
Actuarial Assumptions:	
Investment rate of return	7.75% annual rate, net of investment expense
Payroll Growth	N/A
Projected salary increases	N/A

## **SUPPLEMENTAL INFORMATION**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF REVENUES, APPROPRIATION, AND EXPENSES-  
BUDGET AND ACTUAL PUBLIC EMPLOYEES RETIREMENT FUND ONLY  
Year Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
Revenues and Appropriations				
Other state funds:				
Interest income	\$ 35,294,900	\$ 41,009,771	\$ 122,473,577	\$ 81,463,806
Deferred Comp Plan Income	<u>112,000</u>	<u>112,000</u>	<u>90,434</u>	<u>(21,566)</u>
<b>Total Revenue</b>	<u>35,406,900</u>	<u>41,121,771</u>	<u>122,564,011</u>	<u>81,442,240</u>
 Expenditures				
Administration				
Contractual services	28,387,000	34,018,071	33,875,091	142,980
Personnel services and benefits	5,821,600	5,656,600	5,210,770	445,830
Other operating costs	<u>1,198,300</u>	<u>1,447,100</u>	<u>1,222,445</u>	<u>224,655</u>
<b>Total Expenditures</b>	<u>35,406,900</u>	<u>41,121,771</u>	<u>40,308,306</u>	<u>813,465</u>
 <b>Change in net assets, budget items</b>			<b>\$ 82,255,705</b>	
 <b>Non-budget revenues and expenses:</b>				
Investment earnings and change in fair value			2,117,908,002	
Depreciation Expense			(502,526)	
Compensated Absences			(242,920)	
Contributions from members and employers			548,511,314	
Other Administrative and Investment Expenses			(91,927,048)	
Other Income			17,390,103	
Benefit payments to retirees and beneficiaries			(905,329,140)	
Refunds to terminated employees			<u>(47,376,975)</u>	
 <b>Increase (Decrease) in plan net assets</b>			<b>1,720,686,516</b>	
 <b>Net Position held in trust for pension benefits</b>				
Balance - beginning of year			<u>12,707,814,003</u>	
 Balance - end of year			<u><u>\$ 14,428,500,519</u></u>	

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
OTHER SUPPLEMENTAL SCHEDULES  
SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES  
PUBLIC EMPLOYEES RETIREMENT FUND ONLY  
Years Ended June 30, 2014 and 2013**

