

**STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD**

**FINANCIAL STATEMENTS
As of and for the Years Ended
June 30, 2015 and 2014,
and Independent Auditors' Report**

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

**STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD**

**Financial Statements
and Other Supplementary Information
June 30, 2015 and 2014**

(With Independent Auditors' Report Thereon)

Prepared by Board Staff

**AUDITED BY:
MOSS ADAMS LLP**

INTRODUCTORY SECTION

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EDUCATIONAL RETIREMENT BOARD

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**STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD**

**Official Roster
As of June 30, 2015**

BOARD OF DIRECTORS

NAME	TITLE
Ms. Mary Lou Cameron	Chairman
Mr. H. Russell Goff	Vice-Chairman
Mr. Hipolito J. Aguilar	Secretary, Designate for Ms. Hanna Skandera, Ex-officio Member
Ms. Beulah Woodfin	Member
Mr. Larry Magid	Member
Ms. Hanna Skandera	Ex-officio Member
Mr. Tim Eichenberg	Ex-officio Member
Mr. Bradley Day	Member

ADMINISTRATIVE STAFF

Ms. Jan Goodwin	Executive Director
Mr. Rick Scroggins	Deputy Director
Mr. Chris Bulman	General Counsel
Mr. Bob Jacksha	Chief Investment Officer
Ms. Dianne L. Rossbach	Chief Financial Officer
Mr. Lawrence Esquibel	Information Technology Manager

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

The Members of the State of New Mexico
Educational Retirement Board
and
Mr. Timothy M. Keller
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position of the New Mexico Educational Retirement Board (the "ERB") as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the ERB's basic financial statements as listed in the table of contents. We have also audited the Schedule of Revenues and Expenses-Budget to Actual for the New Mexico Educational Retirement Board presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements as of and for the year ended June 30, 2015, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

The Members of the State of New Mexico
Educational Retirement Board
and
Mr. Timothy M. Keller
New Mexico State Auditor

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the plan net position of the ERB as of June 30, 2015 and 2014, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the Schedule of Revenues and Expenses - Budget and Actual, presents fairly the revenues and expenses for the year ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

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 employers' net pension liability, schedule of employer contributions, and schedule of investment returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The schedule of cash accounts; schedule of administrative, consultant, and budgeted investment expenses; and the schedule of accountability in government act – performance measures (collectively, the “supplementary information”) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Members of the State of New Mexico
Educational Retirement Board
and
Mr. Timothy M. Keller
New Mexico State Auditor

The supplementary information is the responsibility of management and was 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 applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The introductory section and schedule of vendor information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015 on our consideration of the ERB'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 the ERB's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
November 12, 2015

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2015 and 2014**

INTRODUCTION

Management has compiled this discussion and analysis of the financial activities of the New Mexico Educational Retirement Board (ERB) for the years ended June 30, 2015 and 2014. This narrative contains a discussion of reporting requirements, financial highlights and comparative information. Readers are encouraged to consider the information presented here in conjunction with the financial statements, the Notes, and other Required Supplementary Information.

FINANCIAL REPORTING REQUIREMENTS

ERB's financial statements have been prepared in conformity with standards promulgated by the Governmental Accounting Standards Board (GASB) for pension systems. The basic financial statements presented in this report include the following elements.

- **Statement of Fiduciary Net Position** – This section reports on the pension trust fund's assets, liabilities, and resulting net position where Assets minus Liabilities equals Net position restricted for pensions at the end of the fiscal year. It is a snapshot of the pension trust funds at that point in time.
- **Statement of Changes in Fiduciary Net Position** – This section summarizes the pension trust fund's financial transactions that occurred during the fiscal year where Additions minus Deductions equals Net increase (decrease) in net position. This statement describes the changes that have occurred to the prior year's net position.
- **Notes to the Financial Statements** – This section is an integral part of the financial statements which includes additional information not readily evident within the statements themselves.
- The other sections, **Management Discussion and Analysis**, **Required Supplementary Information**, and **Other Supplementary Information** provide detailed and historical information considered useful in evaluating the financial condition of the Plan administered by ERB.

FINANCIAL HIGHLIGHTS –

➤ **GASB pronouncements:**

In June 2012 GASB issued Statement 68, "*Accounting and Financial Reporting for Pensions.*" This statement established new standards for accounting for pensions that apply to ERB's participating employers effective for implementation in periods after June 30, 2014. ERB published a separate report from these financials titled "*Schedule of Employer Allocations and Pension Amounts as of and for the year ended June 30, 2014*" to provide employers with the detail information they need to meet their individual reporting requirements. In conjunction with implementing the new employer requirements, ERB's management conducted a number of regional onsite and telephonic GASB 68 employer training seminars.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2015 and 2014**

- **Net pension liability:** ERB’s net pension liability for fiscal year 2015 is \$6,477,266,299. This represents a \$771,535,486, or 13.52%, increase from the fiscal year 2014 balance of \$5,705,730,813. The 2015 net pension liability stated as a percentage of covered payroll in 237.23%, up from 209.92% in fiscal year 2014. Changes in the net pension liability arise from changes in the total pension liability and from changes in the Plan’s fiduciary net position. The net pension liability increase in fiscal year 2015 was primarily due to slowed growth in ERB’s investment assets, consistent with results in worldwide markets.

The table below portrays ERB’s fiduciary net pension liability, calculated using the current discount rate of 7.75% and what the net pension liability would be if the rate were 1% lower (6.75%), or 1% higher (8.75) than the current rate. The sensitivity analysis is shown for fiscal years 2015, 2014, and 2013.

Fiscal Year	Current Single		
	1% Decrease 6.75%	Rate Assumption 7.75%	1% Increase 8.75%
2015	\$ 8,715,594,530	\$ 6,477,266,299	\$ 4,596,837,569
2014	\$ 7,763,304,829	\$ 5,705,730,813	\$ 3,987,098,791
2013	\$ 8,286,923,513	\$ 6,276,852,149	\$ 4,599,162,126

- **Net position:** ERB’s net fiduciary position increased \$151.6 million, or 1.34%, during fiscal year 2015, primarily due to appreciation in the fair market value of the markets. This improvement follows an increase of \$1,154.3 million, or 11.33% in the prior fiscal year. The primary element of ERB’s net fiduciary position is the fair market value of the investment portfolio.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2015 and 2014**

- **Return on investments:** For the year ending June 30, 2015, the investment fund returned 4.0%, outperforming the policy index by 1.1%. All asset classes were within ERB's target policy ranges as of June 30, 2015. Investment holdings ended the year totaling \$11,403,657, an increase of \$101.7 million over fiscal year 2014.

Condensed Investment Portfolio Analysis (000's)

	2015	2014
Cash & cash equivalents	\$ 545,162	275,693
Investments, fair value	<u>10,858,495</u>	<u>11,026,292</u>
Total	<u>\$ 11,403,657</u>	<u>11,301,985</u>

- **Fund performance:** Over the past five years, ERB's investment fund has returned 10.1% per annum, outperforming the policy index by 0.8%, and the Plan's actuarial assumed rate of 7.75%. The following table provides a summary of total fund performance (gross of fees) as of June 30, 2015.

Fund Performance Summary at June 30, 2015

1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
4.0%	9.8%	10.1%	6.9%	5.0%	7.4%	8.7%	9.2%

- **Investment fees:** Investment fees overall were lower in fiscal year ending June 30, 2015, when compared to fiscal year ending June 30, 2014. This is due in part to the lower investment income in fiscal year 2015. Total investment fees declined in fiscal year 2015 over 2014 by 21%, after having risen by 30% in fiscal year 2013.

Investment fees for 2015 totaled \$129,679,202, of that total \$18,078,167 was covered by the agency's operating budget and \$111,601,035 was deducted directly from investment account balances. The schedule below compares investment fees by fiscal year.

Comparative Investment Fees by Fiscal Year

	2015	2014	2013
Investment Fees Covered by Operating Budget	\$ 18,078,167	13,719,779	17,665,292
Fees Deducted from Account Balances	<u>111,602,035</u>	<u>149,995,760</u>	<u>107,813,519</u>
Total Investment Fees	<u>\$ 129,680,202</u>	<u>163,715,539</u>	<u>125,478,811</u>
Fees as a % of Prior Year	79%	130%	

ERB's Core Bonds Portfolio successfully transitioned to increase internal control over these securities and a lower fee structure, delivering an overall 50%-60% reduction in fees over those experienced during fiscal year 2014. The Fixed Income Portfolio was consolidated from three external managers to internal management in fiscal year 2015. Measured against fiscal year 2014 fees, this step resulted in a savings of \$1,018,600.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2015 and 2014

- **Receivables:** Total receivables for fiscal year 2015 increased \$92.4 million over the prior year. In fiscal year 2014, receivables had decreased by \$28.5 million over 2013. Total receivables are composed primarily of employer contributions and investment proceeds. The 2015 increase in contribution receivables is primarily due to an increase in the employer contribution rate from 13.15% to 13.90%, and the employee rate from 10.10% to 10.70%, as of July 1, 2014. The 2015 increase in investment proceeds receivables, and the 2014 decrease, relate to the volume of investments sold at or near fiscal year end as compared to the prior year. Securities sales and purchases in the United States equity markets are based on “trade + 3 days,” meaning the transaction will settle in three business days after initiation. The number of days varies in other U.S. and foreign securities markets.
- **Contributions:** Annual employer and employee contributions increased \$56.8 million, or 9.00%, during fiscal year 2015 after increasing \$82.7 million, or 15.08% in the prior year. Annual contribution rates vary year over year based on legislative rate changes, increases (or decreases) in the number of educators, and other economic factors. The combined total employer and employee contribution rates increased 2.95% in fiscal year 2014 over the rate for fiscal year 2013, and again in fiscal year 2015 by another 1.75%.
- **Benefit Payments:** ERB age and service payments to retirees, including disability benefit payments, increased \$52.5 million, or 6.04%, in fiscal year 2015 over 2014 results of \$56.6 million, or 6.98%. These increases mirror a consistent, though modest, increase in the retiree population and the compounding of cost of living adjustments (COLA) to annuity payments as retirees reach applicable age benchmarks.
- **Results of Operations:** ERB achieved operational success in several areas which were directly related to efficiency gains and budgetary cost reductions during fiscal year 2015. Significant achievements which contributed to these results: 1) three external fixed income portfolio managers were transitioned to internal management, decreasing portfolio management fees, and 2) successful upgrade of our core retirement software, increasing its functionality for staff, membership, and participating employers.
- **NM Accountability in Government Act:** In 1999, the Accountability in Government Act (AGA) mandated performance-based budgeting across state agencies per Section 6-3A NMSA 1978 to improve program coordination and increase operational information available to the Governor, the Legislature, and the public. ERB serves its membership through prudent asset management, efficient administration, membership training, and reliable payment processing. In support of these desirable outcomes, ERB met all targeted goals for five year investment performance, training satisfaction, on-time payment processing, and benefit estimate volumes. Detailed AGA performance results are covered within Other Supplementary Information.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2015 and 2014**

CONDENSED FINANCIAL INFORMATION

Condensed Statement of Fiduciary Net Position (000,000's)

	2015	2014	2013	\$ Difference		% Difference	
				FY15-FY14	FY14-FY13	FY15-FY14	FY14-FY13
Assets							
Cash & short term investments	\$ 953	487	747	466	(284)	95.6%	-63.1%
Receivables	229	136	165	92	(28)	67.9%	-17.3%
Interest in SGFIP	8	2	5	6	(4)	337.3%	-66.3%
Investments, fair value	10,858	11,026	9,439	(162)	1,587	-1.5%	16.8%
Capital assets - net	2	2	2	(0)	(0)	-1.2%	-6.8%
Total assets	<u>11,643</u>	<u>11,442</u>	<u>10,358</u>	<u>206</u>	<u>1,084</u>	<u>1.8%</u>	<u>10.5%</u>
Liabilities							
Current liabilities	145	96	166	49	(70)	50.7%	-42.2%
Total liabilities	<u>145</u>	<u>96</u>	<u>166</u>	<u>49</u>	<u>(70)</u>	<u>50.7%</u>	<u>-42.2%</u>
Net position restricted for pensions	<u>\$11,498</u>	<u>11,346</u>	<u>10,192</u>	<u>157</u>	<u>1,154</u>	<u>1.3%</u>	<u>11.3%</u>

Condensed Statement of Changes in Fiduciary Position (000,000's)

	2015	2014	2013	\$ Difference		% Difference	
				FY15-FY14	FY14-FY13	FY15-FY14	FY14-FY13
Additions							
Contributions	\$ 688	631	548	57	83	9.0%	15.1%
Investment income less investing expenses	115	166	180	(51)	(14)	-30.6%	-7.7%
Net change in fair value of investments	308	1,279	837	(970)	441	-75.9%	52.7%
Other income	8	3	2	5	1	203.8%	41.3%
Total additions	<u>1,119</u>	<u>2,078</u>	<u>1,567</u>	<u>(959)</u>	<u>511</u>	<u>-46.1%</u>	<u>32.6%</u>
Deductions							
Benefit payments	921	868	812	52	48	6.0%	5.9%
Refunds-terminated members	36	39	42	(2)	6	-6.4%	14.3%
Administrative expenses	11	17	11	(6)	6	-36.2%	51.3%
Total deductions	<u>968</u>	<u>924</u>	<u>864</u>	<u>44</u>	<u>60</u>	<u>4.8%</u>	<u>6.9%</u>
Net increase (decrease)	<u>152</u>	<u>1,154</u>	<u>703</u>	<u>(1,003)</u>	<u>452</u>	<u>-86.4%</u>	<u>64.3%</u>
Net position restricted for pensions							
Beginning of the year	11,346	10,192	9,489	1,154	703	11.3%	7.4%
End of the year	<u>\$11,498</u>	<u>11,346</u>	<u>10,192</u>	<u>157</u>	<u>1,154</u>	<u>1.3%</u>	<u>11.3%</u>

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2015 and 2014**

CURRENTLY KNOWN FACTS AND CONDITIONS

- **Actuarial Reporting:** The funding objective of the Plan is to meet long-term benefit obligations to current and future members through contributions and investment earnings. ERB's actuary prepares an annual actuarial valuation for accounting purposes. An actuarial experience study is performed on a biennial basis on six years of historical retirement data to provide assurance that the results are representative of the "business" cycle. The last actuarial experience study was performed as of June 30, 2014 and presented to the Board on June 12, 2015. An audit of the actuarial valuation is performed every three years to determine whether the process, results, and conclusions of the valuations are valid and appropriate. An audit of the June 20, 2013 actuarial experience study found the actuarial assumptions, methods, and procedures were reasonable, reflecting the benefit promises made to ERB members.

