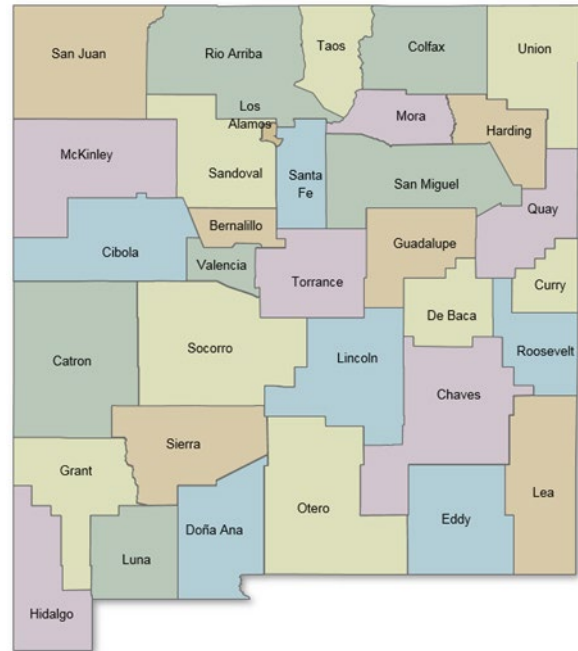


2022

Financial Statements

For the Fiscal Year Ended June 30, 2022



NMERB

New Mexico Educational Retirement Board

A Pension Trust Fund of the State of New Mexico



State of New Mexico
Educational Retirement Board
Financial Statements
and
Other Supplementary Information
June 30, 2022

Prepared by the Staff of the New Mexico Educational Retirement Board
Available online at www.erb.nm.gov

Audited By:
Moss Adams LLP

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NMERB

The New Mexico Educational Retirement Board (NMERB) is a pension trust fund of the State of New Mexico. NMERB was created by the New Mexico Educational Retirement Act to administer the Educational Employees' Retirement Plan and to provide retirement and disability benefits for public schools, institutions of higher learning, and state agencies providing educational programs. NMERB has managed the retirement assets of New Mexico's educational employees since 1957. The Board of Trustees provides policy guidance and direction to NMERB.

Management and Board of Trustees

The Board stands in a fiduciary relationship to the members covered under the Educational Retirement Act. Administrative management of the Fund is vested in the Executive Director who is appointed by the Board of Trustees to advise the Trustees on all matters pertaining to the retirement system, contractual obligations, and employment of the staff needed for operations.

Board and committee meetings are open to the public. The nine-member Board of Trustees is comprised of elected, appointed, and ex-officio members to provide broad policy guidance and direction. Membership on the board is prescribed by the Educational Retirement Act in Section 22-11-3, NMSA 1978, as follows:

- Secretary of the Public Education Department (PED), or a designee of the secretary who is a resident of New Mexico, a current employee of PED, and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management.
- State Treasurer, or a designee of the Treasurer who is a resident of New Mexico, 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 the 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 members of the New Mexico members of the American Association of University Professors.
- 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.
- One member to be elected for a term of four years by the members of the American Federation of Teachers New Mexico.
- Secretary of Higher Education, or a designee of the secretary who is a resident of New Mexico, is a current employee of the Higher Education Department, and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management.

The table on the following page lists NMERB's board members, their positions on the board, and their terms.

Appointed, Elected, and Ex-Officio Members

NMERB Board of Trustees

	Elected or Appointed by	Title	Term
H. Russel Goff	New Mexico Association of Educational Retirees	Chair	June 30, 2024
Mary Lou Cameron	National Education Association of New Mexico	Vice-Chair	December 31, 2022
Larry Magid	Governor Appointee	Secretary	June 30, 2021
Antonio Ortiz	Ex Officio Designee – New Mexico Public Education Department		
Donald Duszynski	American Association of University Professors	Member	June 30, 2024
Tim Eichenberg	Ex Officio - State Treasurer		
Matías Fontela	American Federation of Teachers New Mexico	Member	June 30, 2024
Mario Suazo	Ex Officio Designee – New Mexico Higher Education Department		
Vacant	Governor Appointee		

Financial Statements

Report of Independent Auditors

Board of Trustees
New Mexico Educational Retirement Board

Mr. Brian Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of New Mexico Educational Retirement Board (NMERB), a component unit of the State of New Mexico, which comprise the statement of fiduciary net position as of June 30, 2022, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise NMERB's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of New Mexico Educational Retirement Board as of June 30, 2022, and the respective change in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NMERB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1, the financial statements of the NMERB present the fiduciary net position and changes in fiduciary net position of the State of New Mexico that are attributable to the transactions of NMERB. The financial statements do not present fairly the financial position of the entire State of New Mexico as of June 30, 2022, the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As summarized in Note 9 to the financial statements, NMERB adopted GASB Statement No. 87, *Leases*, during the year ended June 30, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NMERB's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 employers' net pension liability and related ratios, schedule of investment returns, schedule of employer contributions, and notes to the schedule (collectively, the required supplementary information) be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 New Mexico Educational Retirement Board 's basic financial statements. The schedule of revenues and expenditures – budget and actual (non-GAAP basis), schedule of budgeted expenditures, schedule of investment activities and administrative investment expense, schedule of investing activity expense per statement of changes in fiduciary net position, schedule of cash and short-term investments and 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. Such 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. The 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2022 on our consideration of NMERB'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NMERB's 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 NMERB's internal control over financial reporting and compliance.



Albuquerque, New Mexico
November 22, 2022

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) section provides a narrative analysis of the NMERB's financial performance for the fiscal year ended June 30, 2022. This section should be read in conjunction with the Basic Financial Statements and accompanying Notes to the Financial Statements presented in the Financial Section of this report.

In addition to historical information, this MD&A includes certain forward-looking statements, which involve currently known facts and certain risks and uncertainties. NMERB's actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements, due to a wide range of factors, including changes in interest rates, changes in the securities markets, general economic conditions, legislative changes, and other factors.

NMERB administers the Educational Employees Retirement Plan (Plan). The plan provides retirement, disability, and survivor benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. A summary of Plan provisions and the composition of NMERB's Board of Trustees can be found in the Notes to the Financial Statements.

The following section provides an overview of NMERB financial statements.

Overview of the Financial Statements

This report includes two basic financial statements: the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. The Notes to the Financial Statements are an integral part of the statements.

In addition to the financial statements and notes, this report also includes two types of supporting information: Required Supplementary Information (RSI) and Other Supplementary Information (OSI). RSI and OSI place the financial statements and notes into appropriate operational, economic, or historical context. RSI and OSI differ in that RSI is mandated by the Governmental Accounting Standards Board (GASB). The GASB considers RSI an essential part of financial reporting. Although OSI is not mandated by the GASB, it includes more detailed presentations of the information in the financial statements and notes, as well as presentations mandated by the New Mexico Office of the State Auditor and other oversight agencies.

Basic Financial Statements

The Statement of Fiduciary Net Position reports on the pension trust fund's assets, liabilities, and the 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 fund on June 30, 2022.

The Statement of Changes in Fiduciary Net Position summarizes the pension trust fund's financial transactions that occurred during the fiscal year, where Additions minus Deductions equals the net increase/decrease in Net Position. This statement describes the changes that have occurred, during this fiscal year, to the prior year's ending net position.

Notes to the Financial Statements

The Notes to the Financial Statements accompany the basic financial statements. The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements. The information in the Notes to the Financial Statements is described below.

- Note 1** Provides a general description of the Educational Retirement Plan, including plan membership, plans benefits, and the composition of NMERB's Board of Trustees.
- Note 2** Provides a summary of significant accounting policies, including basis of accounting, measurement focus, use of estimates, and other significant accounting policies.
- Note 3** Provides information about Net Pension Liability, including actuarial assumptions and the annual money-weighted return on investments.
- Note 4** Provides information about NMERB's investment in the State General Fund Investment Pool.
- Note 5** Provides information about refund overpayments.
- Note 6** Provides information about how NMERB classifies and measures investments.
- Note 7** Provides information on investments, including NMERB's asset allocation policy, risk, and cash balances.
- Note 8** Provides information on derivative instruments.
- Note 9** Provides information on capital assets.
- Note 10** Provides information on accrued compensated absences.
- Note 11** Provides information on retirement plans.
- Note 12** Provides information on post-employment benefits.
- Note 13** Provides information on risk management.
- Note 14** Provides information on special, deficiency, and specific appropriations.
- Note 15** Provides information on pending litigation and claims.

Required Supplementary Information (RSI)

In addition to the MD&A, this report includes the following RSI: Schedule of Changes in the Employer's Net Pension Liability and Related Ratios, Schedule of Investment Returns (annual money-weighted rate of return), and Schedule of Employer Contributions.

Other Supplementary Information (OSI)

OSI includes the Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Basis); Schedule of Budgeted Expenditures; Schedule of Investment and Administrative Expenses; Schedule of Investing Activity Expense per Statement of Changes in Fiduciary Net Position, Schedule of Cash and Short-Term Investments; and the Accountability in Government Act performance measures.

Performance measures are included in the Notes to the Financial Statements in compliance with the Section 2.2.2.11, NMAC. In 1999, the Accountability in Government Act 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. NMERB serves its membership through prudent asset

Management's Discussion and Analysis

management, efficient administration, membership training, and reliable payment processing. In support of these desirable outcomes, NMERB met targeted goals for five-year investment performance, training satisfaction, and ten-year performance ranking in a national peer survey of public plans.

Comparative Summary Statements

Below is presented a condensed version of the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. More detailed versions of the statements can be found on pages 21 and 22.

Condensed Statement of Fiduciary Net Position (in Millions)

	2022	2021	Change	
			Dollar	%*
Assets:				
Cash and Receivables	\$489	\$498	(\$9)	(2%)
Investments, Fair Value	15,210	16,014	(804)	(5%)
Capital Assets, Net	3	2	1	74%
Total Assets	15,702	16,514	(812)	(5%)
Total Liabilities	151	152	(1)	(0%)
Net Position Restricted for Pensions	\$15,551	\$16,362	(\$811)	(5%)

*percentages based on amounts before rounding.

Condensed Statement of Changes in Fiduciary Net Position (in Millions)

	2022	2021	Change	
			Dollar	%*
Additions				
Contributions	\$860	\$783	77	10%
Net Investment Income (Loss)	(337)	3,833	(4,170)	(109)%
Other Income	1	1	(0)	(20)%
Total Additions	524	4,617	(4,093)	(89)%
Deductions				
Benefits and Withdrawals	1,322	1,262	60	5%
Administrative Expenses	13	12	1	8%
Total Deductions	1,335	1,274	61	5%
Net Increase (Decrease)	(811)	3,343	(4,154)	(124)%
Net Position Restricted for Pensions				
Beginning of Year	16,632	13,019	3,343	26%
End of Year	\$15,551	\$16,362	(811)	(5)%

*Percentages based on amounts before rounding.

Overall Analysis of Financial Position and Results of Operations

Financial

Additions. During the fiscal years ending June 30, 2022 and 2021, the additions to the Plan's fiduciary net position totaled \$524 million and \$4,617 million, respectively. The components of additions are member and employer contributions, (including contributions from service credits purchased), net investment loss, and other income.

Deductions. Total deductions from the Plan's fiduciary net position of \$1,334 million in fiscal year 2022 and \$1,274 million in fiscal year 2021 resulted in an increase of 4.75% year over year, respectively. These were primarily due to normal increases in total age and service benefits.

Management's Discussion and Analysis

Condensed Net Position Analysis (in Millions)

	2022	2021	Change	
			Dollar	%
Net Position Restricted for Pensions	\$15,551	\$16,362	\$(811)	(5)%
Net Increase (Decrease) in Net Position	\$(811)	\$3,343	\$(4,154)	(124)%

Net Position. In the fiscal year ended June 30, 2022 the net position decreased to \$15,551 million from the prior year net position of \$16,362 million. Overall, the net decrease of \$811 million was the result of investment losses during the year, combined with benefit payments, refunds, and administrative costs.

Investments

Long Term Return on Investments. As of June 30, 2022, NMERB's investment return, net of fees, since July 1, 1983 was 9%.

Fair Value of Investments. The primary element of NMERB's fiduciary net position is the fair value of the investment portfolio. Investment assets totaled \$15,209 million as of June 30, 2022, which was \$804 million lower than the prior fiscal year. It is important to note that the net change year over year is not only due to changes in fair value, but is also impacted by the timing of purchases, sales, and redemptions.

