State of New Mexico
Educational Retirement Board

Helping you reach your retirement
goals - one bridge at a time

Comprehensive Annual
Financial Report

Fiscal Year Ended June 30, 2001

"One's mind, once stretched by a new idea, never regains its original dimensions."

Oliver Wendell Holmes

Toki's Bridge
New Mexico Institute of Mining and Technology
by Nancy Swigger

Mission of The Educational Retirement Board

The New Mexico Educational Retirement Board is a statutory entity that provides secure retirement benefits for our active and retired members from school districts, higher education and educational agencies.

We strive to make our members' retirement experience optimal by:

- Prudently managing the financial assets of the fund;
- Providing prompt, courteous and accurate responses to members' inquiries;
- Counseling members on an individual basis related to retirement issues;
- Educating members about both the financial and personal aspects of retirement;
- Educating members about ways to advocate for improving benefits; and
- Soliciting member input for improving services.

We are consistently building the skills, capacities, and competencies of our employees in order to provide our members caring and quality service.

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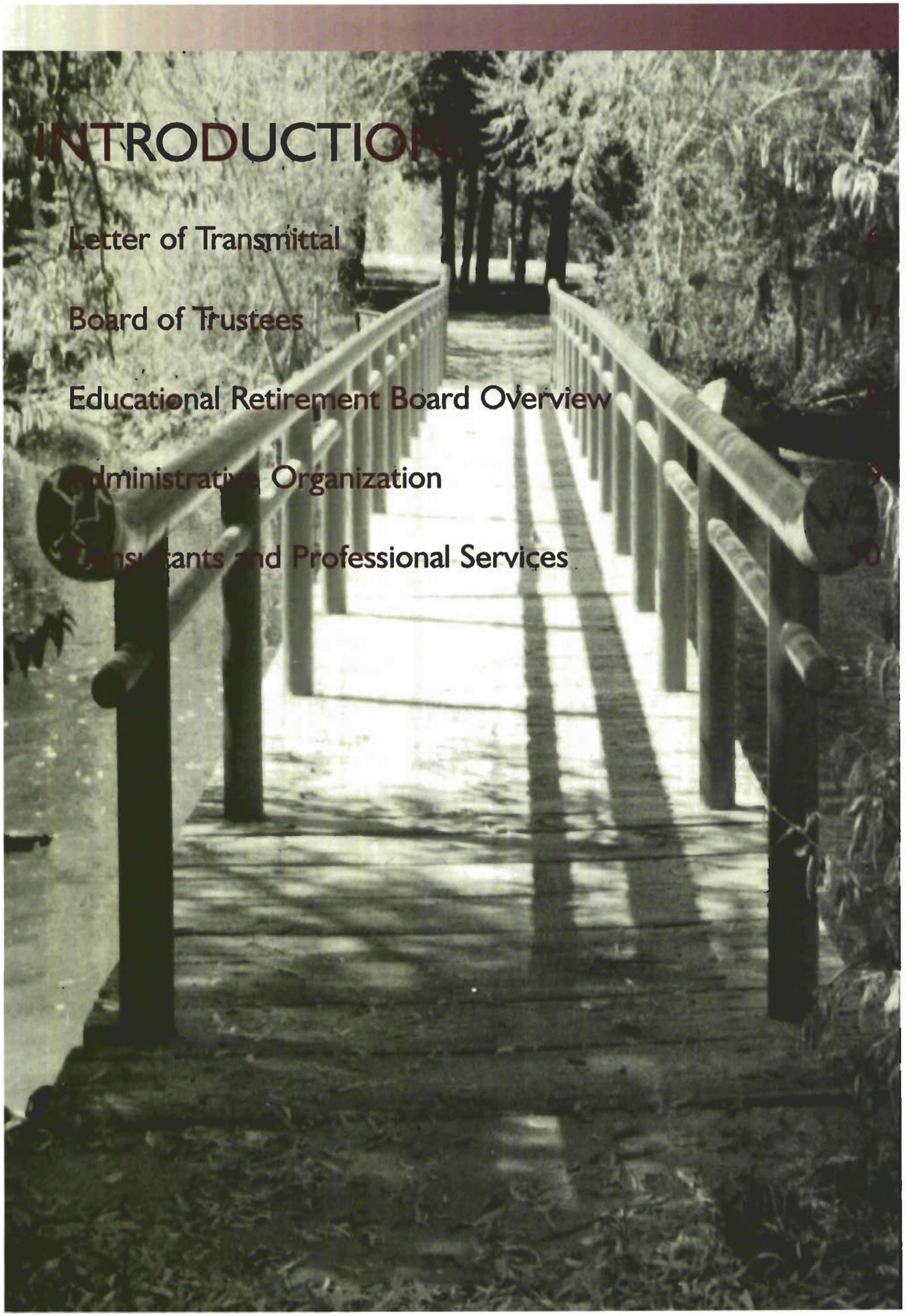
INTRODUCTION



Letter of Transmittal

STATE OF NEW MEXICO

Educational Retirement Board

Dear Members, Retirees and Friends:

We are pleased to present the Comprehensive Annual Report for the fiscal year ended June 30, 2001. This year marks the completion of our 42nd year of service to the educators of New Mexico. We are proud of our accomplishments in providing excellent retirement benefits, sound financial management and a high degree of service to our members.

This report contains:

1. An introductory section of general information about the Board and the organization.
2. A plan summary, which gives a description of membership and benefits.
3. A financial section containing the financial statements and audit report.
4. An actuarial report detailing our current position and projections for the future.
5. An investment section that presents an overview of our investing program and the results achieved.

The responsibility for both the accuracy of the data and the completeness and fairness of the report, rests with the staff of the Board. To the best of our knowledge and judgement, this report represents an accurate presentation, in all material aspects, of the financial and actuarial status of the program.

The report shows that the Educational Retirement Fund suffered disappointing investment returns during the fiscal year 2001, however, the long-term funding picture of the plan continues to be stable. The unfunded liability is $652.0 million, compared to fiscal year 2000's figure of $624.8 million, and the funding period in years went up for the first time in many years from 8.2 years to 12.5 years. In contrast, because of the five-year averaging method used to determine the actuarial value of assets, the funded ratio improved from 91.6% to 91.9%. The financial and actuarial statistics comply with all national standards for public pensions funds.

The financial soundness of the ERA's retirement plan is very important as over 80,000 New Mexicans count on us for management of one of their largest assets. The Board and Staff take this responsibility very seriously. Our goals continue to be to insure the long-term stability of the plan and provide the highest level of service.

Sincerely,

Danny Joe Lyle
Director

The Educational Retirement Board of Trustees as Constituted on June 30, 2001

DELMAN SHIRLEY, Chairperson
Current term expires December 31, 2004
Elected by New Mexico Association of Educational Retirees

PAULINE H. TURNER, Ph.D., Vice Chairman
Current term expires June 30, 2004
Elected by American Association of University Professors

JULIE P. NEERKEN, Secretary
Current term expires June 10, 2001
Appointed by the Governor

BRUCE MALOTT, Member
Current term expires June 10, 2003
Appointed by the Governor

MARY LOU CAMERON, Member
Current term expires December 31, 2005
Elected by New Mexico National Education Association

MICHAEL DAVIS, Member
Superintendent of Public Instruction
Ex-Officio Member

MICHAEL A. MONTOYA, Member
New Mexico State Treasurer
Ex-Officio Member

Left to right: Michael A. Montoya, Pauline H. Turner, Bruce Malott, Julie P. Neerken, Delman Shirley, Mary Lou Cameron, Michael Davis

Educational Retirement Board

BOARD OF TRUSTEES: The management of the Educational Retirement Board (ERB) is vested in a board of seven members. The Board stands in a fiduciary relationship to the members covered under the Educational Retirement Act (ERA). Administrative management of the fund is vested in a Director who is appointed by the Board of Trustees. The Board contracts with an actuary and uses legal counsel provided by the Attorney General's Office, contract counsel and in-house counsel. Benefits are financed by employee and employer contributions and investment earnings. Board meetings are held bimonthly.