The actuarial experience study, presented to the Board of Trustees on June 12, 2015, compiled data for the six-year period ending June 30, 2014. The Board of Trustees approved the following assumptions which have been included in the fiscal year 2015 GASB 67 calculation:

- Lower wage inflation from 4.25% to 3.75%
 - Update the mortality tables with generational improvements
 - Update demographic assumptions to use currently published tables, which may result in minor calculation changes
 - No change in current 3.00% inflation assumption
 - Retain 4.75% net real return assumption
 - Retain 7.75% nominal return assumption
 - No change to current COLA assumption of 2.00% per year
 - Maintain current payroll growth assumption to 3.50%
 - Maintain experience-based rates for members who joined ERB by June 30, 2010
 - Remove population growth assumption for projections
 - Lower population growth assumption from .50% to zero (no impact on valuation results)
- **GASB 68 requirements for New Mexico agencies:** Fiscal year 2015 is the first year state agencies with educational programs, participating in the ERB Plan, will need to implement GASB 68 reporting and disclosure requirements. State agencies also have to consider the reporting and disclosure implications of participation in the State's Public Employees Retirement Association (PERA) Plan. Compliant with GASB 68, disclosure requirements apply to the primary government as a whole. Therefore, employer allocation information will be presented in the Component Appropriation Funds Annual Financial Report and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2015 and 2014

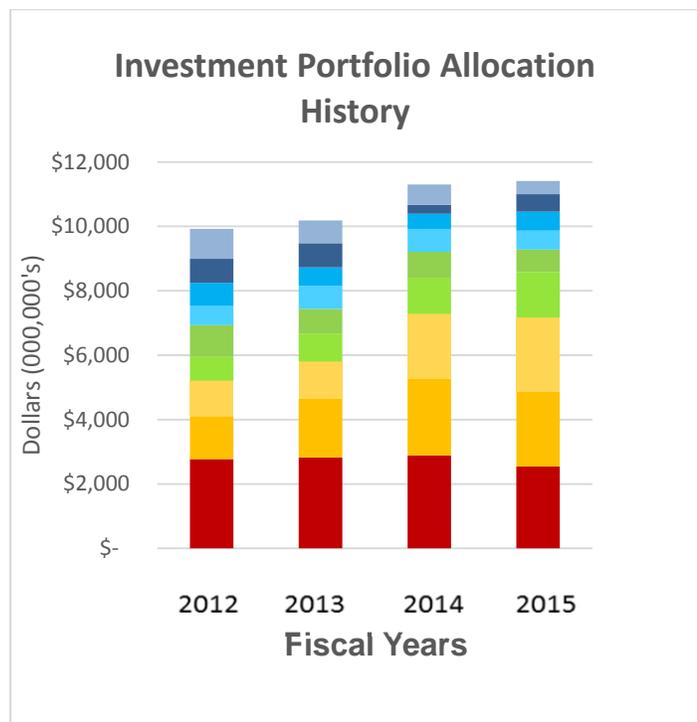
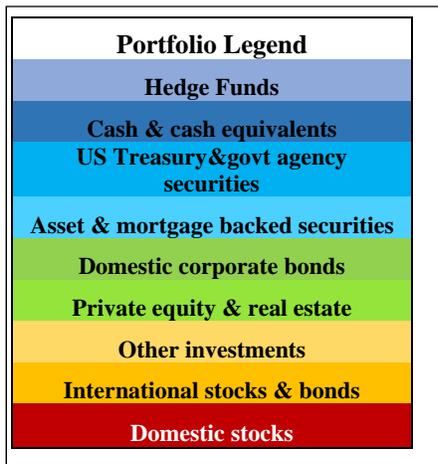
ERB is a statutory employer of the ERB Plan, and based on employees of record during the fiscal is a contributing member of both the ERB and PERA Plans. Pension expense and a proportionate share of both the ERB and the PERA Plans will be reflected in the State's financials. Additional disclosures can be found in the Notes to the Financial Statements.

- **Investment Risk Exposure:** At the close of fiscal year 2015, investment markets experienced increased volatility based on national and global economic trends. In formulating the Plan's investment strategy, ERB takes a long term perspective designed to meet the needs of our beneficiaries for many years to come. ERB seeks to diversify the risks contained in the investment portfolio among the many categories of assets available to institutional investors. ERB also manages liquidity to ensure the Plan's ability to meet continuing pension benefit obligations. ERB continues to pursue long term institutional strategies for growth at a minimum level of risk per unit of return.
- **Pending litigation and claims:** During each business cycle, ERB may be named as a defendant in administrative appeals arising from the normal course of business. Legal counsel believes resolution of any currently pending matters will not have a material effect on the financial statements.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2015 and 2014**

COMPARATIVE SUMMARY INFORMATION

The following chart depicts growth and changes in investment allocations by portfolio category as of June 30 from fiscal year 2012 to 2015. Target investment allocations are reviewed at least annually by the Board of Trustees. Additional detail on fiscal year 2015 targets is available in the Notes to the Financial Statements.



FINANCIAL CONTACT

Any questions regarding the financial statements of ERB should be directed to the ERB Chief Financial Officer at (505) 476-6126 or by mail at 701 Camino De Los Marquez Santa Fe, New Mexico 87505.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF FIDUCIARY NET POSITION
As of the Years Ended June 30, 2015 and 2014

	2015	2014
Assets		
Cash	\$ 407,371	211,310
Short term investments	<u>545,161,540</u>	<u>275,693,396</u>
Receivables		
Contributions	85,415,894	75,926,394
Investment sales proceeds-brokers	129,165,192	45,803,653
Interest and dividends	13,464,480	13,809,329
Other, net	<u>538,790</u>	<u>602,359</u>
Total receivables	<u>228,584,355</u>	<u>136,141,735</u>
Interest in State General Fund Investment Pool	<u>7,891,352</u>	<u>1,804,456</u>
Investments, at fair value		
Equities portfolio	4,418,573,519	4,880,406,054
Fixed income portfolio	2,312,860,829	2,376,028,405
Alternative investment portfolio	<u>4,127,060,293</u>	<u>3,769,857,465</u>
Total investments	<u>10,858,494,641</u>	<u>11,026,291,924</u>
Capital assets, at cost, net of accumulated depreciation	<u>2,003,792</u>	<u>2,028,628</u>
Total assets	<u>\$ 11,642,543,051</u>	<u>11,442,171,449</u>
Liabilities		
Accounts payable	\$ 4,600,052	4,371,357
Accounts payable school contributions	107,965	115,924
Accrued payroll and employee benefits	145,492	115,458
Accrued compensated absences	403,870	237,099
Refunds payable	1,260,934	2,613,132
Investment purchases payable	138,246,062	87,939,925
Funds held for others	<u>55,558</u>	<u>702,728</u>
Total liabilities	<u>144,819,933</u>	<u>96,095,625</u>
Net position restricted for pensions	<u>\$ 11,497,723,115</u>	<u>11,346,075,824</u>

See Accompanying Notes to Financial Statements

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
As of the Years Ended June 30, 2015 and 2014

	2015	2014
Additions		
Contributions	\$ 687,952,017	631,156,528
Investment income from investing activities		
Net change in fair value of investments	308,403,714	1,278,664,135
Interest income	37,823,427	41,809,254
Dividend income	95,180,820	137,617,862
Total investing activity gain	<u>441,407,961</u>	<u>1,458,091,251</u>
Investing activity expenses:		
Investment advisor fees	(17,095,533)	(13,326,824)
Custody fees	(982,634)	(392,955)
Total investing activity expenses	<u>(18,078,167)</u>	<u>(13,719,779)</u>
Total net investment gain	<u>423,329,794</u>	<u>1,444,371,472</u>
Miscellaneous income		
Penalties	952	734
Interest on restoration of service	1,738,444	2,819,583
Other	6,407,329	(138,859)
Total miscellaneous income	<u>8,146,726</u>	<u>2,681,458</u>
Total additions	<u>1,119,428,538</u>	<u>2,078,209,458</u>
Deductions		
Age and service benefit payments	911,832,776	859,575,335
Refunds to terminated members	32,313,405	34,561,687
Interest on refunds	4,114,576	4,361,396
Administrative expenses	10,597,846	16,617,970
Disability benefit payments	8,922,645	8,716,047
Total deductions	<u>967,781,247</u>	<u>923,832,437</u>
Net increase (decrease)	151,647,291	1,154,377,021
Net position restricted for pensions		
Beginning of the year	11,346,075,824	10,191,698,803
End of the year	<u>\$ 11,497,723,115</u>	<u>11,346,075,824</u>

See Accompanying Notes to Financial Statements

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Measurement Focus – The Board’s financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. The New Mexico General Fund Appropriation Act establishes the modified accrual basis of accounting for governmental funds as the budgetary basis for the State. Prior-year encumbrances are not carried forward for single-year appropriations. Employer and member contributions are recognized as revenue in the period in which the member’s services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Cash Balances – ERB earns interest on all monies held at the custodial agent bank. When a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date the cash remains with custodial agent bank. When this occurs, ERB’s money is invested overnight in a Short-Term Investment Fund (STIF).

Investments – 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 sales between a willing buyer and a willing seller. Due to the nature of investments, it is reasonable to expect that changes in the value of investments will occur in the near future and that changes could materially affect the amounts reported. The estimated fair value of investments is based on published market prices, prices obtained from pricing services, and prices quoted by independent brokers at current exchange rates. There are certain market risks, credit risks, foreign exchange currency risks, or events that may subject the Plan’s investment portfolio to economic changes occurring in certain industries, sectors, or geographic markets.

For investments where published or quoted market prices are not readily available, management has determined the estimated fair values based on the most recent valuations provided by the external investment managers, adjusted for cash receipts, cash disbursements, and securities distributions through June 30, 2015. Management believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Since alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, and investment expenses which include management and custodial fees, and all other significant investment related costs. Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

ERB’s investments in limited partnerships are valued at an estimated fair value based on their proportionate share of the partnership’s fair value as recorded in the partnership’s financial statements. The limited partnerships allocate gains, losses and expenses to the partners based on the ownership percentage as described in the partnership agreements. As of June 30, 2015, ERB’s additional future contribution commitments to limited partnerships totaled \$2.232 billion.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other investments, as presented in the Statement of Fiduciary Net Position, include investments in swap agreements, distressed debt, option agreements, real estate investment trusts, and timber partnerships.

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of pension plan investments. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

Capital Assets – Capital assets represent the cost of assets, net of accumulated depreciation, used for the administration of the Plan. Capital assets include ERB’s administration building located in Santa Fe, New Mexico. ERB’s capitalization policy, based on the requirements from Section 12-6-10 NMSA 1978, is to include all assets with a useful life of more than one year and a cost basis of at least \$5,000. Assets with an original cost less than \$5,000 but categorized as sensitive, primarily IT equipment, are also capitalized for tracking and control purposes. All additions are capitalized at historical cost as of the date of acquisition; depreciation is calculated on a straight-line basis over the asset’s estimated useful life with no salvage value.

Estimated useful asset lives are as follows:

Building and building improvements	25 years
Depreciable land improvements	10 years
Furniture and equipment	10 years
Data processing equipment (including software)	5 years

Budgets and Budgetary Accounting – Formal budgetary integration is used by the Board of Trustees as a tool for monitoring internal controls and administering the Plan. The budget for ERB, a New Mexico State agency is adopted on the modified accrual basis of accounting, except for prior year obligations approved for payment by the New Mexico Department of Finance and Administration (DFA) per Section 6-10-4 NMSA 1978.

Each year the New Mexico Legislature approves multi-year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the multi-year budget is carried forward as the next year’s beginning budget balance until either the project period has expired or the appropriation has been fully expended. Budget presentations in these financial statements are consistent with this budgeting methodology.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Only administrative expenses are budgeted, while significant revenues and non-administrative expenses are not. The budget recognizes encumbrances and capital expenses as current expenses, excludes depreciation expense, and recognizes revenue when cash is received. Budgetary comparisons for the Plan are presented in the schedule of revenues and expenses.