Condensed Investment Portfolio, Fair Value (in Millions)

	2022	2021	Change	
			Dollar	%
Cash and Short Term Investments	\$228	\$245	\$(18)	(7)%
Investments, at Fair Value	15,209	16,014	(804)	(5)%
Total	\$15,437	\$16,259	(822)	(5)%

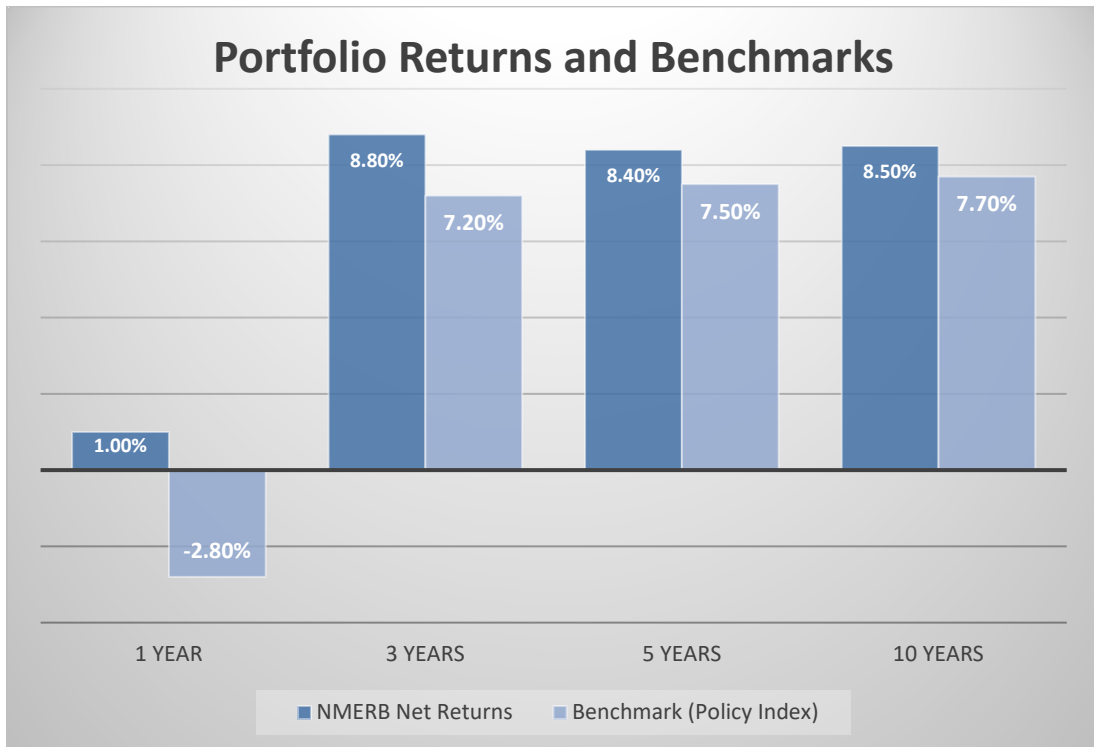
Annual Return. The investment fund achieved a positive 1% time weighted rate of return during the fiscal year, net of fees. This one-year return did not exceed the investment return assumption of 7.00% used for actuarial purposes. For the year, the actual portfolio return exceeded the Fund's policy index return of -2.8%. On another measure, the Fund's investment performance ranked in the 3rd percentile (which means the Fund was in the top 3%) of NMERB's peer group of U.S. public pension funds with assets of \$1 billion or more, as

Management’s Discussion and Analysis

measured by the Investor Force database. All NMERB asset classes were within target policy ranges at year end. The following table provides a summary of total fund performance (net of fees) as of June 30, 2022.

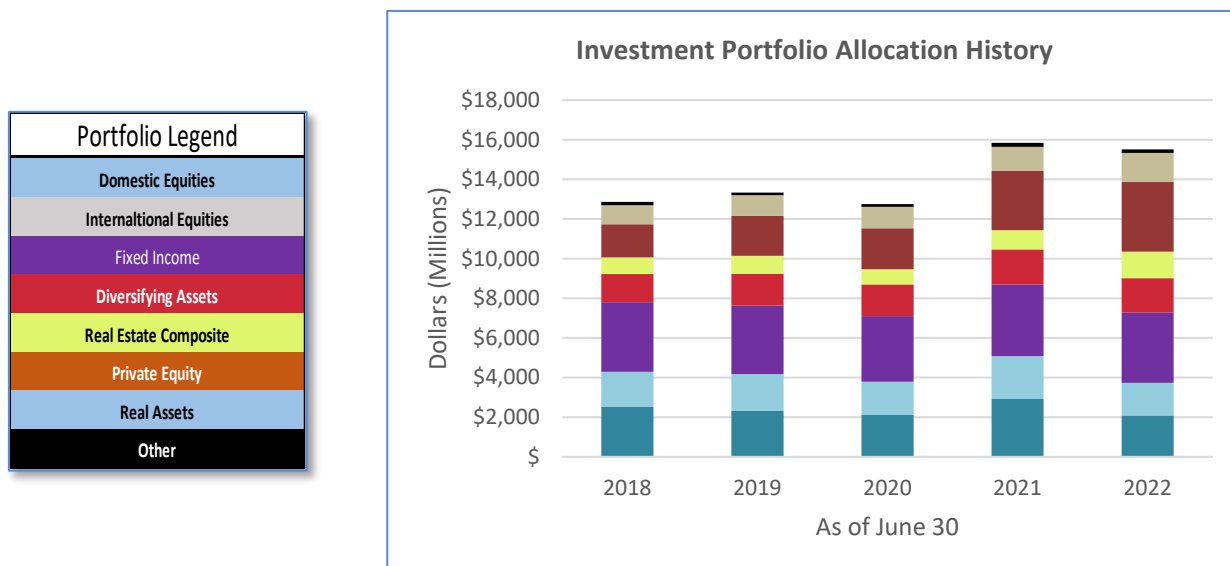
Fund Performance Summary (Net of Fees) at June 30, 2022

						1/1/92 –	Since
1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	6/30/2022	Inception
1.0%	8.8%	8.4%	8.5%	6.3%	7.5%	8.1%	9.0%



Management’s Discussion and Analysis

Investment Allocation History. The following chart depicts growth and changes in investment allocations by portfolio category as of June 30 from fiscal years 2018 to 2022. Target investment allocations are reviewed at least annually by the Board of Trustees. Additional detail on fiscal year 2022 targets is available in the Notes to the Financial Statements.



Investment Risk Exposure. In formulating the Plan’s investment strategy, NMERB takes a long-term perspective designed to meet the needs of our beneficiaries for many years to come. NMERB seeks to diversify the risks contained in the investment portfolio among the many categories of assets available to institutional investors. NMERB also manages liquidity to ensure the Plan’s ability to meet continuing pension benefit obligations. NMERB continues to pursue long-term institutional strategies for growth at a minimum level of risk per unit of return.

Actuarial

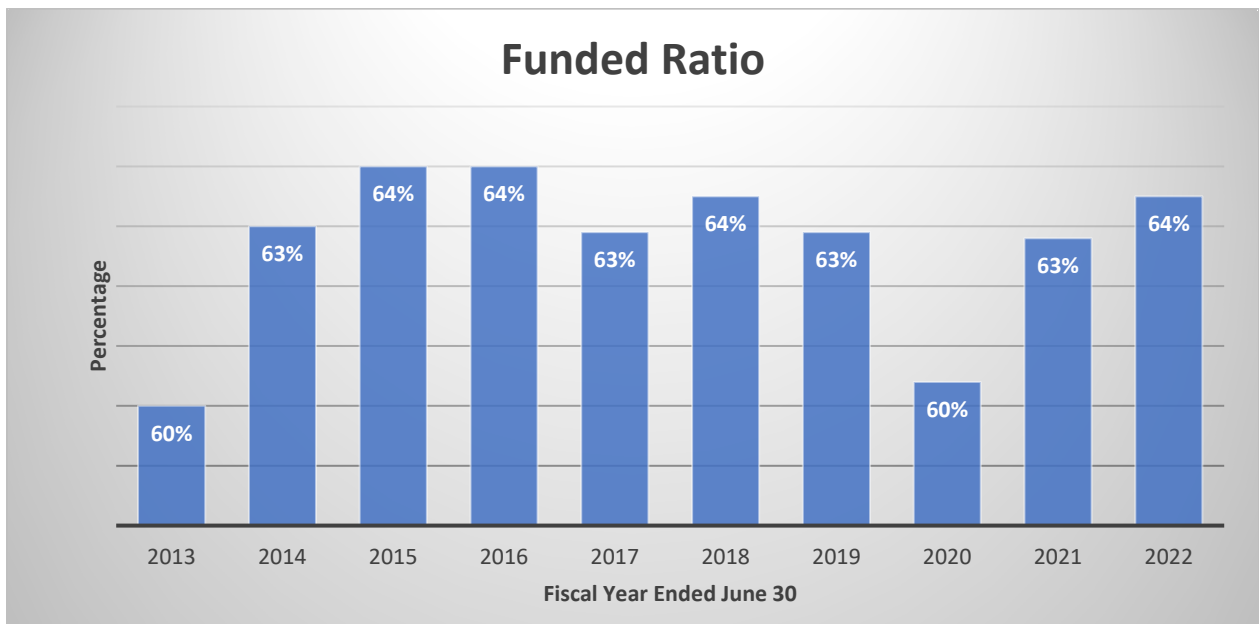
Net Pension Liability. The current fiscal year’s net pension liability (NPL) of \$8,421 million, measured as the total pension liability, less the Plan’s fiduciary net position as of June 30, 2022, was calculated based on an expected rate of return on Plan investments of 7.00%. The current NPL increased by 19% over the fiscal year 2021 NPL of \$7,087 million.

Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption. The table below presents the changes in NMERB’s fiduciary net pension liability. The table also provides the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shown below is for fiscal years 2017 through 2022.

Management’s Discussion and Analysis

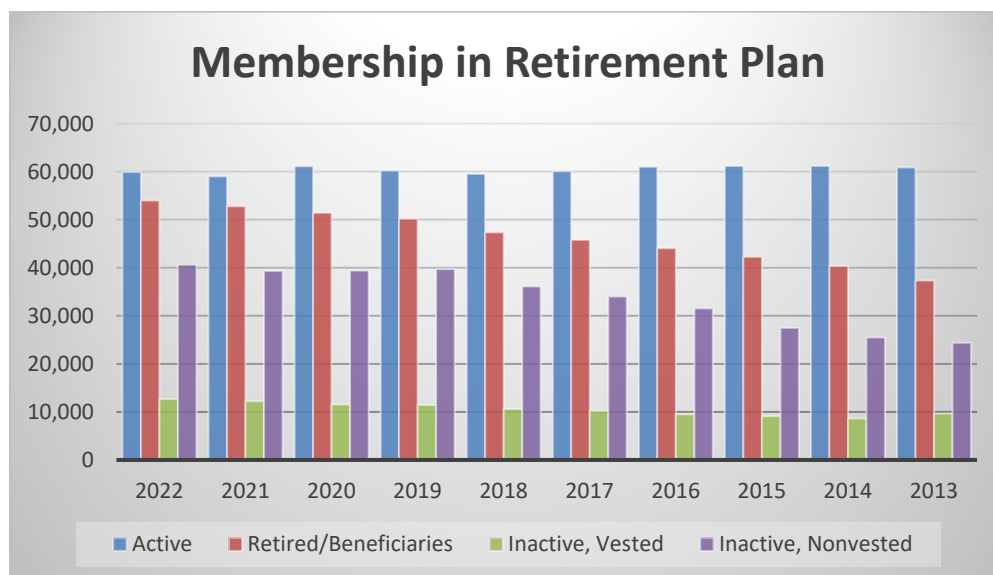
Fiscal Year	Discount Rate	Net Pension Liability		
		1% Decrease	Current Single Rate Assumption	1% Increase
2022	7.00%	\$11,419,137,344	\$8,421,711,477	\$5,944,381,908
2021	7.00%	\$10,035,064,321	\$7,087,466,701	\$4,651,571,637
2020	3.89%	\$25,593,615,269	\$20,265,889,826	\$15,979,388,434
2019	7.25%	\$10,228,778,073	\$7,577,302,491	\$5,384,280,133
2018	5.69%	\$15,454,175,919	\$11,891,330,976	\$8,984,271,849
2017	5.90%	\$14,466,971,886	\$11,113,468,217	\$8,372,251,825

Funded Ratio. The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from 62.8% percent as of June 30, 2021 to 63.5% percent as of June 30, 2022. The increase was primarily due to the investment gains on the smoothed or actuarial value of the assets and the employer contribution increase of 1% in fiscal year 2022 and 2% in fiscal year 2023 and beyond. The Plan’s funding period, based on an open group projection as of the valuation date of June 30, 2022, is 29 years. This compares to 42 years as of June 30, 2020.



Membership: Over the last ten years, the total number of active plan members has decreased 1.6%, while the number of retired members and beneficiaries has increased 44.6%. The ratio of active members to retired members and beneficiaries is 1.11. Other membership categories-inactive non-vested members and inactive vested members-have also increased 66.6% and 31.1%, respectively. Total membership has increased 28.4%.

Management's Discussion and Analysis



Analysis of Balances and Transactions

Receivables and Payables. Total current receivables for fiscal year 2022 increased by \$8.6 million from the prior year. Total current payables for fiscal year 2022 decreased by \$1.2 million from the prior year. Changes in year-end balances were primarily caused by changes in year-end accounts payable, broker purchases and sales proceeds.