INVESTMENT COMMITTEE: The role of the Investment Committee is to establish and recommend policy to the Board in matters relating to the investments of the system. The Investment Committee is composed of the Director and three members of the Board appointed by the chairperson. The Investment Committee holds bimonthly meetings.

EXECUTIVE OFFICE: The executive office is responsible for the overall management of the retirement system to achieve the primary objectives as established by the Board of Trustees.

The Director is responsible for administering the Educational Retirement Act. Additionally, the Director certifies expenditures of the fund.

The Deputy Director provides administrative and managerial assistance in the overall management of the ERB.

The Investment Division is responsible for the investment activities of the retirement fund. The ERB portfolio is managed partially in-house and partially by contract managers.

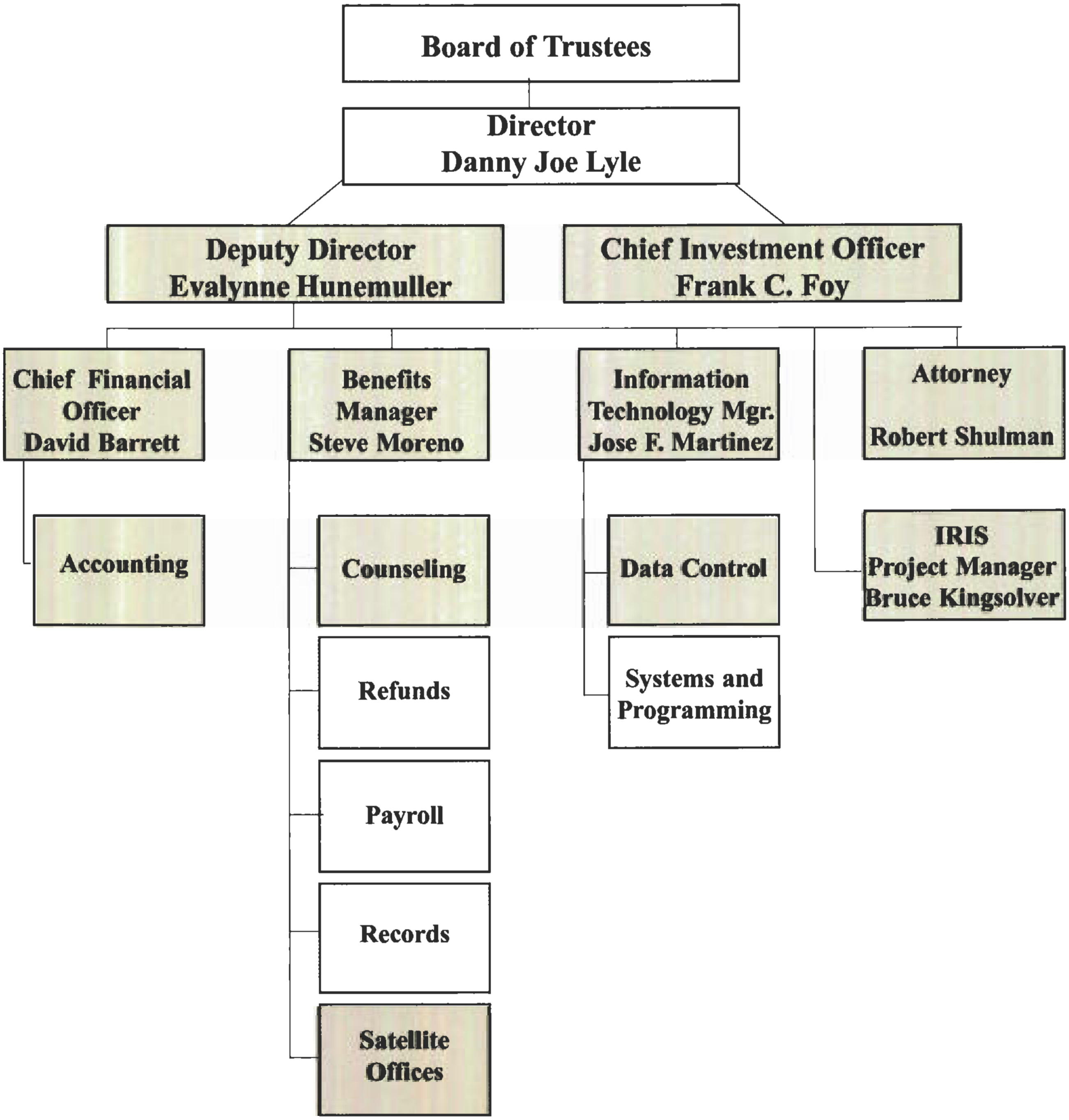
The Legal Division is responsible for advising the Board in all litigation matters and providing counsel on a wide variety of issues including the interpretation of the ERA.

The Benefits Division provides professional retirement counseling to members from the time of enrollment through the process of retirement. This division also administers the annuitant payroll and refund of contributions.

The Accounting Division has the responsibility for planning, organizing, and directing a complete accounting and financial reporting system and ensuring appropriate accounting controls.

The Information Technology Division is responsible for planning and controlling all information systems' activities within the ERB. Additionally, the division formulates short-term and long-term technology plans.

Administrative Organization



Consulting and Professional Services

To assist the Board and administration in carrying out its fiduciary duty regarding the prudent investment of the fund's assets, the Board has hired an actuarial firm and investment performance measurement consultant.

The actuarial firm chosen by the Board is responsible for:

- Certifying the adequacy of the contribution rate used by the System;
- Measuring and reporting the assets and liability of the System; and
- Reviewing and analyzing trends in the System's contributions.

The performance measurement consultant chosen by the Board is responsible for advising the Board regarding:

- Behaviour of fixed income and equity markets.
- Returns earned on the Fund relative to both its policy benchmark and a peer group of public pension funds.
- Performance of each of the Fund's investment managers relative to both their benchmarks and peers.
- Analysis of investment style, risk and return of the Fund's investment managers.

To assist the Board in carrying out its duty regarding disability benefits, the Board has engaged the services of three physicians as the Medical Review Board.

The Medical Review Board is responsible for:

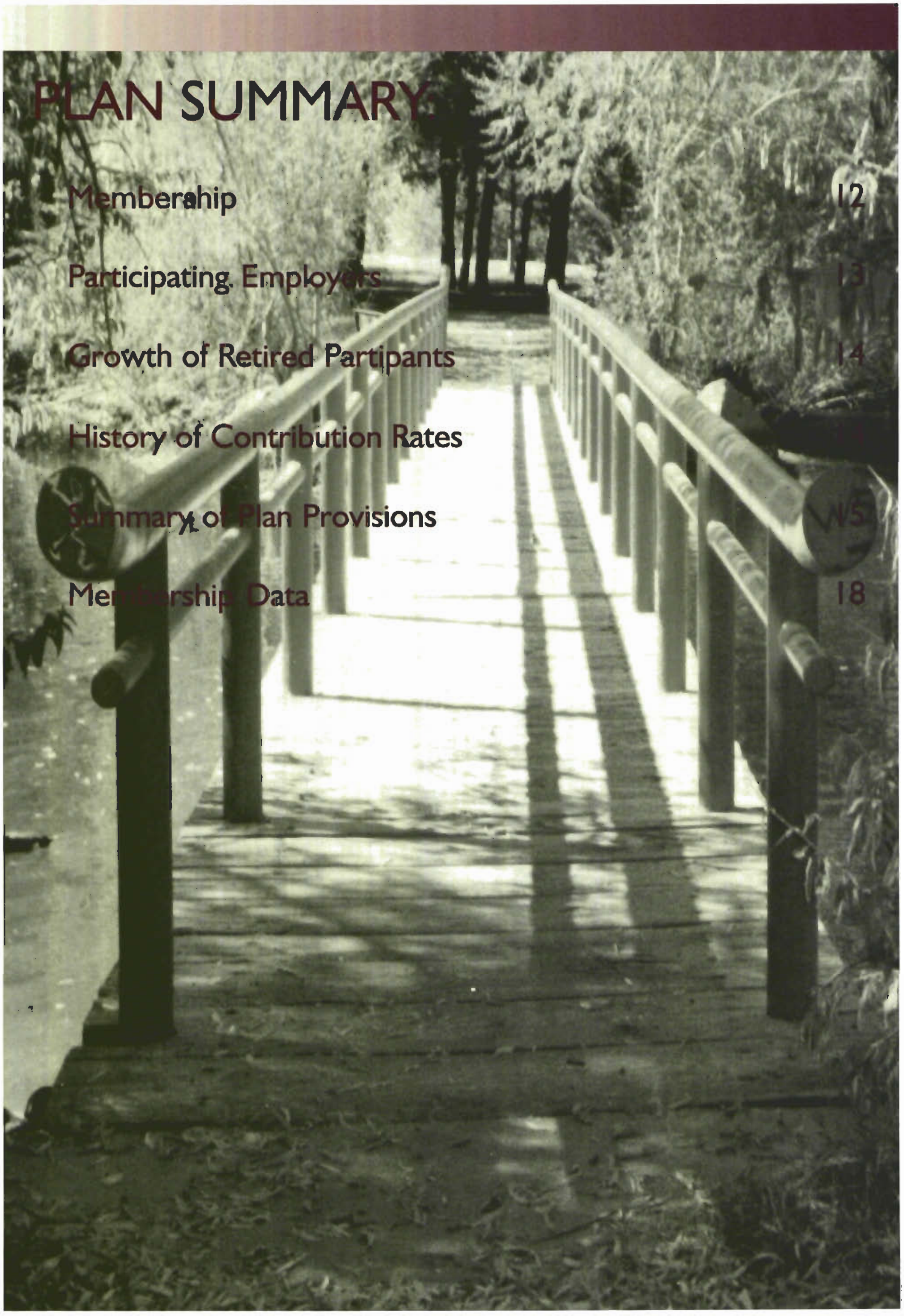
- Reviewing all disability examination reports; and
- Advising the ERB of the nature and extent of the disability.

The Office of the Attorney General provides legal counsel to the ERB.

The Groom Law Group of Washington, D.C. provides legal tas counsel.

An independent Certified Public Accountant conducts the financial audit of the ERB.

PLAN SUMMARY



Membership

The New Mexico Educational Retirement Board (ERB) is the administrator of a multi-employer retirement fund. The Educational Retirement Act (ERA) is governed by the provisions in Section 22-11-1 through 52, NMSA, 1978. The plan is a qualified, defined benefit retirement plan, and is a governmental plan.

Membership in the ERA is a condition of employment in New Mexico schools covered by the Act. This includes all employees of public schools, universities, junior colleges, technical vocational institutions, state special schools, and state agencies providing an educational program.

Faculty and professionals employed with one of the two or four-year institutions of higher education may elect to participate in the defined benefit plan or an alternative retirement plan (ARP) administered by the ERB. This election must be made within ninety days of employment and is irrevocable.

At June 30, 2001, there were 60,155 members covered under the ERA by 129 actively contributing employers.

89	Public School Districts	41,694
15	Colleges/Universities	15,970
5	Special Schools	1,948
10	State Agencies	362
10	Charter Schools	181
	Total	60,155

Participating Employers
June 30, 2001

PUBLIC SCHOOLS:
Alamogordo
Albuquerque
Animas
Artesia
Aztec
Belen
Bernalillo
Bloomfield
Capitan
Carlsbad
Carrizozo
Central Consolidated
Chama Valley
Cimarron
Clayton
Cloudcroft
Clovis
Cobre Consolidated
Corona
Cuba
Deming
Des Moines
Dexter
Dora
Dulce
Elida
Espanola
Estancia
Eunice
Farmington
Floyd
Fort Sumner
Gadsen Independent
Gallup McKinley County
Grady
Grants-Cibola
Hagerman
Hatch Valley
Hobbs
Hondo Valley
House
Jal
Jemez Mountain
Jemez Valley
Lake Arthur
Las Cruces
Las Vegas City
Logan
Lordsburg
Los Alamos
Los Lunas
Loving
Lovington
Magdalena
Maxwell
Melrose
Mesa Vista Consolidated
Mora Independent
Moriarty
Mosquero
Mountainair
Pecos Independent
Penasco Independent
Pojoaque Valley
Portales
Quemado
Questa Independent
Raton
Reserve Independent
Rio Rancho
Roswell Independent
Roy
Ruidoso
San Jon
Santa Fe
Santa Rosa Consolidated
Silver Consolidated
Socorro Consolidated
Springer
Taos
Tatum
Texico
Truth or Consequences
Tucumcari
Tularosa
Vaughn
Wagon Mound
West Las Vegas
Zuni

COLLEGES & UNIVERSITIES:
Albuquerque TVI
Clovis Community College
Eastern New Mexico University
Eastern New Mexico Univ. Roswell
Luna Area Vocational School
Mesa Technical College
New Mexico Highlands University
New Mexico Institute of Mining & Technology
New Mexico Junior College
New Mexico State University
Northern NM Community College
San Juan College
Santa Fe Community College
University of New Mexico
Western New Mexico University

SPECIAL SCHOOLS:
New Mesico Boys School
New Military Institute
NM School for the Deaf
NM School for Visually Handicapped
Youth Diagnostic Center

STATE AGENCIES:
Children, Youth & Families
NM Educational Retirement Board
NM Dept. of Corrections
NM Dept. of Health & Environment
NM Dept. of Education
NM Activities Association
NM Dept. Vocational Rehabilitation
High Plains Regional Cooperative
Region IX-RD Cooperative
Central Regional Cooperative

CHARTER SCHOOLS:
Academy for Technology & Classics
Amistad Elementary Charter School
Amy Biehl Charter High School
East Mountain High School
Monte del Sol Charter School
San Diego Riverside Charter School
South Valley Charter High School
Southwest Secondary Learning
Taos Municipal Charter School
Twenty-First Century Charter School

Growth of Retired Participants

Year Ending June 30	Number	All Retirees Average Monthly Benefit
(1	(2)	(3)
1982	7,567	$ 393
1984	8,462	430
1986	10,004	512
1988	11,375	663
1990	12,741	767
1992	14,107	846
1993	15,001	890
1994	15,814	933
1995	16,593	973
1996	17,381	1,011
1997	18,317	1,055
1998	19,244	1,104
1999	20,109	1,139
2000	21,186	1,228
2001	22,191	1,274

History of Contribution Rates

Fiscal Year Beginning July 1	Employee Rate	Employer Rate	Total Rate
(1)	(2)	(3)	(4)
1982	6.80%	6.80%	13.60%
1984	7.60	7.60	15.20
1986	7.60	7.60	15.20
1988	7.60	7.60	15.20
1990	7.60	7.60	15.20
1992	7.60	7.60	15.20
1993	7.60	8.65	16.25
1994	7.60	8.65	16.25
1995	7.60	8.65	16.25
1996	7.60	8.65	16.25
1997	7.60	8.65	16.25
1998	7.60	8.65	16.25
1999	7.60	8.65	16.25
2000	7.60	8.65	16.25
2001	7.60	8.65	16.25

Summary of Plan Provisions

1. **Effective Date**: July 1, 1967.

2. **Plan Year**: Twelve-month period ending June 30th.

3. **Administration**: The Educational Retirement Board is responsible for administration of the System and investment of System assets.

4. **Type of Plan:** The System is a qualified, defined benefit, governmental retirement plan. For government accounting purposes, it is a cost-sharing multiple-employer Public Employee Retirement System..

5. **Eligibility**: All teachers, nurses and administrators employed by public schools in New Mexico, including public colleges and universities, participate in the System. These are the "regular members", and their participation is a condition of employment, however, see the section on the Alternative Retirement Plan below for an exception. Generally, other employees of these schools are also required to participate, although employees employed continuously since June 30, 1971 may exempt themselves from membership. Certain other employees of various state schools and agencies also participate.