	2014	2013
<b>Investment Expenses:</b>		
Investment Manager Fees	\$ 28,355,973	\$ 22,859,221
Consultant Fees	2,604,581	4,617,912
Information Technology Services	27,498	27,232
Legal Fees	434,164	238,292
Total Investment Expenses	\$ 31,422,215	\$ 27,742,657
<b>Administrative Expenses:</b>		
<b>Other Contractual Services:</b>		
Information Technology Services	2,292,580	1,246,752
Legal Fees	508,486	70,261
Audit Fees	144,033	108,457
Medical Services	60,406	51,705
Other Professional Services	81,998	356,337
Total Other Contractual Services	3,087,503	1,833,512
<b>Other Administrative Services:</b>		
Personnel Services and Benefits	4,788,928	4,837,116
Other Operating Costs	1,729,885	907,662
Compenstated Absences	233,827	284,858
Depreciation Expense	496,180	666,124
Total Other Administrative Services	7,248,820	6,695,760
Total Administrative Expenses	\$ 10,336,324	\$ 8,529,272
<b>Total Investment and Administrative Expenses</b>	<b>\$ 41,758,539</b>	<b>\$ 36,271,929</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, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<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	68,719	66,350
Other Operating Costs	5,644	9,138
Compenstated Absences	6,102	7,015
Depreciation Expense	-	-
Total Other Administrative Services	80,465	82,503
Total Administrative Expenses	\$ 80,465	\$ 82,503
<b>Total Investment and Administrative Expenses</b>	<b>\$ 80,465</b>	<b>\$ 82,503</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, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Investment Expenses:</b>		
Investment Manager Fees	\$ 190,531	\$ 175,368
Consultant Fees	-	-
Information Technology Services	169	174
Legal Fees	2,672	1,521
Total Investment Expenses	193,372	177,063
<b>Administrative Expenses:</b>		
<b>Other Contractual Services:</b>		
Information Technology Services	14,109	4,135
Legal Fees	3,129	233
Audit Fees	886	360
Medical Services	372	172
Other Professional Services	505	1,182
Total Other Contractual Services	19,000	6,082
<b>Other Administrative Services:</b>		
Personnel Services and Benefits	29,471	16,989
Other Operating Costs	10,646	3,004
Compenstated Absences	1,439	-
Depreciation Expense	3,053	-
Total Other Administrative Services	44,609	19,993
Total Administrative Expenses	\$ 63,610	\$ 26,075
<b>Total Investment and Administrative Expenses</b>	<b>\$ 256,981</b>	<b>\$ 203,138</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, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Investment Expenses:</b>		
Investment Manager Fees	\$ 72,710	\$ 66,807
Consultant Fees	-	-
Information Technology Services	65	66
Legal Fees	1,020	579
Total Investment Expenses	\$ 73,794	\$ 67,452
<b>Administrative Expenses:</b>		
<b>Other Contractual Services:</b>		
Information Technology Services	5,384	2,256
Legal Fees	1,194	127
Audit Fees	338	196
Medical Services	142	94
Other Professional Services	193	644
Total Other Contractual Services	7,251	3,317
<b>Other Administrative Services:</b>		
Personnel Services and Benefits	11,247	9,267
Other Operating Costs	4,063	1,639
Compenstated Absences	549	-
Depreciation Expense	1,165	-
Total Other Administrative Services	17,024	10,906
Total Administrative Expenses	\$ 24,275	\$ 14,223
<b>Total Investment and Administrative Expenses</b>	<b>\$ 98,069</b>	<b>\$ 81,675</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, 2014 and 2013**

	2014	2013
<b>Investment Expenses:</b>		
Investment Manager Fees	\$ 132,739	\$ 116,912
Consultant Fees	-	-
Information Technology Services	118	116
Legal Fees	1,861	1,014
Total Investment Expenses	\$ 134,719	\$ 118,042
<b>Administrative Expenses:</b>		
<b>Other Contractual Services:</b>		
Information Technology Services	9,829	-
Legal Fees	2,180	-
Audit Fees	618	-
Medical Services	259	-
Other Professional Services	352	-
Total Other Contractual Services	13,237	-
<b>Other Administrative Services:</b>		
Personnel Services and Benefits	20,532	-
Other Operating Costs	7,417	-
Compenstated Absences	1,003	-
Depreciation Expense	2,127	-
Total Other Administrative Services	31,078	-
Total Administrative Expenses	\$ 44,316	\$ -
<b>Total Investment and Administrative Expenses</b>	<b>\$ 179,034</b>	<b>\$ 118,042</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, 2014, and the related notes to the financial statements, which collectively comprise PERA's basic financial statements and have issued our report thereon dated December 15, 2014. 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.

### **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 2014-001.

### **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.

*Mess Adams LLP*

Albuquerque, New Mexico  
December 15, 2014

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2014**

2010-02	Performance Appraisals	Resolved
2012-01	Participant Enrollment Forms and Completeness of Census Data	Resolved
2012-03	Improve Information Technology Controls	Resolved
2013-01	Financial Close and Reporting of Plan Contributions	Resolved
2013-02	Exception Reporting and Monitoring	Resolved
2013-03	Retirement System Staffing	Resolved

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2014**

**FINDINGS - FINANCIAL STATEMENT AUDIT**

**2014-001 Completeness of Census Data-Active Participants (Other Matter)**

**CONDITION**

As part of our audit procedures over the census data for active participants we compared the census data utilized by the Plans' actuary to the underlying employer records of active participants on a sample basis. We observed that of the 210 individual employee census data records sampled:

- 63 records contained either inaccurate or incomplete information with regard to marital status and were marked as "unknown".
- 33 records contained either inaccurate or incomplete information with regard to the spouse's date of birth.
- 21 records contained inconsistencies with regard to dates of hire.