Condensed Receivables and Payables Analysis (in Millions)

	2022	2021	Change	
			Dollar	% *
Interest, Dividends, and Other Receivables	\$ 152	\$ 149	\$ 3	2 %
Contributions	\$ 110	\$ 104	\$ 6	6 %
Total Current Receivables	\$ 262	\$ 253	\$ 9	3 %
Accounts Payable	\$ 4	\$ 4	\$ (0)	(8)%
Accrued Payroll and Employee Benefits	\$ 1	\$ 1	\$ 0	21 %
Refunds Payable and Other Liabilities	\$ 3	\$ 2	\$ 1	59 %
Investment Purchases and Foreign Exchange Payables	\$ 144	\$ 146	\$ (2)	(1)%
Total Current Payables	\$ 151	\$ 152	\$ (1)	(1)%

*percentages based on amounts before rounding.

Changes in broker receivables and payables relate to the volume of investments sold at or near the current fiscal year end as compared to the prior year. Securities sales and purchases in the United States equity markets are based on “trade + 2 days,” meaning the transactions will settle in two business days after initiation. The number of days varies in other U.S. and foreign securities markets.

Contributions. NMERB’s funding objective is to meet long-term benefit obligations through member and employer contributions, as well as through investment earnings. Annual contributions for the current reporting year were \$860 million and include contributions for service credit purchases. This is an increase of \$77 million,

Management's Discussion and Analysis

or 0.25%, from the prior fiscal year. The contributions remained consistent in the current fiscal year as compared to the prior fiscal year.

Investment Income. Investment loss, net of external manager and custody banking fees, was \$(337) million for 2022 and an investment gain, net of external manager and custody banking fees of \$3,833 million for 2021, respectively. The continued positive return over multiple years reflects NMERB's investment allocation plan. NMERB's investment allocation plan is designed to result in a lower volatility of returns than the historical NMERB portfolio and the average public pension fund. This means NMERB may lag other funds somewhat when equity markets move up sharply. However, NMERB expects to exceed the returns on those same funds when the equity markets have very small gains or losses. In short, NMERB is seeking to mute the extreme differences in returns from one quarter or one year to the next. This philosophy has contributed positively to NMERB's results in previous fiscal years and has contributed positively to its longer-term comparative performance.

Age and Service Benefits. Age and service benefits paid in fiscal year 2022, including disability and death benefit payments, totaled \$1,271 million, a 4.36% increase over the prior year's net benefit payments. The increase in payments is attributable to the growth in the retiree population by 2.2% from 52,790 in fiscal year 2021 to 53,972 in fiscal year 2022 and mirrors the consistent, though modest, annual growth in the total retiree population.

Currently Known Facts and Conditions

Pending Litigation and Claims

During each business cycle, NMERB 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.

Contact NMERB

Questions

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

Statement of Fiduciary Net Position

New Mexico Educational Retirement Board
Statement of Fiduciary Net Position
As of June 30, 2022

ASSETS

Cash and Short Term Investments:

Cash	\$ 10,515,446
Short Term Investments	216,997,064
Total Cash and Short Term Investments	<u>227,512,510</u>

Receivables:

Contributions	109,957,723
Investment Sales Proceeds – Brokers and Foreign Exchange Receivables	141,048,375
Interest and Dividends	10,750,478
Allowance for Uncollectable Accounts	(226,511)
Total Receivables	<u>261,530,065</u>

Investments, at Fair Value:

Equities Portfolio	4,863,013,829
Alternative Investment portfolio	9,533,826,784
Fixed Income Portfolio	812,592,406
Total Investments	<u>15,209,433,019</u>

Capital and Right to Use Assets, Net of Accumulated Depreciation and Amortization	<u>3,476,556</u>
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Total Assets	<u>\$ 15,701,952,150</u>
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LIABILITIES

Accounts Payable	\$ 3,791,040
Accrued Payroll and Employee Benefits	837,217
Refunds Payable and Other Liabilities	2,674,402
Investment Purchases and Foreign Exchange Payables	143,947,783
Total Liabilities	<u>151,250,442</u>

NET POSITION RESTRICTED FOR PENSIONS	<u><u>\$ 15,550,701,708</u></u>
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See accompanying Notes to the Basic Financial Statements, beginning on page 24.

Statement of Changes in Fiduciary Net Position

New Mexico Educational Retirement Board Statement of Changes in Fiduciary Net Position For the Year Ended June 30, 2022

ADDITIONS:

Contributions	
Employer	\$ 511,943,988
Member	344,499,120
Service Credits Purchased	3,418,045
Total Contributions	<u>859,861,153</u>
Investment Income	
Net Depreciation in Fair Value of Plan Investments	(392,258,498)
Dividend Income	75,152,578
Interest Income	29,235,088
Other Investment Income	138,369,190
Total Investing Activity Loss	<u>(149,501,642)</u>
Investment Expenses	
Management Fees and Expenses	(128,980,025)
Performance Fees and Carried Interest	(54,073,623)
Investment Consulting Fees	(1,649,680)
Custodial Fees	(1,022,687)
Legal Fees and Other Costs	(1,762,385)
Total Investment Expenses	<u>(187,488,400)</u>
Total Net Investment Loss	(336,990,042)
Other Income	<u>802,408</u>
Total Additions	<u>523,673,518</u>

DEDUCTIONS:

Age and Service Benefit Payments	1,270,821,870
Refunds to Terminated Members	50,692,632
Administrative	12,981,666
Total Deductions	<u>1,334,496,168</u>

DECREASE IN NET POSITION

(810,822,650)

Net Position Restricted for Pensions - Beginning of Year

16,361,524,358

NET POSITION RESTRICTED FOR PENSIONS - END OF YEAR

\$ 15,550,701,708

See accompanying Notes to the Basic Financial Statements, beginning on page 24.

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Note 1: General Description of the Board and Retirement Plan

A. Background

The New Mexico Legislature passed the Educational Retirement Act (ERA) in 1957, establishing the NMERB Board of Trustees 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. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

B. Reporting Entity

The Plan administered by NMERB is a pension trust fund of the State of New Mexico. The ERA assigns the authority to establish and amend benefit provisions to a nine-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan which is a pension benefit trust fund of the State of New Mexico. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

The ERA defines the governing Board of Trustees for NMERB per Section 22-11-3, NMSA 1978, as follows:

- Secretary of the Public Education Department (PED), or a designee of the secretary who is a resident of New Mexico, a current employee of PED, and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management.
- State Treasurer, or a designee of the Treasurer who is a resident of New Mexico, 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 the 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 members of the New Mexico members of the American Association of University Professors.
- 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.
- One member to be elected for a term of four years by the members of the American Federation of Teachers New Mexico.
- Secretary of Higher Education, or a designee of the secretary who is a resident of New Mexico, is a current employee of the higher education department, and possesses

experience relevant to the financial or fiduciary aspects of pension or investment fund management.

NMERB applied criteria established by Generally Accepted Accounting Principles (GAAP) to determine whether other state agencies, boards or commissions which benefit the members of NMERB should be included within its financial reporting entity as component units. Those criteria include, but are not limited to, whether the Board exercises oversight responsibility; financial interdependency; selection of governing authority; designation of management; an ability to significantly influence operations and accountability for fiscal matters, scope of public service, and special financing relationships. Based on these criteria, the Board has determined that there are no component units that should be included in its financial reporting entity.

C. Defined Benefit Plan Description

The Plan administers a cost-sharing, multiple-employer defined benefit pension plan, which is a qualified plan under Section 401(a) of the Internal Revenue Service Code and is exempt from federal income taxes under Section 501(a). All accumulated assets are held in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined Section 22-11-2, NMSA 1978. 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, unless specifically excluded.

D. Membership

Active, retired, and inactive membership totaled 167,132 as of June 30, 2022. The following schedule shows the number of members by category. A breakdown of contributing employers by reporting category for fiscal year 2022 follows.

Schedule of Plan Membership

Membership Status	2022
Active Working Members	59,887
Retirees and Beneficiaries Currently Receiving Benefits	53,972
Inactive Members, Vested	12,648
Inactive Members, Nonvested	40,625
Total	167,132

E. Participating Employers

NMERB served a total of 220 educational employers in fiscal year 2022. The fluctuations in the number of participating employers each year is due to Charter Schools opening and closing throughout the fiscal year. For fiscal year 2022, two Charter School and one College opened as of April 1, 2022, and no schools were closed as of June 30, 2022. The “State Agencies” category includes the State of New Mexico as the common paymaster for all state agencies with educational programs, the New Mexico Activities Association, and the nine New Mexico Regional Education Cooperatives.

A breakdown of contributing employers by reporting category for the fiscal year 2022 follows:

Schedule of Participating Employers

Employer Category	2022
Charter Schools	100
Public Schools	89
State Agencies	11
Universities and Colleges	16
Special Schools	4
Total	220

For the fiscal year ended June 30, 2022, educational employers and members contributed to the Plan based on the following rate schedule.

Schedule of Contribution Rates

Fiscal Year	Date Range	Wage Category	Member Rate	Employer Rate	Combined Rate	Increase Over Prior Year
2022	7/1/2021 to 6/30/2022	Over \$24K	10.70%	15.15%	25.85%	0.00%
2022	7/1/2021 to 6/30/2022	\$24K or Less	7.90%	15.15%	23.05%	0.00%

F. Pension Benefit

A member’s retirement benefit is determined by a formula which includes three component parts: 1) the member’s final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member’s salaries for the last five fiscal years of service or any other consecutive five fiscal year period, whichever is greater.

G. Summary of Plan Provisions for Retirement Eligibility

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 allowable service credit add up to the sum of 75 or more. Those who retire under the age of 60, and who have fewer than 25 years of earned service credit will receive reduced retirement benefits, or
- 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.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 was refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

- The member's age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits, or
- The member is at least sixty-seven years of age and has five or more years of earned service credit, or
- The member has service credit totaling 30 years or more.

Section 22-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013, but terminated employment and subsequently withdrew all contributions and returned to work for an NMERB employer on or after July 1, 2013. These members must meet one of the following requirements.

- The member's minimum age is 55 and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.
- The member's age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits, or
- The member's age is 67 and has earned five or more years of service credit.

Section 22-11-23.3, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2019, or who were employed before July 1, 2019 but terminated employment and subsequently withdrew all contributions and returned to work for an NMERB employer on or after July 1, 2019. These members must meet one of the following requirements.

- The member is any age and has thirty or more years of earned service credit.
- The member is at least 67 years of age and has 5 of more years of earned service credit.
- The sum of the member's age and years of earned service credit equals at least eighty.

H. Form 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.

I. Benefit Options

The Plan has 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 prior to the member’s death.

Option B – Joint 100 Percent Survivor Benefit – The single life annuity monthly benefit is reduced to provide for a 100 percent 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 monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member’s increased monthly benefit commences in the month following the beneficiary’s death.

Option C – Joint 50 Percent Survivor Benefit – The single life annuity monthly benefit is reduced to provide for a 50 percent survivor’s benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50 percent benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member’s monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member’s increased monthly benefit commences in the month following the beneficiary’s death.

J. 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 and Tier 4).

Membership Tiers	
Tier	Membership is Comprised of:
1	Employees who became members prior to July 1, 2010
2	Employees who became members on or after July 1, 2010, but prior to July 1, 2013
3	Employees who became members on or after July 1, 2013, but prior to July 1, 2019
4	Employees who became members on or after July 1, 2019

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 1.5%. 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 1.7%.

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 ten years of service, and (b) the disability is approved by the Board.

Monthly Benefit – The monthly benefit is equal to two percent 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.

K. 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 NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year.

L. Alternative Retirement Plan

Effective October 1991, the New Mexico legislature established an Alternative Retirement Plan (ARP) through the enactment of ERA Sections 22-11-47 through 52, NMSA 1978 to provide eligible employees an election to establish an alternative retirement plan. In contrast to the defined benefit plan administered by NMERB, the ARP is a defined contribution plan. NMERB is the trustee of the ARP which is administered by two third-party contractors for NMERB. The administrators approved to offer ARP plans to eligible participants are Teachers Insurance and Annuity Association, and Fidelity Investments.

These administrators have the authority to perform record keeping, enrollment education services, and other administrative duties for the ARP. The administrators are delegated any and all powers as may be necessary or advisable to discharge their duties under the ARP and have certain discretionary authority to decide matters under the ARP. As the ARP trustee NMERB is responsible for selecting investment options that provide a prudent rate of return, and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan Document.

Eligibility

Certain employees of the University of New Mexico, New Mexico State University, New Mexico Institute of Mining and Technology, New Mexico Highlands University, Eastern New Mexico University, Western New Mexico University, Central New Mexico Community College, Clovis Community College, Luna Community College, Mesalands Community College, New Mexico Junior College, Northern New Mexico College, San Juan College and Santa Fe Community College are eligible to make an election to participate within 90 days of employment. Information about the ARP is distributed by the employer. Those who do not elect to participate in the ARP remain members of the regular defined benefit retirement 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.

Form of Payment

Retirement, death, and other benefits are based upon contributions made and earnings accumulated on those contributions, in accordance with the terms of the applicable vendor contracts and Internal Revenue Code. Retirement benefits shall, at the option of the employee, be paid:

- in the form of a lifetime income, if held in an annuity contract,
- payments for a term of years, or
- a single-sum cash payment.