The Accountability in Government Act, Chapter 15, Laws of 1999, requires implementation of performance-based budgeting over a four-year period. ERB developed performance measures which were approved by the State Budget Division (SBD), a division of the DFA, and the Legislative Finance Committee (LFC), an interim committee of the New Mexico Legislature, and included in the General Appropriations Act. ERB is required to report annually to the SBD and the LFC on these performance measures. Performance results are included in Other Supplementary Information.

To establish the annual budget, ERB has the following procedures:

- (1) ERB prepares a Budget Appropriation Request for the Board of Trustees' approval, and to present at a Legislative Finance Committee (LFC) hearing. The request includes proposed expenses and the means of financing them.
- (2) The Budget Appropriation Request is submitted to the State Budget Division (SBD) of DFA and the LFC.
- (3) DFA makes recommendations and adjustments to ERB's Budget Appropriation Request, which becomes the Governor's proposal to the legislature.
- (4) The LFC holds hearings on the Budget Appropriation Request during the legislature's interim period. Recommendations and adjustments are made prior to presenting the Budget Appropriation Request to the legislature.
- (5) Both DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget. The final budget approved by the legislature is then sent to the Governor's office for final approval.
- (6) ERB submits its annual operating budget to DFA and LFC based on the final appropriation recommendation from the Legislature and approval by the Governor.
- (7) Per Section 9 of the General Appropriation Act of 2012, all agencies, including legislative agencies, may request category transfers among personal services and employee benefits, contractual services, and other costs. The legal level of budgetary control for ERB's operating budget is the enacted appropriation program.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Held for Others – Payments from members pursuant to agreements to purchase service credit are recorded as funds held for others until the purchase agreements have been fully processed and all service is recorded in the member’s individual account. Contribution and interest revenue are recognized when the agreement has been fully satisfied and recorded.

Refunds Payable – Refunds payable represents the total amount due and payable as of June 30 to terminated members who have submitted valid claims for a full refund of contributions. These refunds are processed in early July 2015, as soon as the state’s ledgers are available to process the new fiscal year’s transactions.

Accounting Pronouncements – GASB 67, *Financial Reporting for Pension Plans* and GASB 68, *Accounting & Financial Reporting for Pensions (Employer)*, address new accounting and financial reporting requirements for pension plan activities. ERB is a cost-sharing multiple employer pension plan as defined by GASB 67. Changes have been implemented in compliance with GASB 67 to the presentation of financial statements, notes to financial statements, and required supplementary information. ERB elected to adopt and reflect these changes as of and for the year ended June 30, 2013. Implementation included the adoption of actuarial assumptions used to calculate ERB’s total and net pension liability, comprehensive note disclosures regarding the actuarial calculation, and increased investment activity disclosures.

GASB 68 applies the changes implemented by GASB 67 to the employer level, segregating and allocating a portion of the Plan’s collective net pension liability to each participating employer based on each employer’s annual reported total employer contributions. GASB 68 is effective for fiscal years beginning after June 15, 2014. ERB has published the Plan’s initial GASB 68 report entitled “**Schedule of Employer Allocations and Pension Amounts as of and for the year ended June 30, 2014**” at www.nmerb.org.

In compliance with the requirements of GASB 68, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015. ERB, as part of the primary government of the State of New Mexico, is a contributing employer to two cost-sharing multiple employer defined benefit pension plans. These are administered by the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB). Disclosure requirements for governmental funds apply to the primary as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Pension Liability of Plan Membership – The components of the net pension liability at June 30, 2015 and 2014, were as follows:

	2015	2014
Total pension liability	\$ 17,974,989,414	17,051,806,637
Plan fiduciary net position	<u>(11,497,723,115)</u>	<u>(11,346,075,824)</u>
Plan net pension liability	<u>\$ 6,477,266,299</u>	<u>5,705,730,813</u>
Plan fiduciary net position as a percent of total pension liability	63.97%	66.54%
Employer covered employee payroll	\$ 2,730,320,345	2,718,100,677
Net pension liability as a percentage of covered employee payroll	237.23%	209.92%

Actuarial assumptions – The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The liabilities reflect the impact of Senate Bill 115, signed into law on March 29, 2013, and new assumptions adopted by the Board of Trustees on June 12, 2015. Specifically, the liabilities measured as of June 30, 2015 and 2014 incorporate the following assumptions:

- All members with annual salary of more than \$20,000 will contribute 10.70% during the fiscal year ending June 30, 2015 and thereafter,
- Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67,
- COLAs for most retirees are reduced until ERB attains a 100% funded status,
- The new assumptions adopted by the Board on June 12, 2015 in conjunction with the six-year experience study period ending June 30, 2014, and
- For purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Actuarial Assumption	Description
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Period	Amortized, closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5-year smoothed market
Inflation	3.00%
Salary Increases	Composition: 3.00% inflation, plus 1.25% productivity increase rate, plus step-rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table of age and service rates
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment, projected to 2015 using Scale AA (with one-year setback for females)

The target long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following:

- Rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.)
- Application of key economic projections (inflation, real growth, dividends, etc.)
- Structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class

Discount Rate – A single discount rate of 7.75% was used to measure the total pension liability as of June 30, 2015 and 2014. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan’s fiduciary net position and future contributions were sufficient to finance all projected future benefit payments of current Plan membership. Therefore, the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five-year contribution history.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate assumption – The following table provides the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2015, 2014, and 2013. In particular, the table presents the Plan’s net pension liability, if it were calculated using a single discount rate that is one-percentage-point lower (6.75%) or one-percentage-point higher (8.75%) than the single discount rate:

Fiscal Year	Current Single		
	1% Decrease 6.75%	Rate Assumption 7.75%	1% Increase 8.75%
2015	\$ 8,715,594,530	\$ 6,477,266,299	\$ 4,596,837,569
2014	\$ 7,763,304,829	\$ 5,705,730,813	\$ 3,987,098,791
2013	\$ 8,286,923,513	\$ 6,276,852,149	\$ 4,599,162,126

NOTE 2. EDUCATIONAL RETIREMENT BOARD

Plan Description – ERB was created by New Mexico’s Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the Educational Employees’ Retirement Plan (Plan). The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state’s public schools, institutions of higher learning, and state agencies providing educational programs. The Educational Retirement Act assigns the authority to establish and amend benefit provisions to the Board of Trustees; the state legislature has the authority to set or amend contribution rates and other terms of the Plan. The Plan is a pension trust fund of the State of New Mexico.

For the fiscal year ended June 30, 2015 and 2014 employers contributed to the Plan based on the following rate schedule.

Fiscal Year	Date Range	Schedule of Contribution Rates				Increase over Prior
		Wage Category	Member Rate	Employer Rate	Combined Rate	
2015	7-1-14 to 6-30-15	Over \$20K	10.70%	13.90%	24.60%	1.35%
2015	7-1-14 to 6-30-15	\$20K or less	7.90%	13.90%	21.80%	0.75%
2014	7-1-13 to 6-30-14	Over \$20K	10.10%	13.15%	23.25%	2.95%
2014	7-1-13 to 6-30-14	\$20K or less	7.90%	13.15%	21.05%	0.75%

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014**

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

The breakdown of contributing employers by reporting category for fiscal year 2015 and 2014 follows. The “State agencies “category includes the State of New Mexico as the common paymaster for all state agencies with educational programs, New Mexico Activities Association, and the nine New Mexico Regional Education Cooperatives.

Schedule of Contributing Employers by Year		
Type	2015	2014
Public schools	89	89
Universities and colleges	15	15
Charter schools	97	98
Special schools	4	4
State agencies	11	11
Total	216	217

Reporting Entity – ERB is an agency of the State of New Mexico. The Plan administered by ERB is considered part of the State financial reporting entity and is a pension trust fund of the State. The Educational Retirement Act defines the governing Board of Trustees for ERB per 22-11-3 NMSA, 1978.

- The Secretary of Public Education, or a designee of the secretary who is a resident of New Mexico; is a current employee of the Public Education Department; and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management;
- The State Treasurer, or a designee of the Treasurer who is a resident of New Mexico; is a current employee of the State Treasurer’s office; and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management;
- One member to be elected for a term of four years by members of the New Mexico Association of Educational Retirees;
- One member to be elected for a term of four years by the members of the National Education Association of New Mexico;
- One member to be elected for a term of four years by the New Mexico members of the American Association of University Professors; and
- Two members to be appointed by the governor for terms of four years each. Each member appointed shall have a background in investments, finance or pension fund administration.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

The criteria used to determine whether other state agencies, boards, or commissions that benefit the members of the Board should be included within its financial reporting entity as component units. The criteria include, but are not limited to, whether the Board of Trustees exercises oversight responsibility; 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 the Board has determined that there are no component units that should be included in its financial reporting entity.

Participation—Membership in the Plan is a condition of employment. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan.

ERB served a total of 216 and 217 New Mexico educational employers in fiscal years 2015 and 2014, respectively. Active, retired, and inactive membership totaled 146,089 and 140,008 as of June 30, 2015 and 2014, respectively. The following schedule shows the number of members by category and year.

Schedule of Plan Membership by Year		
Membership Status	2015	2014
Active working members	60,998	61,173
Retirees and beneficiaries currently receiving benefits	44,043	42,246
Inactive members, vested	9,513	9,113
Inactive members, nonvested	31,535	27,476
Total	<u>146,089</u>	<u>140,008</u>

Benefit Provisions – A member’s retirement benefit is determined by a formula which includes three component parts: the member’s final average salary (FAS), the number of years of service credit, and a 0.0235 multiplier. The FAS is the average of the member’s salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

Summary of Plan provisions: For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member’s age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then becomes reemployed after that date is as follows:

- The member's age and earned service credit add up to the sum of 80 or more.
- The member is at least sixty-seven years of age and has five or more years of earned service credit.
- The member has service credit totaling 30 years or more.

Forms of Payment – The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

Benefit Options – The Plan has are three benefit options available.

- **Option A – Straight Life Benefit** – The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid.
- **Option B – Joint 100% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's benefit is adjusted by adding back the amount by which the benefit was reduced at retirement due to the election of Option B retroactively to the time of retirement.
- **Option C – Joint 50% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's benefit is adjusted by adding the amount by which the benefit was reduced at retirement due to the election of Option C retroactively to the time of retirement.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Cost of Living Adjustment (COLA) – All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

- Tier 1 membership is comprised of employees who became members prior to July 1, 2010
- Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.8%.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

Disability Benefit:

- ***Eligibility*** – A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by the Board.
- ***Monthly Benefit*** – The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times years of service projected to age 60.
- ***Form of Payment*** – The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

- ***Disability Retirement*** – A member with five or more years of earned service credit on deferred status may retire when eligible under the Rule of 75 or when the member attains age 65.

Refund of Contributions – Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by ERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board of Trustees. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year.

Alternative Retirement Plan – The New Mexico legislature established the Alternative Retirement Plan (ARP) through the enactment of Sections 22-11- 47 through 52 NMSA 1978. In contrast to the defined benefit plan administered by ERB, the ARP is a defined contributions plan. Information about the ARP is distributed by the employer to eligible employees; eligible employees must make the election to participate within ninety days of employment. Those who do not elect to participate in the ARP remain members of the regular defined benefit plan. Section 22-11-47(D) NMSA 1978 allows an ARP participant a one-time option to make an irrevocable switch to the defined benefit retirement plan after seven years of ARP participation. ARP benefits are payable in accordance with the terms of the applicable contracts with vendors. Retirement benefits shall, at the option of the employee, be paid 1) in the form of a lifetime income, if held in an annuity contract, 2) payments for a term of years, or 3) a single-sum cash payment. Retirement, death, and other benefits are based upon contributions made and earnings on those contributions. Retirement, death, and other benefits, including disability benefits, cannot be paid from the funds administered by ERB.

For the year ended June 30, 2015, colleges and universities contributed 10.90% of participating employees' gross salary to the ARP vendor on behalf of the participant, and 3% of the annual gross salary to ERB. Employees participating in the ARP do not accrue rights to benefits in the defined benefit plan based on the 3% contributions to the Plan.

Employer contributions reported in the Statement of Changes in Net Position include amounts remitted on behalf of both the ARP defined contribution plan and the defined benefit plan. The 3% contribution remitted for fiscal years ended June 30, 2015 and 2014 were \$5,362,304 and \$5,026,998 respectively. The colleges and universities are responsible for submitting the balance of the employers' contribution, and the employees' contributions directly to the ARP annuity vendors.

The vendors approved to offer ARP plans to eligible participants are Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF), and Fidelity Investments.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 3. GENERAL FUND INVESTMENT POOL

The State General Fund Investment Pool (SGFIP) is the State of New Mexico's main cash account. In compliance with Section 6-10-3 NMSA 1978, and to optimize the state's cash management and investment practices, funds of various state agencies are deposited in the SGFIP. This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system) in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and system configuration changes made during the Cash Management Remediation Project Phase I the Department of Finance and Administration's Financial Control Division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a *point forward basis* beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been successfully applied to fiscal year end 2014 and the months from January 2015 through June 2015. While work remains, the results are encouraging and the following assertions can be made:

- The difference between statewide agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims has remained within a relatively narrow range over the periods in which the reconciliation process has been used.
- Agency claims on the SGFIP will be honored in their entirety. An adjustment necessary to the claims balance will be applied against the General Operating Reserve. No portion of the adjustment shall be allocated to any specific agency that participates in the SGFIP.