6. **Member Contributions**: All active members contribute 7.6% of their earnings. Substantially all earnings are included for this purpose. Employee contributions are "picked up" by the local employer for federal income tax treatment.

7. **Employer Contributions**: The school district or other local administrative unit which employs a member contributes 8.65% of the member's earnings. In addition, state universities contribute 3% of the earnings of non-members who are participating in the Alternative Retirement Plan.

8. **Service**: Employees receive credit for each calendar quarter in which they are contributing members. Credit is also granted for service prior to the system's effective date, and certain military service. Credit may also be purchased for some out-of-state service under certain circumstances.

9. **Final Average Compensation (FAC)**: The average of the member's earnings for the last five consecutive years, or such other five consecutive year period that gives the largest average. Monthly benefits are based on one-twelfth of this amount.

10. **Normal Retirement**

    a. **Eligibility**: A member may retire upon Normal Retirement on the earliest of (i) the date he/she attains age 65 with credit for 5 years of service, or (ii) the date the member completes 25 years of service, or (iii) the date that the sum of the member's age and service is at least 75, provided the member is at least age 60.

    b. **Monthly Benefit**: 2.35% of FAC (monthly) times years of service.

    c. **Payment Form**: Benefits are paid as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's accumulated contributions with interest, determined as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. Optional forms of payment are available; see below.

11. **Early Retirement**

    a. **Eligibility**: A member may take early retirement once the sum of his/her age and service equals or exceeds 75.

    b. **Monthly Benefit**: The member's benefit is determined as follows: 2.35% of FAC (monthly) times years of service, multiplied by the early retirement factor on page 16.

c. **Early Retirement Factor**:

Age at Retirement	Factor
60 or later	1.000
59	.976
58	.952
57	.928
56	.904
55	.880
54	.808
53	.736
52	.664
51	.592
50	.520
49	.448
48	.376
47	.304
46	.232
45	.160

d. **Payment Form**: Same as for Normal Retirement above.

12. **Disability Retirement**

a. **Eligibility**: A member is eligible provided (i) he/she has credit for at least 10 years of service, and (ii) the disability is approved by the Board.

b. **Monthly Benefit**: The members benefit is determined as follows: 2% of FAC (monthly) times years of service, but not less than the smaller of (i) one-third of FAC, or (ii) 2% of FAC times years of service projected to age 60.

c. **Payment Form**: 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 sum of the member's accumulated contributions with interest as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are available.

13. **Vested Termination Benefit**

a. **Eligibility**: A member with at least five years of service who does not withdraw his/her contributions from the fund is eligible for a vested termination benefit.

b. **Monthly Benefit**: The benefit is calculated using 2.35% of FAC (monthly) times years of service. Both FAC and service are determined at the time the member leaves active employment.

c. **Payment Form**: Benefits commence when the participant attains his/her normal retirement age. Optionally benefits may commence at the early retirement age, applying the same reduction factors as are used for regular early retirement. The form of payment is the same as for Normal Retirement above.

14. **Withdrawal (Refund) Benefit**

a. **Eligibility**: All members leaving covered employment with less than five years of service for a reason other than the member's death. Optionally, members eligible for other benefits may withdraw their contributions in lieu of the regular benefits due.

b. **Benefit**: The member who elects to withdraw receives a lump-sum payment of his/her employee contributions, plus interest computed at a rate equal to 75% of the five-year average return for the trust fund.

15. **Death in Service**

Benefit: Upon the death of an active member, the beneficiary may receive a refund of the member's contributions, plus interest based upon the yield for the trust fund during the preceding year. Alternatively, if the member has five or more years of service, the beneficiary may elect to receive an annuity determined as though the member had retired, elected option B below, and then died. If the member is not eligible for early or normal retirement, this benefit may still be elected, with payments deferred until the member would have been eligible for retirement.

16. **Optional Forms of Payment**: There are optional forms of payment available on an actuarially equivalent basis, as follows:

    a. **Option B** - A Joint and 100% Survivor annuity with a "pop-up" feature. The regular life annuity amount is reduced to provide a Joint and 100% Survivor benefit, i.e., a benefit payable as long as either the member or his joint annuitant shall live. However, if the joint annuitant predeceases the member, then the member's benefit amount reverts back to the regular life annuity amount. The "pop-up" feature is subsidized by the System.

    b. **Option C** - A Joint and 50% Survivor annuity with a pop-up feature. The benefit is reduced to provide a Joint and 50% Survivor benefit, i.e., a benefit payable as long as both the member and the joint annuitant are alive, reducing to 50% of this amount upon the member's death, if the joint annuitant is still living. If the joint annuitant predeceases the member, the benefit reverts to the regular life annuity amount. The pop-up feature is subsidized by the System.

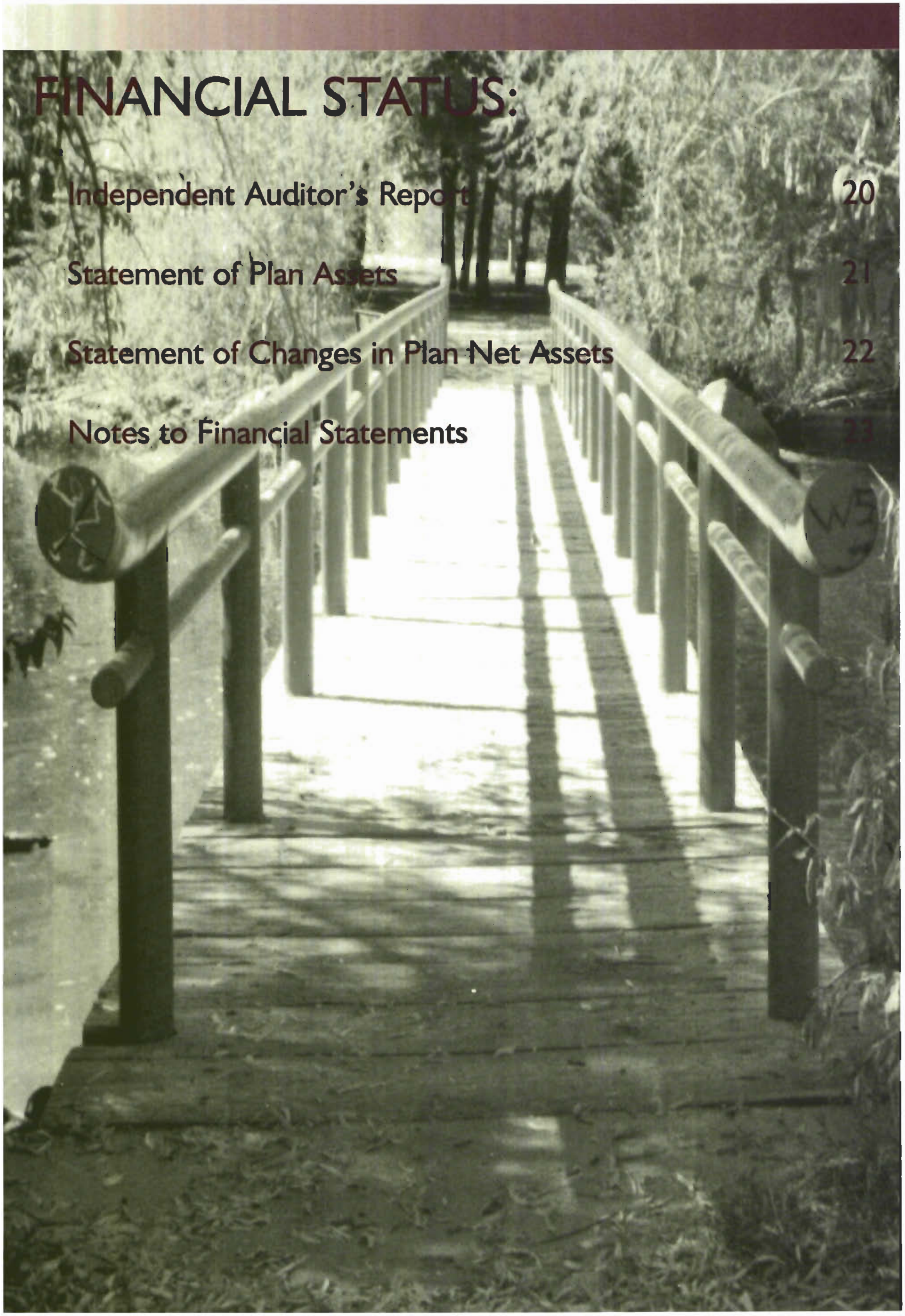
17. **Cost-of-living Increase**: All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit each July, beginning in the year they attain age 65. The adjustment is equal to one-half the change in the cost of living, except that the adjustment shall not exceed four percent, nor be less than two percent. Members retired prior to July 1, 1984 are also entitled to an increase of the lesser of 2% or the increase in the cost of living for years prior to the attainment of 65. Members on disability are entitled to an adjustment commencing on July 1 of the third full year following disability retirement.