ARP retirement, death, and other benefits, including disability benefits, cannot be paid from the defined benefit plan administered by NMERB.

ARP Contributions

For the year ended June 30, 2022, colleges and universities contributed 10.9% of participating employees' gross salary to the ARP vendor on behalf of the participant, and three percent of the employees' gross salary to NMERB. The colleges and universities are responsible for submitting the balance of the employers' contribution, and the employees' contributions directly to the ARP vendors. Employees participating in the ARP do not accrue rights to benefits in the defined benefit pension plan based on the three percent contributions to the Plan. Employer contributions reported in the Statement of Changes in Fiduciary Net Position include amounts remitted on behalf of both the ARP defined contribution plan and the defined benefit plan. The 4.25% contribution remitted for fiscal year ended June 30, 2022, was \$10,017,305.

Note 2 Significant Accounting Policies

A. 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.

B. Use of Estimates

In preparing financial statements in conformity with governmental accounting principles generally accepted in the United States, NMERB's management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of additions to and deductions from the Plan fiduciary net position during the reported period, and disclosures as of the date of the financial statements. Actual results could differ from those estimates and assumptions. Certain NMERB investment assets, in particular global real assets and global private equity funds, use estimates in reporting fair value in the financial statements. These estimates are subject to uncertainty in the near term, which could result in changes in the values reported for those assets in the Statement of Fiduciary Net Position.

C. New Accounting Standard

NMERB reviews the requirements of any Governmental Accounting Standards Board (GASB) pronouncements and possible impacts on our financial statements. In June 2017 the GASB issued a new lease accounting standard, Statement No. 87, Leases. The implementation of the GASB 87, effective for fiscal years beginning after June 15, 2021, is intended to increase the usefulness of governmental statements by requiring recognition of certain lease assets and liabilities for all leases, including those previously classified as operating leases and operating leases and recognized as income by lessors and expenditures by lessees. Leases are defined in GASB 87 as "a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction."

Addition information on the implementation of GASB 87 and placement in the financial statements can be found in Section M Accounting Policy for Leases of Note 2, page 35 and in Note 9 Capital Assets, page 58.

D. Cash and Short-Term Investments

Cash includes demand deposits and all short-term instruments with maturities at the time of purchase of less than 90 days. Individual deposit accounts and investment accounts held by NMERB are shown on the Statement of Fiduciary Net Position at fair value as required by Section 12-6-5(A), NMSA 1978. Cash activity is accounted for within the Statewide Human Resources, Accounting, and Management System (SHARE) fund number 60500. NMERB earns interest on all monies held at the State Treasurer's Office and in NMERB's custodial investment account at State Street 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, NMERB's money is invested overnight in a Short-Term Investment Fund (STIF).

E. Revenue Recognition

Pension contributions are recognized as additions in the period they become due based on Plan reporting requirements. Investment income includes net investment appreciation or depreciation in the fair value of investments, interest and dividend income, and foreign currency transaction gains and losses. Investment income is recognized when earned.

F. Benefits

Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

G. Investments

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

NMERB's investments are measured and reported at fair value, based on quoted prices in active markets, significant other observable inputs, and significant unobservable inputs. Additional information on the valuation of investment securities can be found in Note 6, which is presented in accordance with GASB No. 72, *Fair Value Measurement and Application*. 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.

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.

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.

H. Capital Assets

Capital assets represent the cost of assets, net of accumulated depreciation, used for the administration of the Plan. Capital assets include NMERB's administration building located in Santa Fe, New Mexico. NMERB'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:

	<u>Years</u>
Buildings and Building Improvements	25
Furniture and Equipment	10
Data Processing Equipment (Including Software)	5

I. 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 NMERB, 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.

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 expenditures, included in Other Supplemental Information.

The Accountability in Government Act, Chapter 15, Laws of 1999, requires implementation of performance-based budgeting over a four-year period. NMERB developed performance measures which were approved by the State Budget Division, 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. NMERB is required to report annually to the SBD and the LFC on these performance measures. Performance results are included in Other Supplemental Information.

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

1. NMERB prepares a Budget Appropriation Request for the Board of Trustees’ approval, and to present at a 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 of DFA and the LFC.
3. DFA makes recommendations and adjustments to NMERB’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. NMERB 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 NMERB's operating budget is the enacted appropriation program.

J. Special Appropriation

In fiscal year 2019, the NMERB received a special appropriation in the amount of \$1,545,900 to implement and conduct a data cleanse project of the inactive members in the membership database. The focus of this project is to update the contact information for inactive members who have paid into the retirement system but no longer work for an NMERB affiliated employer and are not currently receiving pension benefits. Since the Internal Revenue Service requires withdrawal of contributions or payment of retirement benefits at age 70½ unless employed, this project will also notify this segment of the membership regarding their options. Expenditures for this project for the period ended June 30, 2022 were \$91,977.

K. Refunds Payable

Refunds payable represents the total amount due and payable as of June 30th to terminated members who have submitted valid claims for a full refund of contributions. These refunds are processed in early July 2022, as soon as the state's central accounting system is available to process the new fiscal year's transactions.

L. Due to Other State Agencies

NMERB's financial statements do not reflect any amounts due to other state agencies as of June 30, 2022.

M. Accounting Policy for Leases

The implementation of GASB 87 resulted in NMERB adopting additional procedures to ensure compliance with the requirements. The initial steps included:

- An inventory of leases identified for evaluation. Scrutiny of existing contracts is necessary since service contracts or other agreements may contain the use of equipment. Identifying recurring payments or multiple payments to the same vendor may assist in this process.

- Lease liability and right-to-use asset measured according to facts of the earliest period presented on the financial statements, with attention to lease term or non-cancellable period. Attention must be given to leases or contracts in place prior to the earliest reporting period.
- Determination of the interest rate at which the future lease payments should be discounted. In cases where the interest rate is not stated in the contract, the lessee should contact the lessor to see if there is a specific rate used. If not, then NMERB is instructed by the New Mexico Department of Administration (DFA) to use the following schedule:

<u>Lease Term</u>	<u>Incremental Borrowing Rate</u>
>1 year to 5 years	.50%
>5 year to 10 years	.75%
Over 10 years	1.75%

After these initial steps have been taken, the process requires the following steps:

- Determine the initial lease liability. This is the present value of the future lease payments to be made over the term of the lease.
- Determine the initial asset value. This is the total of the initial lease liability plus other payments required over to term of the lease and less any incentives received.
- Record the journal entry for the GASB 87 leases to establish the associated asset and liability. This will then show on the statement of financial position.
- Record subsequent journal entries to reflect the amortization of the right-to-use asset. Subsequent journal entries will occur to decrease the associated lease liability and interest expense.

The requirements of GASB 87 reporting will be ongoing and NMERB will continuously monitor any existing contracts for changes in terms, duration and payment amounts to accurately reflect those in the associated ledger accounts. New contracts will also be examined to determine if they have components that must be included in the GASB 87 reporting process.

Note 3 Net Pension Liability

Governmental employers participating in the Plan are required to report their proportionate share of the Plan's net pension liability, pension expense, and deferred outflows and inflows of resources within their financial statements, as well as to disclose financial information about the Plan.

The net pension liability is measured as the total pension liability, less the amount of the plan's fiduciary net position. In actuarial terms, this is analogous to the accrued liability less the fair value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations based on the Board's adopted assumptions and methods).

A single discount rate of 7.00% was used to measure the Total Pension Liability as of June 30, 2022. This single discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.69%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were sufficient to finance all projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The single discount rate used at June 30, 2022 is the same as the rate used at June 30, 2021. The single discount rate used for fiscal year 2021 was based on an expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 1.92%. Based on the stated assumptions and the projection of cash flows, the pension plan's Fiduciary Net Position and future contributions were sufficient to finance all projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

A. Net Pension Liability of Plan Membership

The components of the net pension liability at June 30, 2022

	2022
Total Pension Liability	\$23,972,413,185
Plan Fiduciary Net Position	(15,550,701,708)
Employer Net Pension Liability	<u>\$8,421,711,477</u>
Plan Fiduciary Net Position as a percentage of	
Total Pension Liability	64.87%
Covered Payroll	\$3,214,177,618
Net Pension Liability as a percentage of Covered Payroll	<u>262.02%</u>

B. Actuarial Assumptions

The total pension liability, net pension liability, and certain sensitivity information were based on an actuarial valuation performed as of June 30, 2021. The total pension liability was rolled forward from the valuation date to June 30, 2021 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2021. For purposes of projecting future benefits, it is assumed that the full COLA will be paid in all future years.

Methods of Assumptions Used to Determine the Total Pension Liability**2022**

Actuarial Cost Method	Entry age normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	Amortized over a closed 30-year period from June 30, 2019, ending June 30, 2049
Asset Valuation Method	5-year smoothed market
Inflation	2.30%
Salary Increases	Composed of 2.30% inflation, 0.70% productivity increase rate, plus step-rate promotional increases for less than 15 years of service
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates based on age and service. Adopted by the Board on April 17, 2020 in conjunction with the six-year experience study for the period ending June 30, 2019.
Mortality	Healthy Males: 2020 GRS Southwest Region Teacher Mortality Table, set back one year and scaled at 95%. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2020. Healthy Females: 2020 GRS Southwest Region Teacher Mortality Table, set back one year. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2020.

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.

The total pension liability was rolled forward from the valuation date to June 30, 2022 using generally accepted actuarial principles and included the legislative change to the employer contribution rate, which increased the employer contribution by 1% each year for fiscal year 2022, resulting in a 15.15% employer contribution rate and a 17.15% employer contribution rate in fiscal year 2023 and future. As a result of these changes and the performance of the fund for the fiscal year, the discount rate increased from 3.89% to 7.00% in fiscal year 2021 and remained in fiscal year 2022.

C. 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, 2021. 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 (1% decrease) or one percentage point higher (1% increase) than the single discount rate:

Fiscal Year	Discount Rate	Net Pension Liability		
		1% Decrease	Current Single Rate Assumption	1% Increase
2022	7.00%	\$11,419,137,344	\$8,421,711,477	\$5,944,381,908

D. Rate of Return

Disclosure of the annual money-weighted return is a requirement of GASB No. 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 year ended June 30, 2022, the annual money-weighted rate of return on pension plan investments was 1.00%.

Best estimates of geometric real rates of return for each major asset class included in the Plan’s target asset allocation for fiscal year 2021 for 30-year return assumptions are summarized net of fees and inflation in the following table by asset class.

Schedule of Real Rates of Return by Asset Class

Asset Class	Percentage
Cash	(0.31)%
U.S. Treasuries	(0.08)%
IG Corp Credit	1.69%
Mortgage Backed Securities	0.28%
Core Bonds*	0.58%
Treasury Inflation Protected Securities	0.04%
High-Yield Bonds	3.31%
Bank Loans	2.91%
Global Bonds (Unhedged)	(0.09)%
Global Bonds (Hedged)	(0.16)%
Emerging Market Debt External	2.99%
Emerging Market Debt Local Currency	3.57%
Large Cap Equities	5.18%
Small/Mid Cap Equities	6.11%
International Equities (Unhedged)	5.84%
International Equities (Hedged)	5.74%
Emerging International Equities	9.37%
Private Equity	10.18%
Private Debt	5.78%
Private Real Assets	7.59%
Real Estate	6.17%
Commodities	2.57%
Hedge Funds	3.28%

*Core Bonds assumption based on market weighted blend of components of Aggregate Index (Treasuries, IG Corp Credit, and Mortgage Backed Securities).

Note 4 State 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. Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

As provided for in Chapter 8-6 of the New Mexico Statutes Annotated 1978, the State Treasurer shall receive and keep all monies of the State, except when otherwise provided, and shall disburse the public money upon lawful warrants. The State Treasurer’s Office acts as the State's bank. Agency cash receipts are deposited with State Treasurer’s Office and pooled in a State Investment Fund, when amounts are greater than immediate needs they are placed into short-term investments. When agencies make payments to vendors and employees they are made from this pool and their claims on the pool reduced. The comprehensive cash reconciliation model compares aggregated agency claims on the SGFIP to the associated resources held by the State Treasurer's Office. This process has been reviewed multiple times by the independent public accountants during the audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Annual Comprehensive Financial Report.

The reviews have deemed the process to be sound and the Department fully compliant with the requirements of the monthly process.

- As of June 30, 2022, resources held in the pool were equivalent to the corresponding business unit claims on those resources.
- All claims recorded in SHARE are honored at face value.

NMERB believes the cash invested in State Treasurer's Office Overnight Pool is represented fairly based on reconciliation procedures performed by NMERB. NMERB has established internal control procedures consistent with the State's Manual of Model Accounting Practices. These procedures are designed to avert accounting errors and violations of state and federal law and rules related to financial matters.