ERB believes the cash invested in STO's Overnight Pool is represented fairly and with no material misstatements due to reconciliation procedures performed by ERB. ERB has established internal control procedures based on the State's Manual of Model Accounting Practices (MAP). These procedures are designed to avert accounting errors and violations of state and federal law and rules related to financial matters.

ERB uses the State's financial software general ledger system (SHARE), monitoring balances through internal reporting, and performing reconciliation procedures throughout the fiscal year, following DFA's policies and procedures for fiscal safeguards. Cash balances posted in SHARE are correct to the extent that ERB has control (i.e., collection, depositing, reconciling, and documentation of outstanding items) of the cash, its receipts and transfers to the SGFIP and other state agencies are made pursuant to DFA's current policies and procedures. Each deposit, payment voucher, investment, and other transactions that affect cash are verified to ensure the amounts are accurate and correctly classified in SHARE.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 4. INTEREST IN THE GENERAL FUND INVESTMENT POOL

ERB does not collect any revenues that contribute to, or revert to, the SGFIP, but does maintain all deposits on account at STO which are identified by ERB's business unit and fund number. ERB's cash balances are required to be managed by STO per Section 8-6-3 NMSA 1978. Accordingly, ERB's investments include an interest in the SGFIP equal to the cash balance on hand that is managed by STO.

On June 30, 2015 and 2014, ERB had \$7,891,352 and \$1,804,456, respectively, invested in the SGFIP.

Interest Rate Risk – STO has an investment policy that limits investment maturities to five years or less on allowable investments. This policy enables STO to manage interest rate risk 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 (SBOF).

Credit risk – The STO investment pools are not rated. For additional GASB 40 disclosure information regarding cash held by STO, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal years ended June 30, 2015 and 2014.

Cash Deposits – In addition to the overnight investment of funds deposited to the SGFIP at STO, ERB invests in the Short-Term Investment Fund (STIF) held by State Street. The STIF is used to facilitate more efficient trade procedures among ERB's external money managers. Net cash balances in each of the custody bank internal and external investment managers' portfolios are swept into the STIF at the end of each day. STIF investments and cash equivalents of \$545,161,540 and \$275,693,396 as of June 30, 2015 and 2014, respectively, are reported as cash and cash equivalent investment balances in ERB's statement of net position.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, ERB will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. ERB does not have a deposit policy for custodial credit risk. As of June 30, 2015 and 2014, there were no cash balances exposed to custodial credit risk.

NOTE 5. REFUND OVERPAYMENTS

In June 2010, the Board adopted a revised method for computing interest due on refunds of contributions to members that have terminated employment and elected to withdraw their contributions, and on refunds paid to a beneficiary of a deceased member, with an effective date of July 1, 2010. During implementation, a programming error resulted in 834 individuals receiving overpayments ranging from less than one dollar to \$306,264.

The original amount overpaid totaled \$1,691,929. IRS regulations require that every reasonable effort be made to recover these funds and that interest be assessed on the overpayments. The agency accrued a receivable as of June 30, 2011 for the total amount overpaid and has taken all reasonable actions to collect and settle these outstanding amounts. As of June 30, 2015, the uncollected balance including interest assessed, net of uncollectible amounts due to settlement, bankruptcy, or death, is \$287,376.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS

ERB is authorized to invest or reinvest the fund in accordance with the Uniform Prudent Investor Act Section 45-7-601 NMSA 1978. Key provisions per the Uniform Prudent Investor Act are summarized below. Provisions of the Act:

- Set a higher standard of care and prudence for investments, above and beyond the previous standard and guiding principles of law,
- Apply to the trust as a whole, rather than individual investments,
- Require investment strategy to be based on suitable risk and reward strategies, and
- Require diversification unless the trustees reasonably determine it is not in the best interest of the fund.

Asset Allocation Policy – ERB’s investment allocation policy was reviewed and amended by the Board of Trustees on June 14, 2014. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

The following schedule shows the current asset allocation policy adopted on June 14, 2014 as well as the prior allocation policy targets.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Comparative Schedule of Target Investment Allocations		
Asset Class	Target Allocation	
	After 6/14/2014	Prior to 6/14/2014
Equities		
<i>Domestic Equities</i>		
Large cap equities	18%	20%
Small-mid cap equities	2%	2%
<i>International Equities</i>		
Developed	5%	5%
Emerging markets	10%	10%
Total equities	<u>35%</u>	<u>37%</u>
Fixed Income		
Opportunistic credit	20%	20%
Core bonds	6%	7%
Emerging market debt	2%	2%
Total fixed income	<u>28%</u>	<u>29%</u>
Alternatives		
Real estate - REITS	7%	5%
Real assets	8%	7%
Private equity	11%	8%
Absolute return	0%	3%
Global asset allocation	5%	5%
Risk parity	5%	5%
Total Alternatives	<u>36%</u>	<u>33%</u>
Cash		
Total	<u>100%</u>	<u>100%</u>

Rate of Return – Disclosure of the annual money-weighted return is a requirement of GASB 67. It incorporates both the size and timing of cash flows to determine an internal rate of return, and expresses investment performance adjusted for the changing amounts actually invested. The requirements of the calculation are listed below.

- The rate is computed net of investment expenses, but not net of administrative expenses.
- External cash flows used as inputs should be determined on at least a monthly basis.
- Cash flows should be determined on an accrual basis of accounting.
- Cash-flow weighting should be representative of the Plan’s actual external cash flow timing.

For the years ended June 30, 2015 and 2014, the annual money-weighted rates of return on pension plan investments were 4.06% and 14.71%, respectively.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Investments held by ERB's agent in the name of ERB (excluding cash and cash equivalents) as of June 30 are described below:

Investments, at fair value	2015	2014
Non-U.S. government bonds	\$ 109,849,871	134,285,504
Non-U.S. corporate bonds	328,554,498	253,934,520
Private real estate	380,197,078	270,577,050
Hedge fund of funds	409,511,379	631,121,208
U.S. treasury securities	585,177,300	470,995,039
Asset and mortgage backed securities	587,797,042	713,450,132
Mutual funds	678,439,795	384,411,683
Domestic corporate bonds	701,482,119	803,363,210
Other investments	868,323,365	610,140,178
Limited partnership units	762,309,555	1,022,968,379
Private equity	1,028,279,120	850,638,968
International stocks	1,875,881,084	1,985,766,369
Domestic stocks	2,542,692,435	2,894,639,685
Total investments	<u>\$ 10,858,494,641</u>	<u>11,026,291,924</u>

Foreign Currency Risk – Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. Foreign currency risk is present in ERB's investment in foreign equity securities. Managers of these assets are given discretion to hedge this risk. ERB's exposure to foreign currency risk as of June 30, 2015 and 2014, was \$668,437,275 and \$897,957,814, respectively. Detail schedules reflecting foreign currency risk exposure by type of currency as of June 30, 2015 and 2014 are shown next.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Schedule of Foreign Currency Risk Exposure as of June 30, 2015

Currency	Equity Securities	Cash (overdraft)	Net Foreign Currency Risk
Australian Dollar	\$ 3,192,557	12,462	3,205,018
Brazilian Real	10,226,578	27,664	10,254,242
British Pound Sterling	79,615,791	1,093,873	80,709,665
Canadian Dollar	3,707,300	95,491	3,802,791
Chilean Peso	191,915	-	191,915
Chinese Yuan	120,536	-	120,536
Colombian Peso	7,070,679	477	7,071,156
Danish Krone	510,500	-	510,500
Euro	179,126,368	2,134,291	181,260,659
Hong Kong Dollar	66,259,495	187,313	66,446,807
Hungarian Forint	4,628,337	-	4,628,337
Indian Rupee	24,533,003	61,256	24,594,259
Indonesian Rupiah	13,807,058	64,787	13,871,845
Israeli Shekel	2,824,959	-	2,824,959
Japanese Yen	60,289,710	-	60,289,710
Malaysian Ringgit	9,577,936	26,920	9,604,856
New Mexican Peso	11,630,791	38,601	11,669,392
New Romanian Leu	2,249,931	-	2,249,931
New Russian Ruble	4,159,527	28,274	4,187,800
New Taiwan Dollar	28,797,229	-	28,797,229
New Zealand Dollar	-	1,099	1,099
Nigerian Naira	330,237	-	330,237
Norwegian Krone	3,567,850	59	3,567,909
Peruvian Nuevo Sol	1,748,200	-	1,748,200
Philippine Peso	455,090	-	455,090
Polish Zloty	9,242,965	1,989	9,244,954
Qatari Rial	1,589,289	862	1,590,152
Saudi Riyal	63,773	-	63,773
Singapore Dollar	5,605,741	74	5,605,815
South African Rand	32,584,330	(125,718)	32,458,612
South Korean Won	40,686,749	126	40,686,875
Swedish Krona	10,159,387	-	10,159,387
Swiss Franc	24,094,333	3,250	24,097,584
Thai Baht	8,086,954	1,990	8,088,945
Turkish Lira	13,864,884	182,153	14,047,037
Total foreign currency subject to risk	664,599,982	3,837,292	668,437,275
Investments not subject to risk	10,193,894,659	541,324,248	10,735,218,907
Total investments	<u>\$ 10,858,494,641</u>	<u>545,161,540</u>	<u>11,403,656,182</u>

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Schedule of Foreign Currency Risk Exposure as of June 30, 2014

Currency	Equity Securities	Cash (overdraft)	Net Foreign Currency Risk
Australian Dollar	\$ 23,077,159	3,317,644	26,394,803
Brazilian Real	41,050,490	55,677	41,106,167
British Pound Sterling	87,004,051	4,191,242	91,195,293
Canadian Dollar	1,790,449	110,833	1,901,282
Chilean Peso	204,866	-	204,866
Chinese Yuan	(21,691)	-	(21,691)
Chinese Yuan Renminbi	4,572	-	4,572
Colombian Peso	3,678,401	-	3,678,401
Czech Koruna	676,774	(3,677)	673,097
Danish Krone	5,054,160	-	5,054,160
Euro	219,461,000	(15,493,648)	203,967,352
Hong Kong Dollar	85,222,886	239,776	85,462,662
Hungarian Forint	7,520,755	(1,178,604)	6,342,151
Indian Rupee	41,767,803	41,531	41,809,334
Indonesian Rupiah	15,322,840	(2,692)	15,320,148
Israeli Shekel	1,643,785	-	1,643,785
Japanese Yen	55,059,307	46,343	55,105,650
Malaysian Ringgit	15,631,346	-	15,631,346
New Mexican Peso	20,398,514	48	20,398,562
New Romanian Leu	2,668,978	-	2,668,978
New Russian Ruble	51,547,278	104,930	51,652,208
New Taiwan Dollar	23,594,599	15,139	23,609,738
New Zealand Dollar	-	1,825	1,825
Nigerian Naira	2,044,615	-	2,044,615
Norwegian Krone	1,595,678	33,989	1,629,667
Peruvian Nuevo Sol	1,880,926	-	1,880,926
Philippine Peso	935,542	-	935,542
Polish Zloty	9,790,428	2,463	9,792,891
Qatari Rial	1,663,502	-	1,663,502
Russian Ruble	9,943,706	1,685,655	11,629,361
Singapore Dollar	7,271,795	3,579	7,275,374
South African Rand	39,150,858	(37,118)	39,113,740
South Korean Won	84,116,875	139	84,117,014
Swedish Krona	9,229,267	-	9,229,267
Swiss Franc	23,410,496	(189,900)	23,220,596
Thai Baht	11,620,628	-	11,620,628
Total foreign currency subject to risk	905,012,640	(7,054,826)	897,957,814
Investments not subject to risk	10,121,279,284	282,748,222	10,404,027,506
Total investments	<u>\$ 11,026,291,924</u>	<u>275,693,396</u>	<u>11,301,985,320</u>

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, ERB will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. All securities are held by ERB’s custody bank in the name of ERB.

All investments were held by State Street (Boston, Massachusetts) during fiscal year 2015 in the name of ERB, once transitioned from the prior custody bank on July 1, 2014. During the prior fiscal year investments were held by J.P. Morgan (Dallas, Texas) in the name of ERB.

Interest Rate Risk – Interest rate risk relates to changes in interest rates that will adversely affect the fair value of an investment. ERB does not have a policy for interest rate risk management. This risk is managed through duration, by operating within defined risk parameters. ERB uses a weighted average method to determine the duration of its investments.

Schedule of Interest Rate Risk

Investment Type	Duration (Years)			
	2015	2014	2015	2014
U.S. treasury securities	\$ 336,182,244	328,169,191	6.11	5.83
U.S. government & government related obligations	246,231,807	53,982,302	4.25	3.47
International government obligations	230,542,041	58,451,211	7.89	5.61
Corporate obligations	903,877,940	1,025,740,824	3.77	2.95
Asset & mortgage backed securities	202,893,562	174,130,475	2.63	1.30
Short term investments	-	60,069,681	0.00	0.02
Total	<u>\$1,919,727,594</u>	<u>1,700,543,684</u>	<u>4.21</u>	<u>3.75</u>

Concentration Risk – Concentration risk is identified by the amount of investment in any one issuer that represents 2% or more of the fiduciary net position. As of June 30 2015 and 2014, with the exception of U.S. Government and Agency securities, ERB was not exposed to any concentration risk greater than 2%.