18. **Alternative Retirement Plan (ARP)**: Beginning July 1, 1991, new faculty members employed by state universities may elect participation in the ARP rather than in this System. If this election is not made, the employee remains a member of this System permanently. No benefits are paid to ARP members from ERB. Also see the section on Employer Contributions above.

Membership Data

		June 30, 2001	June 30, 2000
1.	**Active members**		
a.	Number	60,155	60,090
b.	Total payroll supplied by System	$ 1,819,553,855	$ 1,795,715,200
c.	Average salary	$ 30,248	$ 29,884
d.	Average age	44.9	44.5
e.	Average service	9.2	9.1
2.	**Vested inactive members (excluding pending refunds)**		
a.	Number	4,800	4,450
b.	Total annual deferred benefit	$ 26,345,464	$ 23,980,934
c.	Average annual deferred benefit	$ 5,489	$ 5,389
3.	**Nonvested inactive members and vested pending refunds**		
a.	Number	13,401	12,074
b.	Employee assessments with interest due	$ 36,138,814	$ 31,165,533
c.	Average refund due	$ 2,697	$ 2,581
4.	**Service retirees**		
a.	Number	19.930	19,027
b.	Total annual benefits	$ 317,670,322	$ 292,449,484
c.	Average annual benefit	$ 15,939	$ 15,370
5.	**Disabled retirees**		
a.	Number	580	562
b.	Total annual benefits	$ 4,235,904	$ 3,993,592
c.	Average annual benefit	$ 7,303	$ 7,106
6.	**Beneficiaries**		
a.	Number	1,681	1,597
b.	Total annual benefits	$ 17,251,985	$ 15,797,862
c.	Average annual benefit	$ 10,263	$ 9,892

FINANCIAL STATUS:



Independent Auditors' Report

Domingo Martinez, CGFM
State Auditor, and
Members of the Educational Retirement Board
Santa Fe, New Mexico

We have audited the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets of the State of New Mexico Educational Retirement Board (the Board), as of and for the year ended June 30, 2001 and June 30, 2000. These financial statements are the responsibility of the State of New Mexico Educational Retirement Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentations. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the State of New Mexico Educational Retirement Board as of June 30, 2001 and June 30, 2000 and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedules of Funding Progress and Employer Contributions on pages 51-52 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Governmental Auditing Standards,* we have also issued a report dated December 13, 2001 on our consideration of the Board's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as "Other Supplementary Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the State of New Mexico Educational Retirement Board. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Zlotnick, Laws & Sandoval, P Zlotnick, Laws & Sandoval, PC

Statement of Plan Net Assets
June 30, 2001 and 2000

	2001	2000
Assets		
Cash and short-term investments	$ 104,653,543	79,510,540
Total cash	104,653,543	79,510,540
Receivables (Note 4)		
Other	13,357	8,052
Contributions	43,866,087	38,818,036
Investment sales proceeds- brokers	47,907,015	38,457,392
Interest and dividends	27,886,454	31,003,568
Total receivables	119,672,913	108,287,048
Investments, at fair value (Note 5)		
U.S. Treasury Securities	580,929,000	652,553,228
U.S. Government Agencies	820,044,813	772,971,188
Domestic corporate bonds	681,938,490	908,086,475
Domestic stock	3,005,398,454	3,670,507,250
Commingled Mid-cap stock	346,876,264	347,725,528
Commingled International stocks	1,072,736,336	1,070,564,740
Invested securities lending collateral	458,223,989	614,944,316
Total investments	6,966,147,346	8,037,352,725
Properties, at cost, net of accumulated depreciation of $1,193,558 and $1,156,073 respectively (Note 6)	1,139,216	1,359,575
Total assets	7,191,613,018	$ 8,226,509,888
Liabilities		
Vouchers payable	-	152
Accounts payable	1,217,349	1,413,327
Accrued payroll and employee benefits	42,758	39,582
Accrued compensated absences (Note 8)	128,943	98,734
Due to other state agencies (Note 7)	143,566	56,116
Refunds payable (Note 9)	3,091,297	3,859,390
Investment purchases payable - brokers	61,695,792	65,826,431
Funds held for others (Note 2.E)	67,383	97,922
Securities lending collateral	458,223,989	614,944,316
Total liabilities	524,611,077	686,335,970
Net assets held in trust for pension benefits (A schedule of funding progress for the plan is presented on page 51)	$ 6,667,001,941	$ 7,540,173,918

The accompanying notes are an integral part of these financial statements

Statement of Changes in Plan Net Assets
For the Years Ended June 30, 2001 and 2000

ADDITIONS	2001	2000
Contributions		
Employer	$ 161,524,340	$ 153,260,317
Member	150,068,398	139,179,503
Total contributions	311,592,738	292,439,820
Investment income		
From investing activities		
Net appreciation (depreciation) in fair value of investments (Note 5)	(978,572,992)	674,470,253
Interest income	142,566,952	149,884,903
Dividend income	31,142,922	31,805,658
Total investing activity income	(804,863,118)	856,160,814
Investment activity expenses:		
Investment advisor fees	(4,487,976)	(5,032,533)
Custody fees	(302,201)	(158,419)
Total investment activity expense	(4,790,177)	(5,190,952)
Net income from investment activities	(809,653,295)	850,969,862
From securities lending activities		
Securities lending income	39,773,012	41,684,710
Securities lending expenses:		
Borrower rebates	(37,183,529)	(38,836,435)
Agent fees	(642,939)	(440,343)
Total securities lending expenses	(37,826,468)	(39,276,778)
Net income from securities lending activities	1,946,544	2,407,932
Total net investment income	(807,706,751)	853,377,794
Miscellaneous Income		
Penalties	18,608	10,764
Interest on restoration of service	3,651,403	3,446,082
Other	19,419	27,577
Total additions	(492,424,583)	1,149,302,037
DEDUCTIONS		
Refunds to terminated members	23,684,106	24,598,578
Interest on refunds	12,949,806	10,554,053
Administrative expenses	3,517,803	2,543,933
Age and service benefit payments	335,155,233	307,329,262
Disability benefit payments	5,440,446	4,484,504
Total deductions	380,747,394	349,510,330
Net increase (decrease)	(873,171,977)	799,791,707
Net assets held in trust for pension benefits		
Beginning of year	7,540,173,918	6,740,382,211
End of year	$ 6,667,001,941	$ 7,540,173,918

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements
June 30, 2001 and June 30, 2000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fund's accounting policies are described below:

A. Fund Accounting

All operations of the Board are accounted for as a Pension Trust Fund, which is used to account for assets held by the Board in a trustee capacity for individuals, other governments, and/or other funds. The following Pension Trust Fund is administered by the Board:

Educational Employees' Retirement Fund – A pension trust fund established to account for transactions for the benefit of educational employees who are members of the Plan. Contributions, investment income, benefit payments, and administrative expenses relating to this pension trust fund are accounted for on a capital management measurement focus.