NMERB uses the State's financial software general ledger system, SHARE, monitoring balances through internal reporting, and performing reconciliation procedures throughout the fiscal year, following the Department of Finance and Administration's policies and procedures for fiscal safeguards. Cash balances posted in SHARE are correct to the extent that NMERB has control (i.e., collection, depositing, reconciling, and documentation of outstanding items) of the cash, and its receipts and transfers to the SGFIP and other state agencies are made pursuant to Department of Finance and Administration'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.

NMERB does not collect any revenues that contribute to, or revert to, the SGFIP, but does maintain all deposits on account at State Treasurer's Office which are identified by NMERB's business unit and fund number. NMERB's cash balances are required to be managed by State Treasurer's Office per Section 8-6-3, NMSA 1978. Accordingly, NMERB's investments include an interest in the SGFIP equal to the cash balance on hand that is managed by State Treasurer's Office for Business Unit 35200 and Fund 60500. As of June 30, 2022, NMERB had \$10,515,446 invested in the SGFIP.

A. Interest Rate Risk

State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy enables State Treasurer's Office 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.

B. Credit Risk

For additional GASB No. 40 disclosure information regarding funds held by STO, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2022.

C. Cash and Short-Term Investments

In addition to the overnight investment of funds deposited to the SGFIP at State Treasurer's Office, NMERB invests in the Short-Term Investment Fund held by State Street Bank, NMERB's custody bank. The Short-Term Investment Fund is used to facilitate more efficient trade procedures among NMERB's external money managers. Net cash balances in each of the custody bank internal and external investment managers' portfolios are swept into the Short-Term Investment Fund at the end of each day. Short-Term Investment Fund investments and cash equivalents of \$216,997,064 as of June 30, 2022 is reported as cash and short-term investment balances in NMERB's statement of net position.

The short-term investment balances have no amounts included in the State Treasurer's Office Local Government Investment Pool as of June 30, 2022.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, NMERB will not be able to recover deposits or will not be able to recover collateral securities held in the possession of an outside party. NMERB's investment securities, including cash invested overnight in a short-term investment fund, are held by State Street Bank, a third-party custodian, independent of any counterparty. State Street Bank by agreement holds sufficient assets to minimize the risk that NMERB would not be able to recover the value of investments held for NMERB. To minimize risk to operating cash held in the State's depository bank, Wells Fargo, management utilizes the services of State Treasurer's Office for overnight investment in a commingled Short-Term Investment Fund. For the Local Government Investment Pool, public funds are exempt from disclosing custodial credit risk and concentration of 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 totaling \$1,691,929 and ranging from less than one dollar to \$306,264.

The State Constitution requires every reasonable effort be made to recover these funds and that interest be assessed on the overpayments. As of June 30, 2022, the uncollected balance including interest assessed, net of uncollectible amounts due to settlement, bankruptcy, or death, is \$237,287. The agency continues to take all reasonable actions to collect and settle these outstanding amounts.

Note 6 Fair Value Measurements

NMERB investments are measured and reported at fair value, and classified according to the following hierarchy:

- *Level 1* – Investments reflect prices quoted in active markets.
- *Level 2* – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- *Level 3* – Investments reflect prices based on unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as an indication of investment risk.

Debt, equities, and investment derivatives classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. NMERB uses internal fair values provided by the investment manager for mortgage and asset backed securities classified in Level 3 due to lack of an independent pricing source. Fair value reporting for the fiscal years ending June 30, 2022 is provided on the pages that follow.

NMERB'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, 2021, NMERB's additional future contribution commitments to limited partnerships totaled \$4.16 billion.

The following schedule presents a summary of NMERB's investments measured at fair value as of June 30, 2022. (The STIF-Type Instrument shown in the schedule is included with currency in the Short-Term Investments category shown in the Statement of Net Fiduciary Position.)

Schedule of Investments and Short-Term Holdings Measured at Fair Value by Level
(In Thousands)

	Quoted Price-Active Markets for identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Investments by Fair Value Level				
Debt Securities				
Foreign Obligations	\$ -	\$ 121,586	\$ 24,063	\$ 145,649
Mortgage and Asset Backed Securities	-	150,096	40,976	191,072
Municipal Obligations	-	4,344	-	4,344
U.S. Agency Obligations	-	138,304	-	138,304
U.S. Corporate Obligations	-	167,025	-	167,025
U.S. Government	-	160,319	-	160,319
Total Debt Securities	-	741,673	65,040	806,713
Equity Securities:				
Foreign Stocks	54,795	-	-	54,795
U.S. Common and Preferred Stock	2,458,941	-	-	2,458,941
Total Equity Securities	2,513,735	-	-	2,513,735
Total Investments by Fair Value Level	\$ 2,513,735	\$ 741,673	\$ 65,040	3,320,448
Investments Measured at the Net Asset Value				
Commingled Bond Funds				101,206
Commingled Global Asset Allocation Funds				1,022,052
Commingled International Equity Funds				1,651,225
Hedge Funds				169
Opportunistic Credit Funds				2,568,665
Private Equity Funds				4,102,566
Private Real Estate Assets				2,443,102
Total Investments Measured at the Net Asset Value				11,888,985
Total Investments				\$ 15,209,433
Investment Derivatives Instruments at Notional Value				
Equity	1,047	-	-	1,047
Fixed Income	(991)	-	-	(991)
Future	378,480	-	-	378,480
Options	(2)	-	-	(2)
Total Derivatives Instruments	\$ 378,534	\$ -	\$ -	\$ 378,534

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below.

Investments Measured at Net Fair Value <i>(In Thousands)</i>				
	2022	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Comingled Bond Funds	\$ 101,206	\$ -	Monthly	2 Months
Comingled Global Asset Allocation	1,022,052	-	Monthly, Quarterly, Semi-Annual, Annual	30-120 Days
Comingled International Equity Funds	1,651,225	-	Daily, Monthly	5-15 Days
Hedge Funds	169	-	In Liquidation Process	N/A
Opportunistic Credit Funds	2,568,665	574,975	Daily, Monthly, Quarterly, Semi-Annual	30-180 Days
Private Equity Funds	4,102,566	2,160,882	N/A	N/A
Private Real Assets	2,443,102	1,428,667	N/A	N/A
Total	<u>\$ 11,888,985</u>	<u>\$ 4,164,524</u>		

Commingled Bond Funds and Equity Funds. One (1) bond fund and five (5) international equity funds are considered to be commingled in nature. Each are valued at the NAV of units held at the end of the period based on the fair value of the underlying investments.

Commingled Global Asset Allocation/ Risk Parity Funds. Consisting of four (4) funds, this strategy invests across multiple asset sectors based upon outcomes of economic and technical analysis and may allocate risk across the portfolio in order to achieve optimal portfolio diversification. These investments are valued at the NAV per share.

Diversifying Assets. Consisting of nine (9) funds that seek to invest in assets that change in value independent of the core financial markets such as equities and fixed income securities. These investments are valued at NAV per share. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the duration of five (5) to ten (10) years.

Hedge Funds-Absolute Return. Consisting of one (1) fund, this investment is valued at NAV per share. This investment is being wound down, and due to contractual lock up restrictions, the remaining redeemable balance of this investment is difficult to determine.

Opportunistic Credit Funds. Consisting of thirty (30) funds, this strategy's main focus is to invest in a variety of credit securities to enhance investment risk-adjusted returns and increase total portfolio diversification. These investments are valued at NAV per share. While many of these funds are currently eligible for redemption, some of the fund distributions received as underlying investments are liquidated, which may be from five (5) to ten (10) years from the commencement of the fund.

Private Equity. Consisting of one hundred and three (103) funds, investing primarily in buyout, distress, growth equity, and secondaries, with some exposure to mezzanine and venture. The fair value of these funds has been determined using the most recent financial information. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the duration of five (5) to ten (10) years.

Private Real Assets. Consisting of eighty-six (86) funds, investing primarily in real estate, natural resources, and infrastructure, the fair values of these funds have been determined using the most recent financial information. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds when liquidated, which on average can occur over the duration of five (5) to ten (10) years.

Note 7 Investments

NMERB 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.

A. Asset Allocation Policy

NMERB has adopted a strategic Asset Allocation Plan, containing weights, ranges, and benchmarks for each asset class. Over time this strategy is expected to achieve NMERB's assumed overall rate of return on Plan assets of 7.00%. Achieving the target weights is a long-term goal. In the short term, a particular asset position may represent an intermediate point in the process of attaining its target weight.

NMERB's investment allocation policy was reviewed and amended by the Board of Trustees in February 2022. 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 asset allocation policy adopted in February 2022 as well as the prior allocation policy targets.

Schedule of Asset Allocation Versus Policy Targets

	Allocation	Policy Target ¹
Equities		
<i>Domestic Equities</i>		
Large cap equities	11.5%	14.0%
Small-mid cap equities	2.0%	3.0%
Total domestic equities	<u>13.5%</u>	<u>17.0%</u>
<i>International Equities</i>		
Developed markets	4.3%	5.0%
Emerging markets	6.4%	9.0%
Total international equities	<u>10.7%</u>	<u>14.0%</u>
Fixed Income		
Core fixed income	4.5%	6.0%
Opportunistic credit	17.0%	16.0%
Emerging markets debt	1.4%	2.0%
Total fixed income	<u>22.9%</u>	<u>24.0%</u>
Alternatives		
Global asset allocation	2.5%	2.0%
Risk parity	4.1%	3.0%
Other diversifying assets	4.6%	7.0%
REITs	2.1%	2.0%
Private real estate	6.5%	6.0%
Private equity	22.7%	15.0%
Inflation-linked assets	9.5%	9.0%
Total alternatives	<u>52.0%</u>	<u>44.0%</u>
Cash	<u>1.1%</u>	<u>1.0%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

¹ Long-Term Policy Target approved by the Board in February 2022.

Notes: Allocations shown here include cash held in separately managed portfolios. Totals may not add to 100% due to rounding.

B. Foreign Currency Risk

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the underlying securities. NMERB's exposure to foreign currency risk is derived from positions held in foreign currency and currency-denominated investments. Managers are given discretion to hedge this risk. NMERB's foreign currency exposure as of June 30, 2022, was \$125,282,838. A detail schedule reflecting foreign currency exposure is shown next.

With respect to the Local Government Investment Pool, all investments are denominated in US dollars. The Local Government Investment Pool does not have any foreign currency risk.

Schedule of Foreign Currency Risk Exposure

Continent	Currency	Securities	Cash	Net Foreign Currency Risk
Africa	South African Rand	\$ 7,401,272	\$ 217,910	\$ 7,619,182
Asia	Hong Kong Dollar	5	-	5
	Indonesian Rupiah	6,801,226	161,224	6,962,450
	Malaysian Ringgit	4,028,906	41,515	4,070,421
	New Israeli Sheqel	-	2	2
	Singapore Dollar	-	2	2
	South Korean Won	2,064	-	2,064
	Thailand Baht	4,122,410	68,316	4,190,726
	Yuan Renminbi	4,293,933	(4,374,796)	(80,863)
	Yuan Renminbi Offshore	-	4,368,336	4,368,336
Eurasia	New Russian Ruble	1,881	-	1,881
	Turkish Lira	83,614	-	83,614
	Russian Ruble	43,734	71,383	115,117
Europe	Czech Koruna	614,407	86,742	701,149
	Euro Currency	81,709,051	484,079	82,193,130
	Hungarian Forint	1,571,491	58,095	1,629,586
	Polish Zloty	2,357,193	276,707	2,633,900
	Pound Sterling	-	(361)	(361)
	Romanian Lue	546,768	41,867	588,635
	Romanian Lue	453,257	-	453,257
	Swiss Franc	-	1	1
North America	Dominican Peso	142,822	14,273	157,095
	Mexican Peso	2,395,000	975,330	3,370,330
Oceania	Australian Dollar	-	1	1
	New Zealand Dollar	-	7,919	7,919
South America	Brazilian Real	1,730,675	-	1,730,675
	Chilean Peso	1,067,725	4,583	1,072,308
	Colombian Peso	1,555,042	171,346	1,726,388
	Peruvian Nouveau Sol	133,829	-	133,829
	Sol	1,474,501	-	1,474,501
	Uruguayan Peso	77,558	-	77,558
	Total Subject to Risk	<u>\$ 122,608,364</u>	<u>\$ 2,674,474</u>	<u>\$ 125,282,838</u>

C. Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, NMERB will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

All investment securities were held in a custodial position by State Street Bank, located in Boston, Massachusetts, during fiscal year 2022 in the name of NMERB. Deposits and securities held by the custody bank are collateralized with securities held by State Street Bank's trust department, as described in our custody agreement.

D. Interest Rate Risk

Interest rate risk relates to changes in interest rates that will adversely affect the fair value of an investment. NMERB's investing activities may lead earnings and capital to be exposed to movements in interest rates. Interest rate risk management is handled through duration, and by operating within defined risk parameters. NMERB uses a weighted-average method to determine the duration of its investments.