Credit Risk -Credit risk for investments is the risk that an issuer or other counterparty to an investment agreement will not fulfill its obligations. Credit risk is managed through diversification and by operating within defined parameters versus a benchmark index. Excluding those investments issued by, or explicitly guaranteed by, the U.S. government, which are not considered to have credit risk, ERB’s credit quality distribution for investments with credit risk exposure at June 30, 2015 and 2014, is presented in the Summary of Investments by Rating schedule. ERB’s investments were rated and categorized according to Standard & Poor’s rating standards. The schedule below summarizes the investments subject to credit risk by category as of June 30, 2015 and 2014. Detail schedules of investments by category and credit risk follow.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Summary of Investments Subject to Credit Risk, at fair value

Investment Description	2015	2014
Total asset & mortgage-backed securities	\$ 283,762,353	202,803,501
Total collateralized debt obligations	27,037,901	23,230,839
Total corporate securities	685,421,361	743,829,734
Subtotal bank loans	190,088,441	268,325,647
Subtotal municipal & provincial bonds	13,082,965	13,478,081
Subtotal foreign government bonds	108,379,521	158,240,206
Subtotal treasury bills	24,564,500	1,256,110
Total other fixed income	156,419,763	20,504,340
Other investments not subject to credit risk	<u>9,369,737,836</u>	<u>9,594,623,466</u>
Grand total investments, at fair value	<u>\$ 10,858,494,641</u>	<u>11,026,291,924</u>

Detail comparative schedules of investments by category, credit risk, and fiscal year follow.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year					
Investment Type	Rating	2015	Rating	2014	
Asset & mortgage-backed securities					
Asset-backed securities	A	\$ 1,099,316	A	2,550,282	
	A-	-	A-	854,815	
	A+	-	A+	195,539	
	AA+	-	AA+	1,378,301	
	AAA	3,241,584	AAA	2,381,679	
	B	691,149	B	-	
	B-	-	B-	612,869	
	BB+	-	BB+	877,807	
	BBB	494,094	BBB	631,958	
	BBB-	-	BBB-	239,610	
	BBB+	-	BBB+	769,620	
	CC	1,153,757	CC	20,746	
	CCC	-	CCC	1,540,467	
	CCC-	322,826	CCC-	407,060	
D	164,786	D	251		
NR	2,986,418	NR	3,748,066		
Subtotal asset-backed securities		10,153,930		16,209,069	
Commercial mortgage-backed securities	A	2,826,195	A	3,299,452	
	A-	367,461	A-	509,665	
	A+	875,115	A+	4,390,579	
	AA	3,046,656	AA	5,001,021	
	AA+	3,381,924	AA+	834,653	
	AAA	4,867,260	AAA	14,339,622	
	B	1,114,049	B	514,213	
	B-	500,560	B-	458,215	
	B+	654,660	B+	829,051	
	BB	52,541	BB	54,391	
	BB+	165,788	BB+	173,577	
	BBB-	1,050,608	BBB-	8,627,366	
	BBB+	4,960,198	BBB+	11,761,347	
	CCC	-	CCC	674,453	
CCC+	-	CCC+	226,626		
D	-	D	842,095		
NR	8,260,028	NR	8,173,049		
Subtotal commercial mortgage-backed		32,123,043		60,709,376	
Non commercial mortgage-backed securities	AA-	1,105,129	AA-	-	
	AA+	232,695,452	AA+	122,521,250	
	NR	4,735,165	NR	-	
Subtotal non commercial mortgage-backed		238,535,746		122,521,250	
Residential mortgage-backed	CCC	2,949,634	CCC	3,363,806	
Total asset & mortgage-backed securities		\$ 283,762,353		202,803,501	

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year					
Investment Type	Rating	2015	Rating	2014	
Collateralized debt obligations					
Collateralized debt-loan obligations	AA-	\$ 83,773	AA-	2,835,345	
	AA+	2,832,141		-	
	B	-	B	1,664,100	
	B-	649,766	B-	645,737	
	B+	1,818,900	B+	-	
	BB	531,576	BB	730,232	
	BB+	1,054,040	BB+	2,213,050	
	BBB+	-	BBB+	474,071	
	CCC	373,307	CCC	-	
	CCC+	635,976	CCC+	728,997	
	NR	1,638,913	NR	1,851,184	
Subtotal collateralized debt-loan		9,618,393		11,142,716	
Collateralized mortgage obligation/REMIC	A-	869,879		-	
	A+	757,939	A+	565,209	
	AA	2,226,577	AA	-	
	AA-	352,351	AA-	-	
	AA+	-	AA+	836,513	
	AAA	2,034,580	AAA	1,970,250	
	B	-	B	675,894	
	BBB	-	BBB	1,025,729	
	BBB-	1,695,616	BBB-	1,337,587	
	BBB+	466,384	BBB+	581,623	
	CC	761,247	CC	846,772	
CCC	-	CCC	966,135		
D	555,888	D	2,194,884		
NR	7,699,047	NR	1,087,526		
Subtotal collateralized mortgage obligation/R		17,419,508		12,088,123	
Total collateralized debt obligations		\$ 27,037,901		23,230,839	

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year					
Investment Type	Rating	2015	Rating	2014	
Corporate securities					
Corporate bonds	A	\$ 32,536,377	A	35,525,907	
	A-	60,868,317	A-	73,579,414	
	A+	15,750,496	A+	13,581,147	
	AA	4,493,496	AA	2,850,945	
	AA-	13,561,582	AA-	7,577,036	
	AA+	5,502,444	AA+	4,917,261	
	AAA	3,859,182	AAA	373,031	
	B	30,340,803	B	14,610,140	
	B-	45,442,098	B-	58,470,962	
	B+	11,501,904	B+	8,408,611	
	BB	3,986,095	BB	1,565,433	
	BB-	787,193	BB-	2,624,787	
	BB+	17,909,299	BB+	12,155,066	
	BBB	71,922,281	BBB	69,839,101	
	BBB-	58,040,638	BBB-	58,488,780	
	BBB+	83,256,376	BBB+	69,048,894	
	C	2,569,968	C	2,969,250	
	CC	13,050	CC	571,200	
	CCC	9,779,349	CCC	15,971,976	
	CCC-	7,842,654	CCC-	25,730,506	
CCC+	64,233,090	CCC+	42,867,696		
D	10,959,855	D	8,180,217		
NR	38,098,600	NR	102,262,848		
Subtotal corporate bonds		593,255,149		632,170,208	
Corporate convertible bonds	CCC	1,899,333		-	
	NR	11,125,350	NR	13,631,012	
Subtotal convertible bonds		13,024,684		13,631,012	
Common stock	N/A	75,492,827	N/A	92,993,837	
Preferred stock	D	683,692	D	730,209	
	NR	2,965,010	NR	4,304,468	
Subtotal preferred stock		3,648,702		5,034,677	
Total corporate securities		\$ 685,421,361		743,829,734	

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Bank Loans, Bonds, and Treasury Bills				
Bank loans	B	\$ 2,278,929	B	7,174,861
	B-	29,826,271	B-	14,868,320
	B+	5,213,763	B+	14,210,746
	BB	230,234		-
	BB-	2,402,156	BB-	(110,712)
	BB+	2,424,224		
	CCC	6,751,736	CCC	10,696,722
	CCC-	2,938,487	CCC-	6,807,880
	CCC+	21,743,380	CCC+	25,748,680
	D	10,713,862	D	14,819,805
	NR	105,565,399	NR	174,109,344
Subtotal bank loans		190,088,441		268,325,647
Municipal & provincial bonds	A	-	A	2,258,611
	A-	7,411,718	A-	6,230,958
	A+	-	A+	2,252,107
	AA	-	AA	1,545,951
	AA-	184,322	AA-	991,191
	AA+	1,483,605	AA+	199,264
	CCC-	2,623,656	CCC-	-
	NR	1,379,664	NR	-
Subtotal municipal & provincial bonds		13,082,965		13,478,081
Foreign government bonds	A	18,630,179	A	25,111,778
	A-	7,291,537	A-	10,510,943
	AA-	1,396,745	AA-	3,429,431
	AA+	1,824,238	AA+	21,579,345
	AAA	3,005,640	AAA	622,139
	B-	-	B-	294,000
	B+	486,983	B+	-
	BB	-	BB	7,511,959
	BB+	5,302,387	BB+	1,312,986
	BBB	2,287,012	BBB	12,152,394
	BBB-	7,262,045	BBB-	3,638,846
	BBB+	24,821,102	BBB+	19,951,968
	CCC	161,175	CCC	-
	CCC-	691,538	CCC-	-
	NR	35,218,942	NR	52,124,417
Subtotal foreign government bonds		108,379,521		158,240,206
Treasury bills	BBB+	-	BBB+	398,297
	NR	24,564,500		857,813
Subtotal treasury bills		24,564,500	NR	1,256,110
Total bank loans, bonds, and treasury bills		\$ 336,115,428		\$ 441,300,044

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year				
Investment Type	Rating	2015	Rating	2014
Other Investments				
Other fixed income	AAA	\$ (10,254,111)	AAA	-
	B	1,312,405	B	-
	B/B-	139,159,637	B/B-	-
	B-	5,110,316	B-	9,241,025
	B+	3,612,788	B+	-
	BB	3,019,170	BB	-
	BB+	204,496	BB+	2,072,892
	BBB-	821,496	BBB-	-
	C	139,394	C	-
	CC	91,378	CC	-
	CCC-	70,351	CCC-	-
	CCC+	637,328	CCC+	-
	D	142,924	D	-
NR	12,352,191	NR	9,190,422	
Total other fixed income		\$ 156,419,763		20,504,339
Other investments not subject to credit risk		\$ 9,369,737,836		9,594,623,466
Grand total investments, at fair value		\$10,858,494,641		11,026,291,924

Cash Balances – ERB earns interest on all monies held at the custodial agent bank. When a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date the cash remains with custodial agent bank. When this occurs, ERB’s money is invested overnight in a Short-Term Investment Fund (STIF).

NOTE 7. DERIVATIVE INSTRUMENTS

Derivatives are generally defined as contracts or securities whose value depend on, or derive from, the value of an underlying asset, reference rate, or index.

The Board has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of derivative instruments. This note describes the Board’s investment derivative instruments measured at fair value in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

ERB’s investment policies do allow for certain portfolio managers to trade in certain derivatives for hedging purposes.

The notional or contractual amounts of derivatives indicate the extent of the Board’s involvement in the various types and uses of derivative financial instruments and do not measure the Board’s exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and other terms of the derivatives.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

The following table summarizes the aggregate notional or contractual amounts related to ERB's derivative financial instruments as of June 30, 2015 and 2014.

Notional Amounts, fair value (000's)		
Description	2015	2014
Futures contracts - long	\$ -	1,043
Futures contracts - short	-	37,743
Foreign exchange forward contracts, net	107,160	200,722
Swaps - credit default swap	-	1,870
Swaps - index swap	-	227
Swaps - interest rate swap	32,023	-

The fair values of derivative instruments outstanding as of June 30, 2015 and 2014 are classified by type and by the changes in fair value of the derivative instrument in the following table.

Unrealized Gain/(Loss) at fair value as of June 30, 2015 (000's)				
Derivative Type	Classification	Gain/(Loss)	Classification	Amount
Futures	Investment Income	\$ (1,579)	Investment	-
Options - purchased	Investment Income	(116)	Investment	-
Options - sold	Investment Income	309	Investment	-
Swaps - credit default swap	Investment Income	(30)	Investment	-
Swaps - index swaps	Investment Income	-	Investment	-
Swaps - interest rate swaps	Investment Income	359	Investment	(66)

Unrealized Gain/(Loss) at fair value as of June 30, 2014 (000's)				
Derivative Type	Classification	Gain/(Loss)	Classification	Amount
Futures	Investment Income	\$ (216)	Investment	(304)
Options - purchased	Investment Income	9	Investment	9
Options - sold	Investment Income	(15)	Investment	(15)
Swaps - credit default swap	Investment Income	(51)	Investment	24
Swaps - index swaps	Investment Income	(6)	Investment	23
Swaps - interest rate swaps	Investment Income	-	Investment	-

Derivative Risks – There are certain risks inherent in investments in derivatives. ERB is exposed to credit risk in the event of non-performance by counterparties to financial instruments. Portfolio managers authorized to invest in derivatives manage the contractual obligation within established policy parameters for both the types of derivatives and the counterparty ratings. This ensures derivative contracts are made with high quality institutions. ERB is exposed to market risk in the event that changes in market conditions cause investments to decline in value. Exposure to market risk is managed within guidelines related to the types of instruments bought or sold and parameters for offsetting positions. Foreign currency risk is the risk that changes in exchange rates will adversely affect the investments. Managers of these assets are given discretion to hedge this risk.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Foreign Currency Exchange Contracts – ERB may enter into forward contracts to purchase and sell foreign currencies in the normal course of its investing activities to manage the currency exposure associated with ERB’s foreign equity and fixed income investments. The terms of these contracts generally do not exceed one year. The credit risk associated with these contracts is minimal as they are entered into with a limited number of highly rated counterparties. The following tables summarize ERB’s foreign exchange contracts by currency as of June 30, 2015 and 2014.