The Educational Retirement Act (ERA) does not specifically require segregation of assets in order to maintain separate accounting. The Board uses one pension trust fund in the interest of efficient and economical financial administration consistent with legal specifications (i.e., separate accounting controls) and operational requirements.

B. Basis of Accounting

(1) The Board's financial statements are prepared using the accrual basis of accounting. 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.

2) Contributions – As a condition of participation in the Fund, both employees and employers are required to contribute 7.60 percent and 8.65 percent of salaries and wages respectively. These obligations to contribute are established in State Statute. Per the Educational Retirement Act, Section 22-11-1 to 22-11-53, et. al, NMSA 1978, annotated, contribution requirements of the Plan members and participating employers are established and may be amended by the Board.

(3) Administrative costs of the Board are financed through investment earnings.

C. Budgets and Budgetary Accounting

Formal budgetary integration is used as a management control device by the Board in administering the Educational Employees' Retirement Fund.

Only administrative expenses and a small portion of interest income are budgeted while significant revenues and non-administrative expenses are not. The budget is prepared on a non-GAAP basis, which recognizes encumbrances and capital expenditures as current expenditures, excludes depreciation expense, and recognizes revenue when cash is received. Budgetary comparisons for the Educational Employees' Retirement Fund are presented on this non-GAAP basis.

Appropriations from the Fund lapse at fiscal year end except for those amounts that represent encumbrances.

The original budget was amended during the fiscal year. All budget adjustments were made in accordance with State laws and regulations.

The Board follows these procedures in establishing the annual budget:

(1) By August 30th, the Board prepares a budget appropriation request to be presented to the next Legislature. The budget request includes proposed expenditures and the means of financing them.

(2) On September 1st, the budget appropriation request is submitted to the Department of Finance and Administration (DFA) and the Legislative Finance Committee (LFC).

(3) DFA makes recommendations and adjustments to the Board's budget appropriation request, which becomes the Governor's proposal to the Legislature.

(4) The LFC holds hearings on the budget appropriation requests. Recommendations and adjustments are made prior to presenting the budget appropriation requests to the Legislature.

(5) Both DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget.

(6) On May 1st, the Board submits its annual operating budget based on the final appropriation from the Legislature to DFA and LFC.

(7) Budgetary control is exercised at the appropriation unit level (revenue source and expenditure category) and changes are approved by DFA and LFC.

D. Investments

Investments are reported at fair market value. Short-term investments are reported at cost, which approximates fair market value. Overnight investments with the Office of the State Treasurer and the Short-term Investment Fund (STIF) at Banker's Trust have been reported as cash equivalents on the accompanying Statement of Plan Net Assets. The fair market value of investments is determined by Banker's Trust through their pricing sources, including Merrill Lynch (Domestic Fixed Income Securities), Interactive Data Corporation (Domestic Equities), and EXTEL (Commingled Funds).

E. Property, Equipment and Investment in Building

Property and equipment represents the cost of assets, net of accumulated depreciation, used for the administration of the Pension Trust Fund. Investment in building represents the cost of assets, net of accumulated depreciation, associated with the ownership and operation of the Board's Administration Building located in Santa Fe, New Mexico. All additions are capitalized at cost as of the date of acquisition and depreciation is calculated on a straight-line basis over the asset's estimated useful life regardless of salvage value.

Estimated useful lives are as follows:

* Building	25 years
* Furniture, Fixtures and Equipment	10 years

F. Funds Held for Others

Payments from members pursuant to agreements to purchase service credits are recorded as Funds Held for Others until the purchase agreements have been completed. Upon receipt of all payments necessary to complete the purchase agreement, the Funds Held for Others are transferred to the member's individual contribution account (appropriate contribution reserves) and income accounts.

G. Reconciliation to DFA Records

DFA maintains the Central Accounting System in order to exercise financial control over State Agencies, including the Board. The Central Accounting System is maintained on a cash basis throughout the fiscal year. The Board also maintains its general ledger on a cash basis throughout the fiscal year in order to reconcile its records to DFA. The Board reconciles its records to DFA's records on a monthly basis.

CASH DEPOSITS

The Board is required by Statute to remit any money received for or on the behalf of the Fund into its own account at the State Treasury. Excess money at the end of the day in the Board's account at the State Treasury is pooled and invested by the Office of the State Treasurer in overnight repurchase agreements. All repurchase agreements are collateralized by the U.S. Treasury Securities held by the New Mexico State Treasurer's Custodian bank.

In addition to the overnight investment at the State Treasury, in June 2000, the Board began investing in a Short-term Investment Fund (STIF) at Banker's Trust called the "Banker's Trust Pyramid Government Securities Cash Fund." The investment objective of the STIF is to seek a high level of current income consistent with liquidity and the preservation of capital through investment in a diversified portfolio of short-term obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities, and repurchase agreements of the same. The STIF is used to facilitate more efficient trade procedures with the Board's external money managers. Net cash balances in the internal and external investment manager's portfolios are swept into the STIF at the end of each day. Overnight investments of $101,759,259 and $78,230,466 for 2001 and 2000 respectively, are considered cash equivalents and are reported as part of the cash balance in the Statement of Plan Net Assets.

RECEIVABLES

The receivables presented in the Statement of Plan Net Assets are current and considered to be 100% collectible. Therefore, no allowance for doubtful accounts is necessary.

INVESTMENTS

The Board is authorized by Statute to invest the assets of the Plan in the following instruments:

A. Bills, bonds or notes of the United States government-sponsored enterprises or federal agency securities;

B. Obligations, including but not limited to bills, bonds and notes of governments other than the United States or their political subdivisions, agencies or instrumentalities, and these may be denominated in foreign currencies;

C. Bonds, notes or obligations of a municipality or political subdivision of the State which were issued pursuant to law; provided the issuer has not within ten years prior to making the investment, been in default for more than three months in payment of any part of the principal or interest on any debt evidenced by its bonds, notes or obligations; and provided that the bonds are city or county utility or utility-district revenue bonds with the revenues of such utility, other than for payment of operation and maintenance expenses, pledged wholly to payment of the interest on and the principal on such indebtedness, and the utility project has been completely self-supporting for a period of five years preceding the date of the investment;

D. Contracts for the present purchase and resale at a specified time in the future, not to exceed one year, of specific securities at specified prices at a price differential representing the interest income to be earned by the Board. No such contract shall be entered into unless the contract is fully secured by obligations of the United States, or other securities backed by the United States, having a market value of at least one hundred two percent (102%) of the amount of the contract. The collateral required in this section shall be delivered to the State Fiscal Agent or his designee contemporaneously with the transfer of funds or delivery of the securities, at the earliest time industry practice permits, but in all cases settlement shall be on a same-day basis. No such contract shall be entered into unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars ($500,000,000);

E. Obligations, including but not limited to bonds, notes or commercial paper of any corporation organized within the United States; preferred stock or common stock of any corporation organized within the United States whose securities are listed on at least one national stock exchange or on the N.A.S.D. national market or American depositary receipts of any corporation organized outside the United States whose securities are listed on at least one national stock exchange or on the N.A.S.D. national market; provided that the corporation shall have a minimum net worth of twenty-five million dollars ($25,000,000); and provided that the Fund shall not at any one time own more than ten percent of the voting stock of a company;

F. Prime bankers' acceptances issued by money center banks;

G. Obligations, including but not limited to bonds, notes or commercial paper of any corporation organized outside the United States, and these may be denominated in foreign currencies; preferred stock or common stock of any corporation organized outside the United States whose securities are listed on at least one national or foreign stock exchange, and these may be denominated in foreign currencies; provided that the corporation shall have a minimum net worth of twenty-five million dollars ($25,000,000); and provided that the Fund shall not at any one time own more than ten percent of the voting stock of a company;

H. Currency transactions, including spot or cash basis currency transactions; forward currency contracts and buying or selling options or futures on foreign currencies, but only for purposes of hedging foreign currency risk and not for speculation;

I. Stocks or shares of a diversified investment company registered under the Investment Company Act of 1940, as amended, which invests primarily in United States or non-United States fixed income securities, equity securities or short-term debt instruments pursuant to Paragraphs A., B., D., E. and G. above; provided that the investment company has total assets under management of at least one hundred million dollars ($100,000,000); individual, common or collective trust funds of banks or trust companies, which invest primarily in United States or non-United States fixed income securities, equity securities or short-term debt instruments pursuant to Paragraphs A., B., D., E. and G. above; provided that the investment manager has total assets under management of at least one hundred million dollars ($100,000,000); the Board may allow reasonable administrative and investment expenses to be paid directly from the income or assets of these investments; or

J. Industrial revenue bonds issued pursuant to the Industrial Revenue Bond Act [Sections 3-32-1 through 3-32-16, NMSA 1978, annotated], where both the principal and interest of the bonds are fully and unconditionally guaranteed within the United States and which has net assets of at least twenty-five million dollars ($25,000,000) and has issued securities traded on one or more national stock exchanges and where the senior securities of the guaranteeing corporation would have the equivalent of a BAA rating.