Investment Type	Amount	Duration (Years)
U.S. Treasury Securities	\$ 139,678,088	9.17
U.S. Government & Government Related Obligations	25,777,908	17.54
International Government Obligations	117,808,468	6.00
Corporate Obligations	174,016,470	5.56
Asset & Mortgage Backed Securities	307,370,473	3.14
Total	<u>\$ 764,651,407</u>	

E. Concentration of Credit Risk

Concentration risk is identified by the amount of investment in any one issuer that represents five percent or more of the fiduciary net position. As of June 30, 2022, with the exception of U.S. Government and Agency securities, NMERB was not exposed to any concentration risk greater than 5%.

F. 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 NMERB defined parameters instead of using a benchmark index. Excluding those investments issued by, or explicitly guaranteed by, the U.S. government, which are not considered to have credit risk, NMERB's credit quality distribution for investments with credit risk exposure as of June 30, 2022, is presented in the Summary of Investments by Category and Credit Risk. The schedule below summarizes the investments by category subject to credit risk as of June 30, 2022.

Summary of Investments Subject to Credit Risk, at Fair Value	
Agency	\$ 22,242,409
Asset Backed	61,390,977
CMBS	931,889
CMO	106,391,224
Corporate	173,114,744
Foreign	45,896,496
Mortgage Pass-Through	138,656,382
Municipal	4,407,803
Private Placement	901,726
SWAPS	(1,022,591)
US Treasury	139,678,088
Yankee	71,039,668
Grand Total	\$ 763,628,815

NMERB's investments were rated and categorized according to Moody's rating standards. Investments by category and credit risk are listed below as of June 30, 2022.

Summary of Investments by Category and Credit Risk										
Moody's Quality Rating										
	AAA	AA+	A+	BBB+	BBB	BB+	BB	BB-	Not Rated	Grand Total
Agency	\$ -	\$ 21,370,104	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 872,305	\$ -	\$ 22,242,409
Asset Backed	-	-	61,390,977	-	-	-	-	-	-	61,390,977
CMBS	931,889	-	-	-	-	-	-	-	-	931,889
CMO	-	106,391,224	-	-	-	-	-	-	-	106,391,224
Corporate	-	-	-	170,894,611	-	-	2,220,133	-	-	173,114,744
Foreign	-	-	-	-	-	45,896,496	-	-	-	45,896,496
Mortgage Pass-Through	-	138,656,382	-	-	-	-	-	-	-	138,656,382
Municipal	4,407,803	-	-	-	-	-	-	-	-	4,407,803
Private Placement	-	-	-	-	-	901,726	-	-	-	901,726
SWAPS	-	-	-	-	-	-	-	-	(1,022,591)	(1,022,591)
US Treasury	-	139,678,088	-	-	-	-	-	-	-	139,678,088
Yankee	-	-	-	-	19,221,557	-	-	51,818,111	-	71,039,668
Grand Total	\$ 5,339,692	\$ 406,095,798	\$ 61,390,977	\$ 170,894,611	\$ 19,221,557	\$ 46,798,222	\$ 2,220,133	\$ 52,690,416	\$ (1,022,591)	\$ 763,628,815

G. Cash Balances

NMERB earns interest on all monies held in the Agency’s custodial agent bank. Cash balances exist in various accounts due to income received (dividends, principal and interest payments, etc.) sale of securities, and as a pool for future investments. NMERB’s money is invested overnight in a Short-Term Investment Fund. As of June 30, 2022, NMERB had \$216,997,064 on deposit with State Street Bank.

State law requires (Section 8-6-3, NMSA 1978) the agency’s operating cash to be managed by the New Mexico State Treasurer’s Office, which invests monies held overnight. State Treasurer’s Office ensures adequate protection of State monies for agency deposit accounts by requiring all qualified financial institutions to pledge collateral to secure public deposits. As of June 30, 2022, NMERB had \$10,515,446 on deposit with State Treasurer’s Office. Additional information regarding NMERB’s cash balances can be found on page [39](#).

Note 8 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 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.

NMERB's investment policies do allow 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.

The following table summarizes the aggregate notional or contractual amounts related to NMERB's derivative financial instruments as of June 30, 2022.

Notional Amounts, Fair Value (in Thousands)

	2022
Commodity Futures	\$ 1,800
Futures Contracts	21,386
Fx Forward Contracts, Net	132,260
Index Futures	248
Options, Net	(5,565)
Pay Interest Rate Swaps	29,244
Receive Interest Rate Swaps	62,110

The fair values of derivative instruments outstanding as of June 30, 2022, are classified by type and by the changes in fair value of the derivative instrument in the following table. A summary of foreign exchange contracts by currency is in section "B" on page 55.

Unrealized Gain/(Loss)

(in Thousands)

Derivative Type	Classification	Gain/(Loss)	Classification	Amount
Commodity Futures - Long	Investment Income	\$ 3,663	Investment	\$ -
Commodity Futures - Short	Investment Income	(390)	Investment	-
Credit Default Swaps - Purchased	Investment Income	65	Investment	-
Fixed Income Futures - Long	Investment Income	(4,194)	Investment	-
Fixed Income Futures - Short	Investment Income	787	Investment	-
Fx Forwards	Investment Income	327	Investment	(316)
Index Futures - Long	Investment Income	(62,159)	Investment	-
Options - Purchased	Investment Income	527	Investment	116
Options - Written	Investment Income	(379)	Investment	(118)
Pay Interest Rate Swaps	Investment Income	2,987	Investment	1,195
Receive Interest Rate Swaps	Investment Income	(2,777)	Investment	(2,186)
Warrants	Investment Income	11	Investment	-

A. Derivative Risks

NMERB is exposed to credit risk in the event of nonperformance 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, ensuring these contracts are made with high quality institutions. NMERB can be exposed to market risk in the event that changes in market conditions cause investments to decline in value.

This exposure 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.

B. Foreign Currency Exchange Contracts

NMERB may enter into forward contracts to purchase and sell foreign currencies in the normal course of investing activities to manage currency exposure associated with NMERB'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 limited to a small number of highly rated counterparties. NMERB's foreign exchange contracts by currency type are summarized below.

**Schedule of Foreign Currency Risk Exposure
(in thousands)**

Continent	Currency	Buys	Unrealized Gain/Loss	Sells	Unrealized Gain/Loss
Africa	Egyptian Pound	\$ -	\$ -	\$ 374	\$ 4
	South African Rand	3,800	387	576	(23)
Asia	Indonesian Rupiah	2,739	81	-	(13)
	Japanese Yen	231	37	468	(58)
	Malaysian Ringgit	203	-	1,562	(14)
	New Israeli Sheqel	7,413	237	213	(12)
	New Taiwan Dollar	8,408	108	-	(11)
	Philippine Peso	795	(4)	5,052	(121)
	Singapore Dollar	-	6	1,198	(8)
	South Korean Won	3,922	60	-	(22)
	Thailand Baht	7,869	176	-	(74)
	Indian Rupee	939	9	-	(46)
	Yuan Renminbi Offshore	7,996	(118)	183	(10)
Europe	Czech Koruna	-	45	3,717	(88)
	Euro Currency	8,584	379	2,505	(69)
	Hryvnia	-	(7)	-	-
	Hungarian Forint	3,489	101	3,051	(47)
	Polish Zloty	952	21	5,731	(206)
	Romanian Leu	110	2	1,051	(31)
	Russian Ruble	-	8	-	3
	Turkish Lira	142	1	367	40
North America	Canadian Dollar	258	18	253	(13)
	Mexican Peso (New)	60	(5)	4,807	(101)
Oceania	Australian Dollar	953	83	706	(67)
	New Zealand Dollar	-	8	-	(9)
South America	Brazilian Real	14,495	103	22,652	12
	Chilean Peso	-	30	271	(27)
	Colombian Peso	-	(4)	2,077	(216)
	Sol	-	(21)	2,088	(25)
	Total	\$ 73,358	\$ 1,741	\$ 58,902	\$ (1,252)

C. Futures

Currency futures are an exchange traded contract that specifies the price in one currency at which another currency can be bought or sold at a future date. Currency futures contracts legally bind the counterparties to deliver the currency amount at the specified price at the delivery date. Currency futures can be used as a hedge against currency risk or to speculate on price movements in currencies. Currency futures bought and sold as of June 30, 2022 are summarized in Note 8E, below.

D. 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 NMERB 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 fair value of the option purchased or written. Gain or loss is recognized when the option contract expires or is closed. Options purchased and written as of June 30, 2022 are summarized in Note 8E, below.

E. Swap Contracts

Swap contracts are executed on a number of different bases. NMERB employed both interest rate swap contracts and credit default swap contracts as of June 30, 2022. 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. NMERB 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 fair value following determination of the occurrence of a credit event. Swap contracts as of June 30, 2022 are summarized below.

Summary of Futures, Options, Swaps and Warrants by Currency
(In thousands)

Transaction Type	Currency	Notional Amount	Unrealized Gain/Loss
Futures	Euro Currency	\$ (2,614)	\$ 17
	US Dollar	26,048	(1,940)
Options Purchased	US Dollar	7,900	110
Options Written	US Dollar	(13,465)	(107)
Swaps	Brazilian Real	23,061	(539)
	Chilean Peso	2,554	(15)
	Colombian Peso	3,058	(113)
	Czech Koruna	1,575	(318)
	Hungarian Forint	6,939	2
	Malaysian Ringgit	21,271	(115)
	Mexican Peso	5,729	(394)
	Polish Zloty	8,541	305
	South African Rand	12,930	4
	South Korean Won	4,458	(27)
	Thailand Baht	1,239	(23)
Yuan Renminbi	-	(82)	
Warrants	US Dollar	-	66
		<u>\$ 109,224</u>	<u>\$ (3,169)</u>

F. Hedge Funds

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

G. 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 NMERB for investment purposes. The assets presented by investment category, at fair value, as of June 30, 2022 are as follows:

Schedule of Asset-Backed Securities

Security Type	Amount
Asset-Backed Securities	\$ 237,225,856
Non-Agency Mortgage-Based Securities	44,574,947
Foreign Asset-Backed Securities	24,796,045
Total	<u>\$ 306,596,848</u>

Note 9 Capital Assets

Capital assets are used in operations and have useful lives extending beyond a single reporting period. Assets whose cost is \$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. A schedule of capital asset activity for the year ended June 30, 2022 is shown below.

Schedule of Capital Asset Activity

	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022
Capital Assets, at Cost				
Land & Land Improvements	\$ 1,243,703	\$ —	\$ —	\$ 1,243,703
Depreciable Land Improvements	19,361	—	—	19,361
Building & Building Improvements	3,436,059	—	—	3,436,059
Retirement Information System	9,156,963	—	—	9,156,963
Furniture, Fixtures and Equipment	1,219,032	—	—	1,219,032
Other Assets	30,500	—	—	30,500
Right-to-use building	—	1,340,394	—	1,340,394
Right-to-use equipment	—	63,215	—	63,215
Total	\$15,105,618	\$1,403,609	—	\$16,509,227
Accumulated Depreciation				
Land Improvements	(11,318)	(699)	—	(12,017)
Building and Improvements	(2,439,029)	(92,413)	—	(2,531,442)
Retirement Information System	(9,156,963)	—	—	(9,156,963)
Furniture, Fixtures and Equipment	(1,178,333)	(12,865)	—	(1,191,198)
Right-to-use building	—	(119,561)	—	(119,561)
Right-to-use equipment	—	(21,490)	—	(21,490)
Total	(12,785,642)	(247,029)	—	(13,032,671)
Capital Assets, Net of Accumulated Depreciation	\$ 2,319,976	\$ 1,156,580	\$ —	\$ 3,476,556

The NMERB has recorded intangible right-to-use lease assets as a result of implementing GASB 87. The lease assets are initially measured at an amount equal to the initial measurement of the related lease liability [plus any lease payments made prior to the lease term and ancillary charges necessary to place the lease into service, less lease incentives]. Lease assets are amortized on a straight-line basis over the shorter of the useful life of the underlying asset or the lease term.

Lease asset activity for the NMERB for the year ended June 30, 2022, was as follows:

Schedule of Lease Asset Activity					
	Balance		GASB 87		Balance
	June 30, 2021		Implementation	Deletions	June 30, 2022
Right to Use Assets					
Right-to-use building	\$	—	\$ 1,340,394	\$	— \$ 1,340,394
Right-to-use equipment		—	63,215	—	63,215
Total Right to Use Asset		—	\$1,403,609	—	\$1,403,609
Less Accumulated Amortization for Lease Assets					
Right-to-use building		—	(119,561)	—	(119,561)
Right-to-use equipment		—	(21,490)	—	(21,490)
Total Accumulated Amortization for Lease Assets		—	(141,051)	—	(141,051)
Total Right to Use Assets Less Accumulated Amortization	\$	—	\$ 1,262,558	\$	— \$ 1,262,558

The notes require restatement due to the implementation of GASBS 87. There is no impact on the financial statements.

Leases

The NMERB has entered into agreements to lease equipment and a building. The lease agreements have been recorded at the present value of the future lease payments as of the date of their inception or, for leases existing prior to the implementation year at the remaining terms of the agreement, using the facts and circumstances available at July 1, 2021.