Summary of Foreign Exchange Contracts by Currency at June 30, 2015

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Australian Dollar	\$ 2,267,538	(8,887)	2,235,755	(22,896)
Brazilian Real	5,766,241	(2,912)	6,157,832	56,108
Chilean Peso	1,292,022	(38,408)	1,416,667	86,258
Chinese Renminbi Yuan	5,890,146	73,686	8,529,670	13,805
Chinese Renminbi Yuan (Offshore)	-	(4,572)	-	-
Colombian Peso	737,220	(120,380)	1,076,250	49,230
Euro	3,333,914	(33,166)	4,935,427	19,637
Hong Kong Dollar	-	-	-	-
Hungarian Forint	211,638	(4,333)	194,898	(4,740)
Indian Rupee	-	35,608	-	616
Indonesian Rupiah	-	19,086	485,562	(40,406)
Japanese Yen	1,300,722	15,342	1,852,238	(27,782)
Malaysian Ringgit	4,143,177	(31,588)	356,615	(666)
Mexican Peso	5,455,165	(119,667)	4,637,909	94,410
New Israeli Sheqel	1,304,772	20,652	1,293,823	(31,602)
New Russian Ruble	4,278,194	(191,107)	2,759,804	(88,947)
New Taiwan Dollar	640,695	4,294	648,420	3,430
Peruvian Nuevo Sol	-	1,865	-	-
Philippine Peso	82,505	(8,282)	41,098	8,339
Polish Zloty	1,432,185	8,015	480,479	16,617
Romanian Leu	255,793	4,570	-	3,821
Singapore Dollar	527,361	(269)	1,356,109	20,983
South African Rand	5,155,931	105,963	9,517,915	(53,413)
South Korean Won	-	-	-	-
Swiss Franc	-	-	-	12,539
Thai Baht	2,023,809	(2,201)	-	2,087
Turkish Lira	6,634,531	43,785	6,449,531	(51,122)
Total	\$ 52,733,561	(232,904)	54,426,001	66,307

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Summary of Foreign Exchange Contracts by Currency at June 30, 2014

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Australian Dollar	\$ -	88,000	-	(99,374)
Brazilian Real	20,964,000	230,000	-	(247,220)
British Pound Sterling	-	-	44,148,957	(24,123)
Canadian Dollar	-	3,000	-	(27,255)
Chilean Peso	775,000,000	11,000	-	(41,318)
Chinese Renminbi Yuan	27,400,000	(62,000)	813,000,000	20,971
Colombian Peso	7,605,303,000	86,000	6,500,000	(46,801)
Euro	1,378,000	22,000	4,373,202,348	164,170
Hungarian Forint	500,175,000	118,000	-	31,714
Indian Rupee	213,300,000	(36,000)	507,971,281	(616)
Indonesian Rupiah	7,700,000,000	(19,000)	101,000,000	45,692
Japanese Yen	-	361,000	19,076,928,115	(116,057)
Malaysian Ringgit	5,431,000	22,000	-	(358)
Mexican Peso	75,215,000	383,000	530,338	(418,848)
Taiwan Dollar	-	5,000	2,023,802	(4,652)
Peruvian Nuevo Sol	594,000	(2,000)	8,536,143	(2,155)
Philippine Peso	19,152,000	76,000	-	(119,739)
Polish Zloty	9,555,000	25,000	16,700,000	(27,381)
Romanian Leu	1,168,000	9,000	15,892,914	(3,821)
Russian Ruble	52,067,000	92,000	3,156,846	(592,657)
Singapore Dollar	-	47,000	201,968,139	(111,306)
South African Rand	14,958,000	(3,000)	4,700,000	2,123
South Korean Won	-	74,000	23,032,372	(70,376)
Swiss Franc	-	-	1,607,511	(12,539)
Thai Baht	30,591,000	5,000	38,600,000	3,072
Turkish Lira	8,453,000	45,000	-	(29,944)
U.S. Dollar	52,013,000	-	48,065,216	-
Total	\$ 17,112,717,000	1,580,000	25,287,563,982	(1,728,798)

Futures Contracts – ERB enters into futures contracts in the normal course of its investing activities to manage market risk associated with the Plan’s equity and fixed income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the Statement of Fiduciary Net Position. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

During 2015 and 2014, ERB was a party to futures contracts held for trading purposes for U.S. Treasury bonds and 90-day Euro dollar fixed income futures. Upon entering into a futures contract, the Board is required to deposit either in cash or securities an amount (“initial margin”) equal to a certain percentage of the nominal value of the contract.

Subsequent payments are then made or received by ERB, depending on the daily fluctuation in the value of the underlying contracts. No U.S. Treasury securities owned and included within ERB’s investments, were held by the Plan’s broker as performance security on futures contracts as of June 30, 2015.

Summary of Outstanding Futures Contracts - 2015

There were no outstanding contracts as of fiscal year ending June 30, 2015.

Summary of Outstanding Futures Contracts - 2014

	<u>No. of Contracts</u>	<u>Notional Amount</u>
Futures contracts - long	148	\$ 1,052,500
Futures contracts - short	509	\$ 37,742,500
		<u>Fair Value</u>
Margin Deposit		\$ 750,061

Options – An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (“call option”), or sell to (“put option”), the writer of a designated instrument at a specified price within a specified period of time. When ERB purchases or writes an option, an amount equal to the premium paid or received by the Plan is recorded as an asset or liability and is subsequently adjusted to the current market value of the option purchased or written. Gain or loss is recognized when the option contract expires or is closed. As of June 30, 2015, there were no open written or purchased options.

Swap Contracts – Swap contracts are executed on a number of different bases. ERB employed both interest rate swap contracts and credit default swap contracts on June 30, 2015 and June 30 2014. An interest rate swap contract is an agreement between two parties to exchange periodic interest payments. One party agrees to make payments to the other based on a fixed rate of interest in exchange for payments based on a variable rate. ERB employs interest rate swap contracts to adjust fixed income portfolio durations. A credit default swap contract is similar to an insurance policy, with the credit risk of an individual issuer or a basket of issuers (the “reference asset”) the insured factor. Under such a contract, two parties enter into an agreement whereby the first party pays the second party a fixed periodic payment for the specified life of the contract (analogous to an insurance premium). The other party makes no payment unless a credit event related to the reference asset occurs. If such an event takes place, the second party is obligated to make a payment to the first party. The size of the payment is linked to the decline in the reference asset’s market value following determination of the occurrence of a credit event.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Hedge Funds – The use of other derivatives is allowed under the Hedge Fund Investment Policy. These investments are under the management of the Hedge Fund managers who are employed in the “Hedge Fund”, “Emerging Market Debt,” and “Opportunistic Credit” classifications.

Asset -Backed Securities – In accordance with investment policy and fiduciary principles, the Plan invests in various forms of asset-backed securities that fit the previous definition of derivative securities. These securities are held by ERB for investment purposes. The assets presented by investment category, at fair value, are as follows:

Schedule of Asset -Backed Securities at fiscal year end June 30, 2015 and 2014

	2015	2014
Asset-Backed Securities	\$ 31,418,787	17,759,591
Collateralized Debt/Loan Obligations	9,618,393	11,142,716
Non-Agency Mortgage-Backed Securities	<u>51,000,651</u>	<u>75,112,042</u>
Total	<u>\$ 92,037,831</u>	<u>104,014,349</u>

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 8. CAPITAL ASSETS

Capital assets are used in operations and have useful lives extending beyond a single reporting period. Assets costing \$5,000 or more per Section 12-1-10, NMSA 1978 are recorded at historical cost and depreciated over their useful lives. Furniture, fixtures, and equipment are depreciated over five to ten years; building and improvements are depreciated over twenty-five years. Depreciation expense was \$157,733 and \$168,880 for the years ended 2015 and 2014, respectively. A schedule of capital asset activity for the years ended June 30, 2015 and 2014 is shown below.

Fiscal year 2015	Schedule of Capital Asset Activity			Ending Balance
	Beginning Balance	Additions	Deletions	
Capital Assets				
Land	\$ 248,172			248,172
Depreciable land improvements	19,361			19,361
Building and building improvements	3,365,714			3,365,714
Furniture and equipment	1,059,149	139,700	274,909	923,940
Other assets	30,500			30,500
Retirement Information System (IRIS)	9,115,909			9,115,909
Subtotal	<u>13,838,805</u>	<u>139,700</u>	<u>274,909</u>	<u>13,703,596</u>
Accumulated depreciation:				
Depreciable land improvements	7,043	699		7,743
Building and building improvements	1,717,236	101,435	-	1,818,672
Furniture and equipment	935,366	55,599	268,106	722,859
Retirement Information System (IRIS)	9,150,531		-	9,150,531
Subtotal	<u>11,810,177</u>	<u>157,733</u>	<u>268,106</u>	<u>11,699,805</u>
Capital assets - net	<u>\$ 2,028,628</u>	<u>(18,033)</u>	<u>6,803</u>	<u>2,003,792</u>

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 8. CAPITAL ASSETS (CONTINUED)

Fiscal year 2014	Schedule of Capital Asset Activity			Ending Balance
	Beginning Balance	Additions	Deletions	
Capital Assets				
Land	\$ 248,172	-	-	248,172
Depreciable land improvements	19,361	-	-	19,361
Building and building improvements	3,365,714	-	-	3,365,714
Furniture and equipment	1,082,574	-	23,425	1,059,149
Other assets	30,500	-	-	30,500
Retirement Information System	9,156,963	21,548	62,602	9,115,909
Subtotal	<u>13,903,284</u>	<u>21,548</u>	<u>86,027</u>	<u>13,838,805</u>
Accumulated depreciation:				
Depreciable land improvements	5,721	1,322	-	7,043
Building and building improvements	1,616,025	101,211	-	1,717,236
Furniture and equipment	948,798	8,398	21,830	935,366
Retirement Information System	9,156,963	57,949	64,381	9,150,531
Subtotal	<u>11,727,507</u>	<u>168,880</u>	<u>86,211</u>	<u>11,810,177</u>
Capital assets - net	<u>\$ 2,175,777</u>	<u>(147,332)</u>	<u>(183)</u>	<u>2,028,628</u>

NOTE 9. ACCRUED COMPENSATED ABSENCES

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon the length of service and the employee's hire date. A maximum of 30 working days (equivalent to 240 hours) of such accumulated vacation leave can be carried forward into the beginning of the next calendar year. Any excess accumulated vacation leave is forfeited on a calendar year basis.

When employees terminate employment with the State, they are compensated for accumulated vacation leave as of the termination date, up to a maximum of 240 hours. All balances for each employee have been recorded at their current pay rate as of June 30, 2015 and 2014.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave an employee can accumulate. Once per fiscal year, in either January or July, employees may elect to be paid for accrued sick leave in excess of 600 hours but less than 720 hours at 50% of their current hourly rate.

In the case of retiring employees, they may be paid for accrued sick leave in excess of 600 hours but less than 1,000 hours at 50% of their current hourly rate. All sick leave balances in excess of 600 hours but less than 720 hours for each employee have been recorded as a liability at 50% of their current hourly rate.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 10. RETIREMENT PLANS

ERB employees who do not possess a teaching or administrative certificate have the option of participating in the Educational Employees Retirement Plan or the Public Employees Retirement Plan. Some ERB employees have elected to participate in the Educational Employees Retirement Plan, while most participate in the Public Employees Retirement Plan.

Public Employees Retirement Association (PERA) – The Public Employee Retirement Plan is a qualified governmental plan under Section 401(a) of the Internal Revenue Code (IRC) administered by the Public Employees Retirement Association (PERA), which provides retirement, disability, and survivor benefits pursuant to the Public Employees Retirement Act. PERA is a cost-sharing, multiple employer defined benefit plan. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report is available at www.pera.state.nm.us.

PERA Funding Policy – Plan members are required to contribute 8.92% of their gross salary. ERB is required to contribute 16.99% of the gross covered salary. The contribution requirements for plan members and ERB are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. Total contributions from ERB and Plan members to PERA for fiscal years ended June 30, 2015 and 2014, were \$812,740 and \$709,380, respectively.

Educational Retirement Board – The Educational Retirement administers a cost sharing multiple employer Plan authorized by the Educational Retirement Act established in Chapter 10, Article 22, NMSA 1978. ERB administers the Plan which is a cost-sharing, multiple employer defined benefit plan providing retirement, disability, and survivor benefits to plan members (certified teachers and other employees of state public schools, colleges and universities, public charter schools). ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report is available at www.nmerb.org.

ERB Funding Policy –

2015 Member Contributions – Plan members whose annual salary is \$20,000 or less are required to contribute 7.9% of their gross salary. Plan members whose annual salary exceeded \$20,000 are required to contribute 10.7% of their gross salary.

2014 Member Contributions – Plan members whose annual salary is \$20,000 or less are required to contribute 7.9% of their gross salary. Plan members whose annual salary is over \$20,000 are required to contribute 10.1% of their gross salary.

2015 Employer Contributions – Employers contribute 13.9% of the gross covered salary for employees whose annual salary was \$20,000 or less, and 13.9% of the gross covered salary for employees whose salary exceeded \$20,000.

2014 Employer Contributions – Employers contribute 13.15% of the gross covered salary for employees whose annual salary was \$20,000 or less, and 13.15% of the gross covered salary for employees whose salary exceeded \$20,000.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 10. RETIREMENT PLANS (CONTINUED)

Contribution requirements of the Plan are established under Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. Total contributions from ERB and Plan members to the Plan for fiscal years ended June 30, 2015 and 2014, were \$9,221 and \$2,623, respectively.

NOTE 11. POST-EMPLOYMENT BENEFITS – RETIREE HEALTH CARE PLAN

Plan Description: ERB contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). 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 in Chapter 10, Article 7C NMSA 1978. RHCA 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 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 as defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years.