Additionally, during our testing of year end June 30, 2014 payroll data contained within the final census file, we noted some payroll data for individual members did not agree to employer records. In some instances, payroll wages for the final payroll period were added to the census data file and provided to the actuary that were later changed. Subsequent payroll adjustments were provided by some employers with updated wage data for the final payroll periods. The Plan made the corrective changes internally, however the final census data file was not updated for these minor variances.

Based on our discussions with the Plans' actuary we did not believe these observations to be significant to the determination of the total pension liabilities because assumptions for missing information are made during the actuarial valuation process.

**CRITERIA**

In light of the new GASB pension standards increased emphasis has been placed on this topic because it is the census data which forms the underpinnings of the total pension liability that is to be recognized by employers beginning in 2015. Certain financial statement assertions relating to the total pension liability are dependent on the completeness and accuracy of plan census data. Significant elements of census data may include: date of birth; date of hire or years of service; marital status; eligible compensation; class of employee; gender; date of termination or retirement; spouse date of birth; and employment status (active, inactive, retired). Management of single-employer and cost-sharing plans is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, including completeness and accuracy of census data.



**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2014**

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

**2014-001 Completeness of Census Data-Active Participants (Other Matter) (Continued)**

**CAUSE**

The underlying employee records of active participants are maintained by employers and do not reside at the Plan due to the scope of the plan's operations including hundreds of participating employers. Employers are responsible for the input of employee records into PERA's RIO interface used to generate the census data.

**EFFECT**

It is preferable that the Plan ensure the information is as accurate as possible, otherwise key elements of census data risk being incomplete or inaccurate.

**RECOMMENDATION**

Management should review its procedures related to active employees to ensure their census is as complete and accurate as possible. Management may consider the use of an internal audit function to corroborate census data information residing with participating employers.

**MANAGEMENT RESPONSE**

Management agrees and understands that with the implementation of GASB 67 and 68, additional focus should be placed on employer data and verification. In recent years, management has already proactively taken many steps to ensure the accuracy and completeness of information received by doubling staff in contribution accounting and creating a subgroup in the customer service group to focus specifically on data review. Management also agrees it would be a good use of our internal audit function to test employer participant census data.

While management works to enhance our processes going forward, it should be noted that an exhaustive audit does take place at the time of retirement which requires the member to provide PERA with proof of age for the member and their beneficiary. Acceptable documents are a birth certificate, baptismal certificate, current passport, current New Mexico driver's license or a current NM MVD issued identification card. Additionally a copy of a marriage certificate or a divorce decree and marital settlement agreement must be provided if applicable. Finally all wages related to the member's final average salary are audited to ensure all wages utilized for the benefit calculation are eligible compensation.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO  
EXIT CONFERENCE  
June 30, 2014**

We discussed the recommendations contained in this letter during the exit conference held December 9, 2014. The exit conference was attended by the following individuals:

**Public Employees Retirement Association**

Wayne Propst	Executive Director
Susan Pittard	Chief of Staff/General Counsel
Natalie Cordova	Controller/Chief Financial Officer
Sylvia Barela	Administrative Services Director
Greg Trujillo	Deputy Director
Jonathan Grabel	Chief Investment Officer
Julian Baca	Deputy Investment Officer
Greg Portillos	Chief Information Officer

Patricia French	Municipal Member
Mr. Louis Martinez	Municipal Member
Ms. Paula Fisher	State Member
Roman Jimenez	State Member
Jackie Kohlasch	State Member
Daniel Esquibel	Municipal Member
Stewart Logan	County Member
Loretta Naranjo-Lopez	Retiree Member
Daniel Mayfield	Retiree Member

**Moss Adams LLP**

Jeff Bridgens	Audit Senior Manager
Ryan Loveland	Manager