An agreement was in effect on July 1, 2021, to lease a building through October 2038, requiring 208 monthly payments. The lease liability is measured at the applicable Incremental Borrowing Rate (IBR) of 1.75%. The IBR is an estimation made by the state of New Mexico based on current borrowing rates. As a result of the lease, the NMERB has a lease asset with a net book value of \$1,113,815, and a lease liability of \$1,3030,466 at June 30, 2022.

Another agreement was in effect on July 1, 2021, to lease a building through July 2024, requiring 37 monthly payments. The lease liability is measured at the applicable Incremental Borrowing Rate (IBR) of .50%. The IBR is an estimation made by the state of New Mexico based on current borrowing rates. As a result of the lease, the NMERB has a lease asset with a net book value of \$107,018, and a lease liability of \$108,176 at June 30, 2022.

A third agreement was in effect on July 1, 2021 to lease copy machines through February 2024, requiring 32 monthly payments of approximately \$1,200. The lease liability is measured at the applicable Incremental Borrowing Rate (IBR) of 0.50%. The IBR is an estimation made by the state of New Mexico based on current borrowing rates. As a result of the lease, the NMERB has a lease asset with a net book value of \$23,997 and a lease liability of \$24,047 on June 30, 2022.

A fourth agreement was in effect on July 1, 2021 to lease a folder/insert machine through December 2024, requiring 42 monthly payments of \$596. The lease liability is measured at the applicable Incremental Borrowing Rate (IBR) of 0.50%. The IBR is an estimation made by the state of New Mexico based on current borrowing rates. As a result of the lease, the NMERB has a lease asset with a net book value of \$17,728 and a lease liability of \$17,765 on June 30, 2022.

The future minimum payments on those leases as of June 30, 2022, were as follows:

		Principle Payments		Interest Payments		Total
2023	\$	124,477	\$	19,955	\$	144,432
2024		122,860		18,671		141,532
2025		63,595		17,505		81,099
2026		57,712		16,507		74,219
2027		59,858		15,480		75,338
2028-2032		333,957		60,620		394,577
2033-2037		399,271		28,666		427,938
2038-2039		118,725		1,482		120,207
	\$	<u>1,280,455</u>	\$	<u>178,887</u>	\$	<u>1,459,341</u>

The changes in lease liabilities for the year ended June 30, 2022 are as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Lease Liabilities					
Right-to-use building	\$ —	\$ 1,340,394	\$ (101,751)	\$ 1,238,642	\$ 102,993
Right-to-use equipment	—	63,215	(21,403)	41,812	21,484
	<u>\$ —</u>	<u>\$ 1,403,609</u>	<u>\$ (123,154)</u>	<u>\$ 1,280,455</u>	<u>\$ 124,477</u>

Depreciation expense reported as part of administrative expenses is \$ 105,978 for fiscal year 2022. Amortization of right-to-use assets is \$141,051 for fiscal year 2022.

Note 10 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, 2022.

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 percent 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 percent 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 percent of their current hourly rate.

Schedule of Compensated Absences

	Balance June 30, 2021	Increase	Decrease	Balance June 30, 2022
Compensated Absences	<u>\$484,892</u>	<u>\$188,948</u>	<u>\$ (131,133)</u>	<u>\$ 542,707</u>

The portion of compensated absences due after one year is not material, and therefore, not separately presented. The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year-end plus applicable payroll taxes.

Note 11 Retirement Plans

NMERB 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. In the past, some NMERB employees elected to participate in the Educational Employees Retirement Plan. Currently, all employees participate in the Public Employees Retirement Plan. A summary of both plans is listed below.

A. Public Employees Retirement Association (PERA)

The Public Employee Retirement Plan is a qualified governmental plan under Section 401(a) of the Internal Revenue Code 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.nmpera.org.

B. PERA Funding Policy

Plan members are required to contribute 9.92% of their gross salary. NMERB is required to contribute 18.24% of the gross covered salary. The contribution requirements for Plan members and NMERB are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. Total contributions from NMERB and Plan members to PERA for fiscal year ended June 30, 2022 were \$1,426,634.

C. Educational Retirement Board (NMERB)

The New Mexico Educational Retirement Board administers a cost sharing multiple employer Plan authorized by the Educational Retirement Act established in Chapter 10, Article 22, NMSA 1978. NMERB 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). NMERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report is available at www.erb.nm.gov.

D. NMERB Funding Policy

2022 Member Contributions – Plan members whose annual salary is \$24,000 or less are required to contribute 7.90% of their gross salary. Plan members whose annual salary exceeded \$24,000 are required to contribute 10.70% of their gross salary.

2022 Employer Contributions – Employers contribute 15.15% of the gross covered salary for employees whose annual salary was \$24,000 or less, and 15.15% of the gross covered salary for employees whose salary exceeded \$24,000.

Contribution requirements of the Plan are established under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. There were no contributions from NMERB and Plan members to the Plan for fiscal years ended June 30, 2022.

E. GASB No. 68 – Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pension Plans by Employers

According to the Department of Finance and Administration, consistent with the requirements of GASB No. 68, the State of New Mexico implemented the standard during the fiscal year ending June 30, 2015. NMERB, as part of the primary government (fiduciary fund) of the State of New Mexico, is a contributing employer to the cost-sharing multiple employer PERA fund. Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Annual Comprehensive Financial Report 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 Annual Comprehensive Financial Report and is available from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico 87501.

Note 12 Post-Employment Benefits – Retiree Health Care Plan

The NMERB, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. Overall, total OPEB liability exceeds OPEB Plan net position resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the ACFR of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico ACFR for the year ended June 30, 2022 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.

Note 13 Risk Management

NMERB 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 insurance program of the New Mexico General Services Department. The Plan's coverages are designed to satisfy the requirements of State tort claims. All claims are processed through Risk Management Division.

Note 14 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. Information regarding NMERB's special appropriation for fiscal year end 2019, 2020, 2021, and 2022 can be found in Note 2, Item J Special Appropriation on page 35.

Note 15 Pending Litigation and Claims

During each business cycle, NMERB 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.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

Schedule of Changes in the Employers' Net Pension Liability and Related Ratio

Fiscal year ending June 30,	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Total Pension Liability										
Service Cost	\$ 431,265,638	\$ 916,075,923	\$ 388,501,008	\$ 523,131,668	\$ 494,875,509	\$ 357,631,074	\$ 356,873,760	\$ 346,956,028	\$ 350,247,724	\$ 348,266,697
Interest on the Total Pension Liability	1,610,270,664	1,288,040,945	1,501,193,247	1,396,375,797	1,375,675,929	1,424,585,583	1,367,647,222	1,321,047,780	1,254,730,237	1,202,676,449
Benefit Changes	0	0	0	(4,381,848,971)	0	0	0	0	0	10,093,494
Actual Experience	(196,599,674)	685,734,963	177,583,640	(112,651,733)	(184,089,981)	(207,788,603)	42,491,846	(86,722,485)	(114,507,809)	0
Assumption Changes	0	(11,462,882,997)	11,316,075,911	0	659,787,674	4,371,799,749	0	299,084,856	0	(5,035,689,829)
Benefit Payments and Refunds	(1,321,514,502)	(1,263,064,463)	(1,220,260,723)	(1,164,644,987)	(1,107,441,427)	(1,052,675,188)	(1,012,730,730)	(957,183,402)	(907,214,467)	(853,329,267)
Net Change in Total Pension Liability	\$ 523,422,126	\$ (9,836,095,629)	\$ 12,163,093,083	\$ (3,739,638,226)	\$ 1,238,807,704	\$ 4,893,552,615	\$ 754,282,098	\$ 923,182,777	\$ 583,255,685	\$ (4,327,982,456)
Total Pension Liability - Beginning	23,448,991,059	33,285,086,688	21,121,993,605	24,861,631,831	23,622,824,127	18,729,271,512	17,974,989,414	17,051,806,637	16,468,550,952	20,796,533,408
Total Pension Liability - Ending (a)	\$ 23,972,413,185	\$ 23,448,991,059	\$ 33,285,086,688	\$ 21,121,993,605	\$ 24,861,631,831	\$ 23,622,824,127	\$ 18,729,271,512	\$ 17,974,989,414	\$ 17,051,806,637	\$ 16,468,550,952
Plan Fiduciary Net Position										
Employer Contributions	\$ 511,943,988	\$ 452,872,287	\$ 451,556,144	\$ 406,549,056	\$ 388,723,983	\$ 395,843,795	\$ 396,988,557	\$ 395,129,621	\$ 362,462,537	\$ 299,657,530
Member Contributions	347,917,165	330,066,887	329,724,869	303,442,092	290,007,133	295,982,532	295,946,396	294,560,840	271,513,574	250,529,546
Pension Plan Net Investment Income	(336,187,635)	3,834,540,348	(75,636,884)	1,038,369,810	899,563,575	1,347,215,149	364,571,123	429,738,078	1,444,233,347	1,016,865,792
Benefit Payments and Refunds	(1,321,514,502)	(1,263,064,463)	(1,220,260,723)	(1,164,644,987)	(1,107,441,427)	(1,052,675,188)	(1,012,730,730)	(957,183,402)	(907,214,467)	(853,329,267)
Pension Plan Administrative Expense	(12,981,666)	(12,087,563)	(10,877,658)	(9,325,712)	(9,908,319)	(9,848,329)	(9,660,510)	(10,597,846)	(16,617,970)	(10,985,967)
Other	0	0	0	0	0	0	0	0	0	0
Net Change in Plan Fiduciary Net Position	\$ (810,822,650)	\$ 3,342,327,496	\$ (525,494,252)	\$ 574,390,259	\$ 460,944,945	\$ 976,517,959	\$ 35,114,836	\$ 151,647,291	\$ 1,154,377,021	\$ 702,737,634
Plan Fiduciary Net Position - Beginning	16,361,524,358	13,019,196,862	13,544,691,114	12,970,300,855	12,509,355,910	11,532,837,951	11,497,723,115	11,346,075,824	10,191,698,803	9,488,961,169
Plan Fiduciary Net Position - Ending (b)	\$ 15,550,701,708	\$ 16,361,524,358	\$ 13,019,196,862	\$ 13,544,691,114	\$ 12,970,300,855	\$ 12,509,355,910	\$ 11,532,837,951	\$ 11,497,723,115	\$ 11,346,075,824	\$ 10,191,698,803
Net Pension Liability - Ending (a) - (b)	\$ 8,421,711,477	\$ 7,087,466,701	\$ 20,265,889,826	\$ 7,577,302,491	\$ 11,891,330,976	\$ 11,113,468,217	\$ 7,196,433,561	\$ 6,477,266,299	\$ 5,705,730,813	\$ 6,276,852,149
Plan Fiduciary Net Position as a Percentage of Total Pension Liability Covered Employee Payroll										
64.87 %	69.77 %	39.11 %	64.13 %	52.17 %	52.95 %	61.58 %	63.97 %	66.54 %	61.89 %	
\$3,214,177,618	\$3,057,978,722	\$3,048,404,048	\$2,797,685,921	\$2,678,214,885	\$2,728,361,993	\$2,740,526,669	\$2,730,320,345	\$2,718,100,677	\$2,706,170,349	
Net Pension Liability as a Percentage of covered payroll										
262.02%	231.77%	664.80%	270.84%	444.00%	407.33%	262.59%	237.23%	209.92%	231.95%	

Notes to Schedule:

Year Ending June 30	Change in Assumption
2022:	The change in assumption includes a single discount rate of 7.00%.
2021:	The change in assumption includes the change in discount rate from 3.89% to 7.00%.
2020:	The change in assumption includes the reduction in discount rate from 7.00 to 3.89%.
2019:	The change in assumption includes the change in discount rate from 5.69% to 7.25%.
2018:	The change in assumption includes the reduction in discount rate from 5.90% to 5.69%.
2017:	The change in assumption includes the change in discount rate from 7.75% to 5.90%.
2016:	The change in assumption includes a single discount rate of 7.75%.
2015:	The change in assumption includes a single discount rate of 7.75%.
2014:	The change in assumption includes a single discount rate of 7.75%.

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

The total pension liability was rolled forward from the valuation date to June 30, 2022 using generally accepted actuarial principles and included the legislative changes to the employer contribution rate, which increased the employer contribution by 1% for the fiscal year 2022, resulting in a 15.15% employer contribution rate and by 2% for the fiscal years 2023 and forward, resulting in a 17.15% employer contribution rate.

SCHEDULE OF INVESTMENT RETURNS

Fiscal Year Ending June 30,	Annual Money - Weighted Rate of Return
%	
2022	1.00
2021	28.76
2020	(0.97)
2019	7.29
2018	8.38
2017	11.91
2016	2.68
2015	4.06
2014	14.71
2013	11.12

Notes to Schedule:

GASB No. 67 requires pension plans to disclose the annual money-weighted rate of return (MWRR). The MWRR incorporates both the size and the timing of cash flows to determine an internal rate of return. The MWRR 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. This rate of return is computed net of investment expenses but not net of administrative investment expenses.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency	Covered Payroll	Contribution as a Percent of Covered Payroll
2022	\$627,460,825	\$511,943,988	\$115,516,837	\$3,214,177,618	15.93%
2021	656,732,175	452,872,287	203,859,888	3,057,978,722	14.81%
2020	586,451,550	451,556,144	134,895,406	3,048,404,048	14.81%
2019	587,331,406	406,549,056	180,782,350	2,797,685,921	14.53%
2018	546,593,275	388,723,983	157,869,292	2,678,214,885	14.51%
2017	477,840,156	395,843,795	81,996,361	2,728,361,993	14.51%
2016	465,340,519	396,988,557	68,351,962	2,740,526,669	14.49%
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%

Notes to Schedule:

The valuation date for fiscal year 2022 is June 30, 2021. Actuarially determined contribution rates are calculated as of years ending June 30. Employers and members contribute based on statutorily fixed rates.