RHCA issues a publicly available financial report that includes financial statements and required supplementary information for the post-employment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle Blvd NE, Suite 104, Albuquerque, NM 87107-4849 or at <https://www.nmrhca.state.nm.us>.

Funding Policy. The Retiree Health Care Act under Section 10-7C-13, NMSA 1978, authorizes the RHCA Board of Trustees 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 governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium rate to cover their claims and the administrative expenses of the RHCA plan. The monthly premium rate schedule can be viewed on their website at www.nmrhca.state.nm.us.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014

NOTE 11. POST-EMPLOYMENT BENEFITS-RETIREE HEALTHCARE PLAN
(CONTINUED)

The employer, employee and retiree contributions are required to be remitted to RHCA on a monthly basis. The requirements of the plan can be amended by acts of the legislature.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

ERB's employer contributions to RHCA for the years ending June 30, 2015 and 2014 were \$63,497 and \$55,678, respectively. Employee contributions were \$31,748 and \$36,915 respectively.

NOTE 12. RISK MANAGEMENT

ERB is exposed to various risks of loss for which it carries insurance (auto, employee bond, general liability, civil rights and foreign jurisdiction, money and securities, property, and workers' compensation) with the Risk Management Division (RMD) insurance program of the New Mexico General Services Department (GSD). The Plan's coverages are designed to satisfy the requirements of State tort claims. All claims are processed through RMD.

NOTE 13. STATUTORY DISCLOSURES

Section 2.2.2.10P(2) of the Audit Rule 2011, 2.2.2 NMAC entitled, "Requirements for Contracting and Conducting Audits of Agencies" requires that state agencies disclose all special, deficiency, and specific appropriations. ERB had no open appropriations as of fiscal year end 2015.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY
Years Ended June 30, 2015 and 2014

	2015	2014
Total Pension Liability		
Service cost	\$ 346,956,028	350,247,724
Interest	1,321,047,780	1,254,730,237
Benefit changes	-	-
Difference between actual & expected experience	(86,722,485)	(114,507,809)
Assumption changes	299,084,856	-
Benefit payments and refunds	<u>(957,183,402)</u>	<u>(907,214,467)</u>
Net Change in Pension Liability	923,182,777	583,255,685
Total Pension Liability - Beginning	<u>17,051,806,637</u>	<u>16,468,550,952</u>
Total Pension Liability - Ending (a)	<u>\$ 17,974,989,414</u>	<u>17,051,806,637</u>
Plan Fiduciary Net Position		
Employer contributions	\$ 395,129,621	362,462,537
Member contributions	292,822,396	268,693,991
Pension plan net investment income	423,329,794	1,444,371,472
Benefit payments and refunds	(957,183,402)	(907,214,467)
Pension plan administrative expense	(10,597,846)	(16,617,970)
Other	<u>8,146,727</u>	<u>2,681,458</u>
Net change in plan fiduciary net position	151,647,291	1,154,377,021
Plan fiduciary net position - beginning	<u>11,346,075,824</u>	<u>10,191,698,803</u>
Plan fiduciary net position - ending (b)	<u>\$ 11,497,723,115</u>	<u>11,346,075,824</u>
Net pension liability (a-b)	<u>\$ 6,477,266,299</u>	<u>5,705,730,813</u>
Plan fiduciary net position as a percentage of total pension liability	63.97%	66.54%
Covered employee payroll	\$ 2,730,320,345	2,718,100,677
Net pension liability as a percentage of covered employee payroll	237.23%	209.92%

Notes to schedule:

The change in total pension liability due to assumption changes for the fiscal year ending June 30, 2015 includes the impact of the new assumptions adopted by the Board of Trustees on June 12, 2015.

The covered employee payroll is the actual payroll, imputed from the total employer contribution for active members, for the fiscal years ending June 30, 2015 and 2014.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY
Years Ended June 30, 2015 and 2014

	2015	2014
Total pension liability	\$ 17,974,989,414	17,051,806,637
Plan fiduciary net position	<u>(11,497,723,115)</u>	<u>(11,346,075,824)</u>
Employer net pension liability	<u>\$ 6,477,266,299</u>	<u>5,705,730,813</u>
Plan fiduciary net position as a percent of total pension liability	63.97%	66.54%
Employer covered employee payroll	\$ 2,730,320,345	2,718,100,677
Net pension liability as a percentage of covered employee payroll	237.23%	209.92%

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF INVESTMENT RETURNS**

Fiscal Year Ending	Annual Money - Weighted Rate of Return
2015	4.06%
2014	14.71%
2013	11.12%
2012	1.87%
2011	19.30%

Note

Governmental Accounting Standards Board (GASB) Statement 67 requires pension plans to disclose the annual money-weighted rate of return. This figure incorporates both the size and the timing of cash flows to determine an internal rate of return. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. The rate should be computed net of investment expenses but not net of administrative expenses.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ending	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2015	\$ 450,950,584	\$ 395,129,621	\$ 55,820,963	\$2,730,320,345	14.47%
2014	\$ 479,884,486	\$ 362,462,537	\$ 117,421,949	\$2,718,100,677	13.34%
2013	\$ 480,700,326	\$ 299,657,530	\$ 181,042,796	\$2,706,170,349	11.07%

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	Amortized over a closed thirty-year period from June 30, 2012 ending June 30, 2042
Asset Valuation Method	Five-year smoothed market
Inflation	3.00%
Salary Increases	Composed of 3.00% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than ten years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table of rates based on age and service. Adopted by ERB on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment, projected to 2015 using Scale AA (with one-year setback for females)

OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
As of and for the Year ended June 30, 2015

(Unaudited)

	Original		Actual	Variance -
	Budget	Final Budget	Budgetary Basis	Final Budget
				Favorable
				(Unfavorable)
Revenues:				
Other state funds	\$ 30,055,300	30,465,300	30,465,300	-
Total budgeted revenue	<u>\$ 30,055,300</u>	<u>30,465,300</u>	<u>30,465,300</u>	<u>-</u>
Expenses:				
Personal services and employee benefits	\$ 5,595,400	5,880,400	5,594,200	286,200
Contractual services	23,548,200	23,448,200	20,928,600	2,519,600
Other Costs	911,700	1,136,700	1,101,800	34,900
Total expenses	<u>\$ 30,055,300</u>	<u>30,465,300</u>	<u>27,624,600</u>	<u>2,840,700</u>
Reconciliation of GAAP basis to budgetary basis:				
Revenue GAAP basis			\$ 829,102,996	
Net appreciation (depreciation) in investment value			308,403,714	
Investment advisor and custody fees			(18,078,167)	
Current year revenue not needed for budgeted expenses			<u>(1,088,963,243)</u>	
Revenue - budgetary basis			<u>\$ 30,465,300</u>	
Expenses GAAP basis - administrative			\$ 9,710,969	
Depreciation expense			(164,536)	
Investment advisor and custody fees			18,078,167	
Expenses - budgetary basis			<u>\$ 27,624,600</u>	

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF CASH BALANCES**

As of and for the Years ended June 30, 2015 and 2014

(Unaudited)

**Educational Employees' Retirement Fund
Pension Trust Account
Fund 60500**

	2015	2014
Petty Cash	\$ 100	100
Qualified Excess Benefit Arrangement Trust	407,271	211,210
Checking account at Wells Fargo Bank	7,891,352	1,804,456
Short term investment accounts:		
LGIP - State Treasurer's Office	100,000,000	-
Short term investment funds - STIF	<u>445,161,540</u>	<u>275,693,396</u>
	<u>\$ 553,460,263</u>	<u>275,693,396</u>
 Pledged collateral for Wells Fargo demand deposit account:		
Total amount on deposit at June 30	\$ 407,371	211,210
Less: Federal Deposit Insurance Corporation coverage	<u>(250,000)</u>	<u>(211,210)</u>
Total uninsured public funds	<u>\$ 157,371</u>	<u>-</u>

Notes

With respect to credit risk, the Local Government Investment Pool (LGIP) maintained by the State Treasurer's Office (STO) is rated AAAM by Standard & Poor's. As a Public Fund, STO is not required to disclose custodial risk for this fund.

STO uses the Weighted Average Maturity (WAM) method to report interest rate risk. As of June 30, 2015 the LGIP WAM (R) is 54.6 days and the WAM (F) is 77.7 days where WAM (R) indicates the number of days until the floating interest rate Resets, and WAM (F) indicates the number of days to Final maturity.

Additional information can be found on STO's website at www.nmsto.gov.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF ADMINISTRATIVE, CONSULTANT,
AND BUDGETED INVESTMENT EXPENSES**

As of and for the Year ended June 30, 2015

(Unaudited)

	2015
Personal Services and Benefits	
Salaries	\$ 3,618,300
Benefits	1,975,900
Total Personal Services and Benefits	<u>5,594,200</u>
Consultant Services	
Medical Review Board Fees	20,700
Audit Fees	88,300
Legal Fees	1,094,400
Information Technology Fees	1,310,800
Other Consultant Service Fees	211,325
Total Consultant Services Expenses	<u>2,725,525</u>
Budgeted Investment Expenses	
Custodial Expenses	982,600
Investment Manager Expenses	
Non-U.S. Fixed Income	401,600
Domestic Fixed Income	1,018,600
Domestic Equity	1,387,400
Non-U.S. Equity	11,296,900
Investment Consulting Expenses	1,486,900
Other Investment Expenses	1,629,075
Total Budgeted Investment Expenses	<u>18,203,075</u>
Other Administrative Expenses	
Building and Maintenance	173,800
Dues and Subscriptions	40,300
Employee and Board Travel	25,500
Inventory and Supplies	23,300
IT Equipment	572,800
Training and Education	37,400
Telecommunication Services	143,100
Utilities	30,100
Other Miscellaneous Expenditures	55,500
Total Other Administrative Expenses	<u>1,101,800</u>
Total Administrative, Consultant & Budgeted Investment Expenses	<u>\$ 27,624,600</u>

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF ACCOUNTABILITY IN GOVERNMENT ACT
PERFORMANCE MEASURES**

**As of and for the Year ended June 30, 2015
(Unaudited)**

Type	Description	FY15	
		Target	Actual
Outcome	Average rate of return over a cumulative five-year period	7.75%	10.10%
Outcome	Member seminar and training satisfaction ratings	95%	95%
Output	Number of member workshops conducted	30	21
Outcome	Average number of days to process refund requests *	12	15
Output	Number of benefit estimates and purchase service requests computed annually **	6,000	4,130
Outcome	Funding period of unfunded actuarial accrued liability in years ***	<30	43.2

ERB reports annual performance measures (outputs and outcomes) through the state's budget process in pursuit of cost-effective and responsive government services in conformance with the Accountability in Government Act (Sections 6-3A-1 to 6-3A-9 NMSA 1978). Agency performance measures are included in the General Appropriations Act. ERB selected the measures shown above based on our primary services of prudent asset management, pension administration services, provision of membership and educational employer outreach and training for, and reliable payment processing.

Notes:

* Member withdrawals of ERB plan contributions are governed by Internal Revenue Code (IRC) for pensions which imposes a 30-day waiting period. This time period can be waived in part by written application, bringing the waiting period to the shorter of 20 working days or as soon as is administratively possible.

** ERB has increased member access to forms, demographic information, and a retirement benefit calculator through our website. In response to this access, the average number of unique visitors to ERB's site increased 120% for January through June 2015 over the same period in 2014. January through June represents the highest period of activity for teacher retirements. Visits overall increased by 260% for the same periods.