K. The Board or its designated agent may enter into contracts for the temporary exchange of securities for the use by brokers-dealers, banks and other recognized institutional investors, for periods not to exceed one year, for a specified fee or consideration. No such contract shall be entered into unless the contract is fully secured by a collateralized, irrevocable letter of credit running to the Board, cash or equivalent collateral of at least one hundred two percent (102%) of the market value of the securities plus accrued interest temporarily exchanged. This collateral shall be delivered to the state fiscal agent or its designee contemporaneously with the transfer of funds or delivery of the securities. Such contract may authorize the Board to invest cash collateral in instruments or securities that are authorized fund investments and may authorize payment of a fee from the Fund or from income generated by the investment of cash collateral to the borrower of securities providing cash as collateral. The Board may apportion income derived from the investment of cash collateral to pay its agent in securities lending transactions. Securities lending is further disclosed below.

L. The Board's investments are categorized to give an indication of the level of risk assumed by the entity at fiscal year end as follows:

(1) Category 1 – includes investments that are insured or registered for which the securities are held by the Board or its agent in the Board's name.

(2) Category 2 – includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the Board's name.

(3) Category 3 – includes uninsured and unregistered investments for which the securities are held by the counter party or its trust department or agent, but not in the Board's name.

Except for the commingled funds, all of the Board's investments are classified as Category 1. The commingled funds are not categorized because they are not evidenced by securities that exist in physical stock or book entry form, but rather as shares of a total fund.

The investments of the Pension Trust Fund before securities lending transactions and the investments of the cash collateral was as follows:

Classifiable Investments

Description	2001 Fair Value	2000 Fair Value
U.S. Government & Agency Securities	$1,400,973,813	$1,425,524,416
Domestic Corporate Bonds	681,938,490	908,086,475
Domestic Stock	3,005,398,454	3,670,507,250
Commingled Mid cap Stock	346,876,264	347,725,528
Commingled International Stocks	1,072,736,336	1,070,564,740
	$6,507,923,357	$7,422,408,409

Calculation of the Net Increase (Decrease) in the Fair Value of Investments – Aggregate Method

The net increase in the fair value of investments reported in the Statement of Changes in Plan Net Assets at June 30 is computed as follows:

	2001	2000
Fair value at fiscal year end	$6,507,923,357	$7,422,408,409
Add: Proceeds of investments sold in current year	3,751,079,409	3,988,510,010
Less: Cost of investments purchased in current year	(3,815,167,349)	(4,147,676,693)
Less: Fair value at the beginning of the fiscal year	(7,422,408,409)	(6,588,771,473)
Change in the fair value of investments	$(978,572,992)	$ 674,470,253

The following represents the balances relating to the securities lending transactions at the financial statement date:

Securities Lent	Underlying Securities	Cash Collateral Received/ Securities Collateral Value*	Cash Collateral Investment Value*
2001			
Lent for cash collateral:			
U. S. Government & Agency Securities	$417,418,707	431,585,238	—
Domestic Stock	26,072,571	26,853,000	—
Domestic Corporate Fixed Income Securities	—	—	408,747,850
Master Notes	—	—	49,476,139
Commercial Paper	—	—	—
	$443,491,278	458,438,238	458,223,989

The cash collateral was adjusted after year end to meet the one hundred two percent (102%) of market value requirement.

Securities Lent	Underlying Securities	Cash Collateral Received/ Securities Collateral Value*	Cash Collateral Investment Value*
2000			
Lent for cash collateral:			
U. S. Government & Agency Securities	$412,885,980	421,167,837	—
Domestic Stock	193,769,702	194,097,201	—
Domestic Corporate Fixed Income Securities	—	—	456,673,288
Master Notes	—	—	32,673,384
Commercial Paper	—	—	125,597,644
	$606,655,682	615,265,038	614,944,316

* Reported at fair value

There were no significant violations of the provisions of the statutes or the contract during the period covered by this audit.

The Board, through its agents, Wall Street Portfolio Advisors, generally loaned portions of its U.S. Treasury Securities, equity securities, and domestic corporate bonds to approved broker-dealers in return for one hundred two percent (102%) of the market or fair value of the securities loaned. The collateral for these securities was generally cash, which was reinvested in short-term money market instruments having fixed coupons or floating rate instruments. The Board does not have the ability to pledge or sell the collateral without borrower default. Wall Street Portfolio Advisors has provided the Board one hundred percent (100%) loss indemnification in the event of borrower default.

The Board generally invests, through its lending agent, the cash collateral that matches the maturities of the securities loans. The maturities of both securities loans and collateral reinvestments are closely matched to avoid interest rate exposure. The weighted-average maturities for the loans and invested collateral outstanding at fiscal year end were as follows:

	2001	2000
Loans outstanding	5 days	1 day
Collateral reinvestment	34 days	29 days

In the event of any security reinvestment that exceeds the maturity of the securities loan, the rate of interest is either a floating rate or a variable rate instrument.

Pursuant to the one hundred two percent (102%) of cash collateral requirement and the one hundred percent (100%) loss indemnification by the securities lending agent, the Board has determined that it has no credit risk with the securities lending program.

The Board experienced no losses in its securities lending program during FY01 nor were there any accumulated losses from prior periods.

Investments of the Board as of June 30 were as follows:

Investment Description	2001	2000
Investments - Category 1		
(Held by Board's agent in Board's name)		
U.S. Government & Agency Securities	$ 983,555,106	1,012,638,436
Domestic Corporate Bonds 681,938,490	908,086,475	
Domestic Stock		
Not on securities loan	2,979,325,883	3,476,737,548
On securities loan for securities collateral	-	-
Subtotal	4,644,819,479	5,397,462,459
Investments - Not categorized		
Commingled mid-cap stock346,876,264	347,725.528	
Commingled International stock	1,072,736,336	1,070,564,740
Investments held by broker-dealers under securities loans with cash collateral:		
U.S. Government and agency securities	417,418,707	412,885,980
Domestic Stock	26,072,571	193,769,702
Securities lending cash collateral investments	458,223,989	614,944,316
	$6,966,147,346	$8,037,352,725

6. Property and Equipment

The Net Investment in Fixed Assets at June 30 is as follows:

Description	Cost	Accumulated Depreciation	Book Value
2001:			
Land & Land Improvements	$ 250,047	—	250,047
Building & Building Improvements	1,123,344	(555,538)	567,806
Furniture & Equipment	959,383	(638,020)	321,363
Total	$2,332,774	(1,193,558)	1,139,216
2000:			
Land & Land Improvements	$ 250,047	—	250,047
Building & Building Improvements	1,114,955	(510,752)	604,203
Furniture & Equipment	1,150,646	(645,321)	505,325
Total	$2,515,648	(1,156,073)	1,359,575

Depreciation expense for 2001 was $214,027 and for 2000 was $198,094.

7. Due to Other Agencies

This account represents the amount due to various participating public employers for over remittances of employer contributions during the fiscal years ended June 30, 2001 and 2000.

8. Accrued Compensated Absences

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 80-160 hours per year, depending upon the length of service and employee's hire date. A maximum of thirty (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.