Methods and Assumptions for Actuarially Determined Contribution Rate for Fiscal Year 2022

Actuarial Cost Method	Entry age normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	Amortized over a closed 30-year period from June 30, 2019, ending June 30, 2049
Asset Valuation Method	5-year smoothed market
Inflation	2.30%
Salary Increases	Composed of 2.30% inflation, 0.70% productivity increase rate, plus step-rate promotional increases for less than 15 years of service
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates based on age and service. Adopted by the Board on April 17, 2020, in conjunction with the six-year experience study for the period ending June 30, 2019.
Mortality	<p>Healthy Males: 2020 GRS Southwest Region Teacher Mortality Table, set back one year and scaled at 95%. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2020.</p> <p>Healthy Females: 2020 GRS Southwest Region Teacher Mortality Table, set back one year. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2020.</p>
Other Information/Notes	A new set of assumptions was adopted for the June 30, 2020, actuarial valuation and was first reflected for the ADEC determined as of June 30, 2021.

OTHER SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES AND EXPENDITURES –
BUDGET AND ACTUAL (NON-GAAP BASIS)
YEAR ENDED June 30, 2022**

	Appropriation Budget	Final Budget	Budgetary Basis Actual	Variance - Final Budget Favorable (Unfavorable)
Revenues and Appropriations:				
Other State Funds				
Interest and Dividend Income	\$ 28,309,200	\$ 28,362,400	\$ 28,362,400	\$ —
Total Revenues and Appropriations	<u>28,309,200</u>	<u>28,362,400</u>	<u>28,362,400</u>	<u>—</u>
Expenditures:				
Operating Expenditures				
Personal Services/Employee Benefits	8,052,900	8,106,100	7,794,464	311,636
Contractual Services	18,437,200	18,437,200	16,515,125	1,922,075
Other Costs	1,819,100	1,819,100	1,503,265	315,835
Total Expenditures	<u>\$ 28,309,200</u>	<u>\$ 28,362,400</u>	<u>\$ 25,812,854</u>	<u>\$ 2,549,546</u>
Changes in Net Position - Budgetary Basis			\$ 2,549,546	
Non-Budgeted Revenue and Expenses:				
Contributions (Member, Employer and Service Credits Purchased)			859,861,153	
Net Appreciation in Fair Value of Plan Investments			(392,258,498)	
Other Income			802,408	
Non-budgeted Interest and Dividend Income			76,025,266	
Non-budgeted Other Investment Income			138,369,190	
Age and Service Benefit Payments			(1,270,821,870)	
Refunds to Terminated Members			(50,692,632)	
Non-budgeted Investment Expenses			(174,657,214)	
Change in Net Position - GAAP Basis			<u>(810,822,650)</u>	
Net Position Held in Trust for Pension Benefits - Beginning of Year			<u>16,361,524,358</u>	
Net Position Held in Trust for Pension Benefits - End of Year			<u>\$ 15,550,701,708</u>	

Note to Schedule:

NMERB's annual budget is prepared on the modified accrual basis.

**SCHEDULE OF BUDGETED EXPENDITURES
YEAR ENDED June 30, 2022**

Personal Services and Benefits

Salaries	\$	5,642,879
Benefits		2,151,585
Total Revenues and Appropriations		7,794,464

Expenditures:

Investment Manager Expenses		
Non-U.S. Fixed Income		569,012
Domestic Equity		2,361,354
Emerging Market Equity		2,546,416
Non-U.S. Equity		3,613,556
Investment Consulting Expenses		1,649,680
Investment Custodial Expenses		1,022,687
Actuarial Fees		114,237
Auditing Fees		121,990
Legal Fees		863,809
Information Technology Fees		3,278,885
Other Contractual Services		373,499
Total Investment Expenses		16,515,125

Other Services

Communication		235,799
Facility		223,078
Software		215,219
Education, Meeting and Travel		76,662
General Administrative		752,507
Total Other Administrative Expenses		1,503,265

Total Budgeted Expenditures	\$	25,812,854
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Note to Schedule: NMERB's budget is prepared on the modified accrual basis of accounting.

Other Supplementary Information

Schedule of Investing Activity and Administrative Investment Expenses Year Ended June 30, 2022

	Investment Operations	Administrative Operations	Total
Revenues and Appropriations:			
Salaries	\$ 1,952,421	\$ 3,690,458	\$ 5,642,879
Fringe Benefits	659,546	1,492,039	2,151,585
Subtotal	<u>2,611,967</u>	<u>5,182,497</u>	<u>7,794,464</u>
Expenditures:			
Investment Management Fees	9,090,338		9,090,338
Investment Consulting Fees	1,649,680		1,649,680
Investment Custodial Fees	1,022,687		1,022,687
Actuarial Fees		114,237	114,237
Auditing Fees		121,990	121,990
Legal Fees	784,943	78,866	863,809
Information Technology Fees	464,154	2,814,731	3,278,885
Other Contractual Services	4,424	369,075	373,499
Subtotal	<u>13,016,226</u>	<u>3,498,899</u>	<u>16,515,125</u>
Other Investment Expenses			
Off-Budget Investment Management Fees	174,657,212	—	174,657,212
Subtotal	<u>174,657,212</u>	<u>—</u>	<u>174,657,212</u>
Communication Expenses			
Telephone and Network Fees	8,624	146,448	155,072
Printing, Postage, and Mailing Expenses	2,629	78,098	80,727
Subtotal	<u>11,253</u>	<u>224,546</u>	<u>235,799</u>
Facility Expenses			
Lease	51,410	113,680	165,090
Depreciation	—	105,987	105,987
Maintenance	—	35,034	35,034
Utilities	—	22,954	22,954
Subtotal	<u>51,410</u>	<u>277,655</u>	<u>329,065</u>
Software Expenses			
Licensing and Maintenance	—	215,219	215,219
Subtotal	<u>—</u>	<u>215,219</u>	<u>215,219</u>
Education, Meeting and Travel Expenses			
Professional Development and Administrative	290	28,531	28,821
Travel Cost	14,305	33,536	47,841
Subtotal	<u>14,595</u>	<u>62,067</u>	<u>76,662</u>
General Administrative Expenses			
Other Overhead Expense	289,391	333,552	622,943
Membership and Subscription	56,956	72,608	129,564
Subtotal	<u>346,347</u>	<u>406,160</u>	<u>752,507</u>
Total Investment & Administrative Expenses	<u>\$ 190,709,010</u>	<u>\$ 9,867,043</u>	<u>\$ 200,576,053</u>

Schedule of Investing Activity and Administrative Investment Expenses
Year Ended June 30, 2022

	Investment Operations	Administrative Operations	Total
Total Investment Operations Expense	\$ 187,673,438	\$ -	\$ 187,673,438
Total Administrative Operations Expense	3,035,572	9,867,043	12,902,615
Total Expenses	<u>\$ 190,709,010</u>	<u>\$ 9,867,043</u>	<u>\$ 200,576,053</u>

Notes to Schedule:

1. Personal services and employee benefits represent actual wages, adjusted for year-end accruals.
2. Professional contractual services represent the cost of on-budget investment contracts.
3. Other investment expenses are the off-budget investment manager fees booked at fiscal year-end.
4. Communication expenses are based on the expenses of the staff in the workgroup.
5. Investment facility expenses represent leased office space in Santa Fe, New Mexico.
6. Software expenses represent the costs of software licensing and maintenance for investment software.
7. Education, Meeting and Travel expenses include the cost of employee in-state and out of state business travel and professional development.
8. General administrative expenses for investment operations represent costs for information feeds, subscriptions, memberships, and other overhead based on the staff in the workgroup and are included in the total administrative operations expenses.

SCHEDULE OF CASH AND SHORT-TERM INVESTMENTS

June 30, 2022

Educational Employees Retirement Fund

Pension Trust Account

Short Term Investment Accounts:

State Treasurer’s General Fund Investment Pool	\$10,515,446
State Street Bank - Short-Term Investments, at Fair Value	<u>216,997,064</u>
Total	<u><u>\$227,512,510</u></u>

Notes to Schedule

- Individual deposit accounts and investment accounts held in the name of the New Mexico Educational Retirement Board are shown above as required by Section 12-6-5(A), NMSA 1978. All cash activity is accounted for within the Statewide Human Resources Accounting and Management System (SHARE) fund 60500.
- Additional information on credit risk related to state agency investments held in the State Treasurer’s General Fund Investment Pool can be found in the State Treasurer’s separately issued financial statements which disclose the collateral pledged to secure cash and investments.
- State Street Bank balances for cash held by foreign currency and other portfolio managers is securitized by State Street Bank. See Note 7 for additional information on custodial and credit risk with respect to funds held by State Street Bank.
- With respect to the Local Government Investment Pool (LGIP) in fiscal year 2022, the funds maintained by the State Treasurer’s Office (STO) were rated AAAM by Standard & Poor’s. As a Public Fund, STO is not required to disclose custodial risk and concentration of credit risk for this fund.
- STO used the Weighted Average Maturity (WAM) method to report interest rate risk. As of June 30, 2022 the LGIP WAM (R) was 35 days and the WAM (F) was 112 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.
- New Mexico LGIP AAAM Rated \$106,362 [35] day WAM (R); [112] day WAM (F).

Other Supplementary Information

NMERB reports annual performance measure results (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. NMERB selected the measures shown above based on our primary services of prudent asset management, pension benefit administration, and outreach and training services for both our membership and educational employers.

ACCOUNTABILITY IN GOVERNMENT ACT PERFORMANCE MEASURES

June 30, 2022

Type	Description	Target	Actual
Outcome	Average rate of return over a cumulative five-year period	7.00%	8.4%
Outcome	Member seminar and training satisfaction ratings*	95%	79%
Outcome	Ten-year performance ranking in a nation peer survey of public plans	<50%	9%
Outcome	Funding period of unfunded actuarial accrued liability in years**	<30	29 years

Notes to Schedule

* NMERB created more opportunities for members and employers to attend training workshops in regional settings or at their own sites. These sessions are in high demand and helpful for educating our current membership and future retirees.

** NMERB's contribution rate structure is intended to be sufficient to pay NMERB's normal 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 NMERB's experience is consistent with all of the actuarial assumptions.

ADDITIONAL INFORMATION

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*

Board of Trustees
New Mexico Educational Retirement Board

Mr. Brian Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

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 New Mexico Educational Retirement Board (NMERB), a component unit of the State of New Mexico, which comprise the statement of fiduciary net position as of June 30, 2022, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise New Mexico Educational Retirement Board's basic financial statements, and have issued our report thereon dated November 22, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered New Mexico Educational Retirement Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Mexico Educational Retirement Board's internal control. Accordingly, we do not express an opinion on the effectiveness of New Mexico Educational Retirement Board'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. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Mexico Educational Retirement Board'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 results 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Albuquerque, New Mexico
November 22, 2022

**New Mexico Educational Retirement Board
Schedule of Findings and Responses
Year Ended June 30, 2022**

Section I - Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditors' report issued: Unmodified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weaknesses identified? No

Significant deficiencies identified not considered
to be material weaknesses? No

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted? No

FINANCIAL STATEMENT FINDINGS

No matters reported.

**New Mexico Educational Retirement Board
Schedule of Prior Audit Findings
Year Ended June 30, 2022**

2021-001: Member Refund and Retiree Distribution Files (Other Matter) - Resolved

2021-002: Reporting – Regulatory Compliance (Other Matter) - Resolved

2021-003: Public Money Act (Other Non-Compliance) - Resolved

June 30, 2022

NMERB staff prepared the Management Discussion and Analysis (MD&A), financial statements, statements, schedules, and notes for the fiscal years ended June 30, 2022. The contents of this report were discussed during an exit conference with the Audit Committee of the Board of Trustees and management of NMERB on November 21, 2022. The following individuals attended this exit conference:

Educational Retirement Board

Mary Lou Cameron, Audit Committee Chairperson

H. Russel Goff, Audit Committee Member

David Archuleta, Executive Director

Lawrence Esquibel, Deputy Director

Rick Scroggins, ASD Director/Chief Financial Officer

Bob Jacksha, Chief Investment Officer

Moss Adams LLP

Kory Hoggan, Partner

Aaron Hamilton, Assurance Senior Manager

The contents of this report will also be presented to the NMERB Board of Trustees as part of the regular board meeting succeeding the submission and release of the Annual Comprehensive Financial Report by the New Mexico State Auditor.

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