*** ERB's contribution rate structure is intended to be sufficient to pay ERB's normal service cost and to amortize the unfunded actuarial accrued liability (UAAL) in payments which are level as a percentage of payroll. Except for short-term fluctuations, the amortization period should not extend beyond June 30, 2042 (30 years from June 30, 2012) in accordance with the funding policy set by the Board of Trustees. The amortization period, or funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that ERB's experience is consistent with all of the actuarial assumptions.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF VENDOR INFORMATION**

**As of and for the Year ended June 30, 2015
(Unaudited)**

Schedule of Vendor Information - New 2015 Contracts Exceeding \$60,000 (Excluding GRT)

New Contracts - Legal (RFP Procurement)		Award	Amend	In-state	Vet/Pref	Scope of Work
RFP#	Procurement Award to:					
ERB14-05	Groom Law Group \$ 900,000 1701 Pennsylvania, Washington, DC 20006	X		N	N/A	Legal counsel for pension, tax, and fiduciary matters, including advice relating to application of the federal statutes, including the Internal Revenue Code, to ERB and the Educational Retirement Fund; provide advice regarding existing and proposed state and federal statute laws, rules, policies, and procedures to insure compliance with IRC; assist in obtaining and maintaining IRS approval of educational pension plans; assist in drafting and revising proposed statutes, rules, policies and procedures.
ERB14-05	Reinhart, Boerner, Van Deuren, S.C. \$ 300,000 22 East Mifflin St, Madison, WI 53703	X		N	N/A	
	Other Respondents:			N	N/A	
	Nixon Peabody 400 Fountain Plaza, Buffalo, NY 14202			Y	N	
	Rodey, Dickson, Sloan, Akin & Robb, 201 3rd St NW, Albuq, NM 87103			N	N/A	
	Seyfarth Shaw 131 South Dearborn, Chicago, IL 60603			N	N/A	
	Strasburger & Price LLP 901 Main St, Dallas, TX 75202			N	N/A	
	Klausner, Kaufman, Jensen & 10059 Northwest, Plantation, FL 33324			N	N/A	
ERB14-06	Foster Pepper, PLLC \$ 1,600,000 1111 Third Ave, Seattle, WA 98101	X		N	N/A	
ERB14-06	K&L Gates, LLP \$ 800,000 925 Fourth Ave, Seattle, WA 98104	X		N	N/A	
	Other Respondents			N	N/A	
	Dilworth Paxson, LLP 655 15th St, Washington, DC 20005			N	N/A	
	Hirschler Fleischer, Edgeworth 2100 East Cary St, Richmond, VA 23223			N	N/A	
	Kutak Rock, LLP 8601 N Scottsdale, Scottsdale, AZ 85253			N	N/A	
	Nossaman, LLP 50 California, San Francisco, CA 94111			N	N/A	
	Patton Boggs, LLP 1185 Avenue-Americas, NYC, NY 10036			N	N/A	
	Reinhart Boerner Van Deuren, SC 22 East Mifflin St, Madison, WI 53703			N	N/A	
	Seyfarth Shaw, LLP 975 F Street NW, Washington, DC 20004			N	N/A	
	Strasburger & Price, LLP 901 Main Street, Dallas, TX 75202			N	N/A	

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF VENDOR INFORMATION**

**As of and for the Year ended June 30, 2015
(Unaudited)**

Schedule of Vendor Information - New 2015 Contracts Exceeding \$60,000 (Excluding GRT) - Continued

Contract Amendments - Legal Department (All contracts listed are prior year, already exceeding		Award	Amend	In-state	Vet Pref	Scope of Work
RFP#	Procurement Award to:					
ERB14-03	Freedman-Boyd-Holander-Goldberg-Urias-Ward		X	Y	N	Provide legal counsel to Agency regarding investments of the Educational Retirement Fund including: activities under contract with the Agency; specialized securities in which the Fund invested and and other investment-related matters.
\$ 227,194	20 First, Plaza, Albuquerque, NM 87102					
ERB14-03	Pomerantz, LLP		X	N	N/A	
\$ 32,456	100 Park Ave, NYC, NY 10017					
	Other Respondents:					
	Bernstein Liebhard, LLP			N	N/A	
	10 East, 40th St, NYC, NY 10016					
	Bernstein Litowitz Berger Grossman			N	N/A	
	1285 Avenue-Americas, NYC, NY 10019					
	Block & Leviton, LLP			N	N/A	
	155 Federal Street, Boston, MA 02110					
	Cohen, Milstein, Sellers & Toll, PLLC			N	N/A	
	1100 New York, Washington, DC 20005					
	Foster Pepper, PLLC			N	N/A	
	1111 Third Ave, Seattle, WA 98101					
	Barrack, Rodos, Bacine			N	N/A	
	2001 Market St Philadelphia, PA 19103					
	Berman DeValerio			N	N/A	
	One California, San Francisco, CA 94111					
	Kaplan Fox & Kilsheimer, LLP			N	N/A	
	850 Third Ave, New York, NY 10022					
	Kessler, Topaz, Meltzer & Check			N	N/A	
	280 King of Prussia, Radnor, PA 19087					
	Labaton Sucharow			N	N/A	
	140 Broadway, New York, NY 10005					
	Lieff, Cabraser, Heimann & Bernstein			N	N/A	
	275 Battery St, San Francisco, CA 94111					
	Motley Rice			N	N/A	
	600 Third Ave, New York, NY 10016					
	Wolf Popper, LLP			N	N/A	
	845 Third Ave, New York, NY 10022					
	Wolf, Haldenstein, Freeman & Herz			N	N/A	
	270 Madison Ave, New York, NY 10016					

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF VENDOR INFORMATION**

**As of and for the Year ended June 30, 2015
(Unaudited)**

Schedule of Vendor Information - New 2015 Contracts Exceeding \$60,000 (Excluding GRT) - Continued

New Contracts-Administrative (Sole Source Procurement)		Award	Amend	In-state	Vet Pref	Scope of Work
RFP#	Procurement Award to:					
Sole Source \$ 885,000	ViTech Systems Group, LLC 401 Park Ave So, New York, NY 10016	X		N	N/A	Software maintenance and support

New Contracts - Administrative (RFP Procurement)		Award	Amend	In-state	Vet Pref	Scope of Work
RFP#	Procurement Award to:					
ERB15-10 \$ 202,500	REDW, LLC 7425 Jefferson St. NE Albuquerque, NM 87109 Other Respondents: Atkinson & Co., Ltd. 6501 Americas Parkway, Albuquerque, NM 87110 KPMG, LLP 6565 Americas Parkway, Albuquerque, NM 87110 Barracough & Associates P.C. 807 Camino Monte Rey, Santa Fe, NM 87505	X		Y	N	Provide independent, objective internal audit services that add value and improve agency operations

Contract Amendments - Administrative (All contracts listed are prior year, already exceeding \$60,000)		Award	Amend	In-state	Vet Pref	Scope of Work
RFP#	Award to:					
ERB11-03 \$ 135,184	Moss Adams, LLP 6565 Americas Parkway NE, Albuquerque, NM 87110		X	Y	N	Financial audit services - including separate GASB 68 reports

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF VENDOR INFORMATION**

**As of and for the Year ended June 30, 2015
(Unaudited)**

Schedule of Vendor Information - New 2015 Contracts Exceeding \$60,000 (Excluding GRT) - Continued

New Contracts - Investments - Exemption 13-1-98CC applies to all investment contracts		Award	Amend	In-state	Vet Pref	Scope of Work
RFP#	Award to:					
N/A	Eaton Vance Corporation	X		N	N/A	Parametric emerging markets equity fund services
Fee Schd	Two International Pl, Boston, MA 02110					
N/A	Top Tier	X		N	N/A	Develop/ update private equity portfolio strategies and policies
\$ 625,000	600 Montgomery, San Francisco, CA 84111					
N/A	Robeco Institutional	X		N	N/A	Management services for publicly traded Eemerging
Fee Schd	909 Third Ave, New York, NY 10022					
N/A	State Street Bank & Trust	X		N	N/A	Custody bank services for complete fund
Fee Schd	1776 Heritage Dr, North Quincy, MA 02171					

Contract Amendments - Investments - Exemption 13-1-98CC applies to all investment contracts		Award	Amend	In-state	Vet Pref	Scope of Work
RFP#	Award to:					
N/A	QED Financial Systems, Inc.		X	N	N/A	Investment related Q2 software maintenance
Fee Schd	10000 Sagemore Dr, Marlton, NJ 08053					
N/A	Brookfield Investment Managers		X	N	N/A	Manage investment portfolio
Fee Schd	250 Vessey St, New York, NY 10281					
N/A	Lord Abbett		X	N	N/A	Manage investment portfolio
Fee Schd	90 Hudson St, Jersey City, NJ 07302					
N/A	Black Rock Financial Management		X	N	N/A	Black Rock Aladdin software service for fixed income trading
Fee Schd	227 West Trade St, Charlotte, NC 28290					

**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**

The Members of the State of New Mexico
Educational Retirement Board
and
Mr. Timothy M. Keller
New Mexico State Auditor

We have audited, in accordance with the 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 New Mexico Educational Retirement Board (the "ERB") as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the ERB's basic financial statements, and the Schedule of Revenues and Expenses-Budget to Actual presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2015, and have issued our report thereon dated November 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the ERB'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 the ERB's internal control. Accordingly, we do not express an opinion on the effectiveness of the ERB'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.

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.

The Members of the State of New Mexico
Educational Retirement Board
and
Mr. Timothy M. Keller
New Mexico State Auditor

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ERB's 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Finding 2015-001 and Finding 2015-002.

ERB's Response to Findings

ERB's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. ERB's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
November 12, 2015

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2015

2014-001	Regulations Governing the Per Diem Mileage Act – Non-compliance	Resolved
2014-002	Financial Close & Reporting of the Investment Cycle – Significant Deficiency	Resolved

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2015**

A. OTHER MATTERS AS REQUIRED BY THE NEW MEXICO STATE AUDIT RULE

None

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2015-001 Census Data (Other Matter)

CRITERIA

Management of a cost-sharing pension plan is responsible for the preparation and fair presentation of financial statements that report the plan's total pension liability and resulting employers' net pension liability at the measurement date. The total pension liability valuation is estimated by the plan's actuary based on complete and accurate member census data received from each of the plan's employers.

CONDITION

During our audit of member census data, we identified 345 individuals that were not included in the original census data sent to the actuary. We also noted that 749 individuals were reported without birth dates and 39 of these individuals were fully vested in their accumulated plan benefits.

CAUSE

Management performed queries of participant data from the plan's recordkeeping database and submitted the census data to the actuary. The submitted census data omitted information for certain inactive employees and other older employee records that were carried forward from a legacy recordkeeping system.

EFFECT

Inaccurate or incomplete census data can lead to an inaccurate valuation of the plan's total pension liability and the allocation of the employers' net pension liability.

RECOMMENDATION

We recommend management strengthen internal controls over ensuring that census data submitted to the plan's actuary is complete and accurate as of the actuarial measurement date. Management should implement procedures to check census data and ensure all required member information is included and accurate before submitting the data to the actuary.

MANAGEMENT RESPONSE

Management agrees that internal controls over census data should be strengthened by procedures to periodically review query results, with a goal to ensure that complete and accurate annual data is submitted to the actuary each year. ERB's accounting and information technology workgroups will preview census data query results beginning in May 2016 as part of the fiscal year-end pre-audit procedures to ensure that database files sent to the actuary are complete. With respect to the actuarial valuation performed at June 30, 2015, ERB did notify the actuary about the records as soon as they were identified. These records were included in the fiscal year 2015 actuarial valuation calculation, assuring the accuracy of the total pension liability and the allocation of the employer's net pension liability.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended June 30, 2015**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

2015-002 Disaster Recovery Plan (Other Matter)

CRITERIA

ERB's computerized information systems process, record, and store information that is vital to its daily operations. Therefore, it is critical that ERB have an up-to-date disaster recovery plan in place to provide continued operations and to ensure electronic files are not lost because of a major computer hardware or software failure or other interruption.

CONDITION

During the audit, we noted that ERB did not have a current and tested disaster recovery plan. Although ERB has functioning data back-up procedures, we noted that IRIS Browser, the pension software, does not have redundant servers.

CAUSE

Management is currently undertaking a project to update the ERB's disaster recovery plan and to perform testing of this revised plan. However, this project has not been completed at year end.

EFFECT

ERB is at risk of losing valuable data during a disruption or disaster and to experience a delay before systems can be restarted and archived back-up data restored.

RECOMMENDATION

We recommend that redundant servers are implemented to avoid disruption of significant business processes in case of disaster or computer failure. The disaster recovery plan and the business continuity plan should be updated to include the IRIS Browser system. We further recommend that these plans be tested on a periodic basis.

MANAGEMENT RESPONSE

Management agrees that ERB should have an updated Disaster Recovery/Business Continuity Plan (DR/BCP) in place. We are in the process of researching and drafting an updated to such a policy to replace our current plan.

Because Disaster Recovery and Business Continuity are both high priorities, ERB purchased two Oracle Database Appliances (ODAs) strictly for the Vitech V3 Browser application, and its databases and web presence applications for employee, employer, and member access. The use of a live and a remote redundant ODA is intended to provide continual access and service for our staff and members to the critical software and databases used to meet our member service needs.

These ODAs are currently being tested and are scheduled for implementation and continued testing in late Q3 and Q4 of the current fiscal year. One hardware unit is housed in our main facility in Santa Fe; the second is housed in our Albuquerque office. Once the environments are prepared and have gone through multiple rounds of testing then we plan to place one of these units in a data center outside of the ERB network to provide for a higher level of Disaster Recovery and Business Continuity.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended June 30, 2015**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

2015-002 Disaster Recovery Plan (Continued)

MANAGEMENT RESPONSE (CONTINUED)

In the current production environment our DR/ BCP is based on a backup strategy. That strategy consists of predefined backup procedures. Those steps write backups to LTO 5 backup tapes. This strategy consists of backups that are performed within the Son/Father/Grandfather model. That model calls for daily incremental backups with weekly full backups and full monthly backups of our entire server environment, including all servers that house the application and databases for the Browser environment. Weekly backups are rewritten each month and monthly tapes are maintained for 2 years. Three weeks of daily backups are maintained on site. Offsite tapes are held at State Records and Archives (SRCA). Tapes are rotated out every Friday to SRCA.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
EXIT CONFERENCE
Year Ended June 30, 2015

ERB staff prepared the Management Discussion and Analysis (MD&A), financial statements, statements, schedules, and notes for the fiscal years ended June 30, 2015 and 2014. The contents of this report were discussed during an exit conference with the Audit Committee of the Board of Trustees and management of ERB on November 12, 2015. The following individuals attended this exit conference:

Educational Retirement Board

Members of the Audit Committee

Mary Lou Cameron, Audit Committee Chairperson
H. Russell Goff, Vice-Chairperson

Agency Management

Jan Goodwin, Executive Director
Rick Scroggins, Deputy Director
Dianne L. Rossbach, Chief Financial Officer
Lawrence Esquibel, Chief of Information Technology

Moss Adams, LLP

Kory Hoggan, Senior Manager
Aaron Hamilton, Audit Team Lead

The contents of this report were also presented to the ERB Board of Trustees as part of the regular board meeting on December 11, 2015.