When employees terminate employment with the State of New Mexico, they are compensated for accumulated vacation leave as of the termination date up to a maximum of 240 hours. All balances up to 240 hours for each employee have been recorded at their current pay rate as of June 30, 2001 and 2000.

Qualified employees are entitled to accumulate sick leave at the rate of one (1) day for each calendar month of service. There is no limit to the amount of sick leave that 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 six hundred (600) hours, up to seven hundred twenty (720) hours, not to exceed one hundred twenty (120) hours at fifty percent (50%) of their current hourly rate.

In the case of retiring employees, they may be paid for accrued sick leave in excess of six hundred (600) hours, up to one thousand (1,000) hours, not to exceed four hundred (400) hours at fifty percent (50%) of their current hourly rate. All sick leave balances in excess of six hundred (600) hours, up to seven hundred twenty (720) hours for each employee have been recorded at fifty percent (50%) of their current hourly rate.

GASB Statement 16 requires that FICA tax be calculated on accrued compensated absences and included as part of the liability. Therefore, liability amounts for compensated absences include 7.65% for FICA tax.

The following table provides a summary of the change in accrued compensated absences for the fiscal years ended June 30, 2001 and 2000:

	2001	2000
Balances Payable at Beginning of Fiscal Year	$ 98,734	$ 89,597
Changes in Balances During the Fiscal Year	30,209	9,137
Balances Payable at End of the Fiscal Year	$128,943	$ 98,734

9. Refunds Payable

Refunds Payable represents amounts due to terminated members who have submitted a claim for refund, but who have not been paid on or before the end of the fiscal year, which is June 30, 2001 and 2000.

10. Leases

The Board leases mailing equipment and office space under operating leases. Operating leases do not give rise to property rights or leases obligations; therefore, the amounts of the Board's lease agreements are not reflected on the Statement of Plan Net Assets. The lease for the Board's mailing equipment was $143 per month until December 31, 2000 and $200 per month thereafter until the lease expires on December 31, 2004. The lease for office space in Albuquerque for the Board's satellite office is $825 per month and is effective August 1, 1999 and expires August 31, 2001.

Leases are subject to future appropriations and are cancelable by the Board at the end of each fiscal year with thirty (30) days written notice to the lessor. The following table summarizes the Board's future minimum lease payments:

Fiscal Year Ended June 30:	2001	2000
2001	$ —	11,618
2002	4,052	3,368
2003	2,402	1,718
2004	2,402	1,718
2005	1,001	716
2006	—	—
Total	$ 9,857	19,138

Lease expense was $11,960 for the fiscal year ended June 30, 2001 and $8,959 for the fiscal year ended June 30, 2000.

11. Six-Year Historical Trend Information

Six-year historical trend information required by GASB Statement 25 is designed to provide information about the Board's progress made in accumulating sufficient assets to pay benefits when due. This information is contained in Statements 1 and 2 on pages 51-52.

12. Retirement Plans

The employees of the Board have the option of participating in the Educational Employees' Retirement Plan or the Public Employees' Retirement Plan. Some employees of the Board have elected to participate in the Educational Employees' Retirement Plan through the Educational Retirement Act (ERA) while others have elected to participate in the Public Employees' Retirement Plan through the Public Employees Retirement Act (PERA) of the State of New Mexico.

Plan Description – ERA: This Plan is a cost-sharing, multiple-employer defined benefit plan established and administered by the Board to provide retirement, disability benefits, survivor benefits and cost-of-living adjustments for all certified teachers and other employees of State educational institutions, junior colleges, and technical-vocational institutions.

Plan Description – PERA: This Plan is a cost-sharing, multiple-employer defined benefit plan administered by the Public Employees Retirement Association (PERA). The Plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to Plan members and beneficiaries. PERA issues a separate publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, NM 87504-2123.

Funding Policy – ERA: Educational Retirement Board Plan members are required to contribute

7.60% of their gross salary. The Board is required to contribute 8.65% of the gross covered salary. The contribution requirements of the Plan members and the Board are established in State statute at Chapter 22, Section 11, NMSA 1978, annotated. The requirements may be amended by acts of the Legislature. The Board's contributions to ERA for the fiscal years ending June 30, 2001, 2000, and 1999 were $50,620, $46,560, and $44,643, respectively, equal to the amount of the required contributions for each fiscal year.

Funding Policy – PERA: PERA Plan members are required to contribute 7.42% of their gross salary. The Board is required to contribute 16.59% of the gross covered salary. The contribution requirements of the Plan members and the Board are established in State statute at Chapter 10, Section 11, NMSA 1978, annotated. The requirements may be amended by acts of the Legislature. The Board's contributions to PERA for the fiscal years ending June 30, 2001, 2000, and 1999 were $291,513, $259,881, and $241,746, respectively, equal to the amount of the required contributions for each fiscal year.

13. Post-employment Benefits

The Retiree Health Care Act (Section 10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in the State of New Mexico. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses with health insurance consisting of a plan or optional plans of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments and out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employees, employers and retirees. Eligible employers are institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, and state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, the Public Employees Retirement Act, or the Magistrate Retirement Act.

Eligible retirees are as follows: (1) retirees who make contributions to the Fund for at least five years prior to retirement and whose eligible employer made contributions as a participant in the Retiree Health Care Act during that period of time on the person's behalf unless that person retired on or before July 1, 1995, in which event, the time period required for employee and employer contributions shall become the period of time between July 1, 1990 and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990.

Each participating employer makes contributions to the Fund in the amount of one percent (1%) of each participating employee's annual salary. Each participating employee contributes one-half of one percent (1/2%) of his or her annual salary to the Fund. Each participating retiree pays a monthly premium of seventy-two dollars and sixty-five cents ($72.65) for the basic Plan and an additional five dollars ($5.00) per month if the eligible participant retired prior to July 1, 1990 and made no contributions to the Plan.

Contributions from participating employers and employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employers' operation or participation in the Retiree Health Care Act. The employer, employee, and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post-employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the Plan. That report may be obtained by writing to the Retiree Health Care Authority, 810 West San Mateo Road, Santa Fe, NM 87505.

For the fiscal year ended June 30, 2001, the Educational Retirement Board remitted $15,296 in employer contributions and $7,648 in employee contributions to the Retiree Health Care Authority.

14. Contingencies

Rule III Section B (10) of the "Rules and Procedures of the Educational Retirement Board" requires that the Board contact members who have been terminated for a period of two years and maintain a balance of $500 or less in his or her contribution account for the purpose of refunding any balances as required by the Rule.

For 2001, 6,718 terminated members with an aggregate balance of $1,052,740 were eligible to receive refunds. For 2000, 5,121 terminated members were eligible to receive refunds in the aggregate amount of $805,241. The aggregate balances are exclusive of interest. There have been no adjustments made in the accompanying Statement of Plan Net Assets to reflect this contingent liability.

15. Risk Management

The Board is exposed to various risks of loss for which it carries insurance through the Risk Management Division of the New Mexico General Services Department. In the event of a claim being filed against the Board or if the Board filed a claim for loss, the Board is responsible only for a small deductible payment in amounts that vary according to the type of claim.

16. Subsequent Events

A. The contract with Mellon Equity, the Board's mid-capitalization investment manager, was terminated on July 19, 2001 due to lack of performance. The Board decided to manage this portfolio internally on a temporary basis effective on that date. The portfolio will be managed as an index fund based on the Standard & Poor's 400 Mid-cap benchmark.

B. The contract for securities lending with Wall Street Portfolio Advisors (WSPA) was terminated on July 31, 2001 due to the turnover of their entire staff. The Board released its Request for Proposals for a new securities lending agent in May 2001. The Board analyzed the proposals and selected HSBC Bank USA (HSBC) to manage securities lending effective July 31, 2001. The managers working with the Board's account at HSBC are the same individuals previously employed by WSPA. The new contract with HSBC is for a four-year term with an 80/20 split between the Board and HSBC.

C. On October 1, 2001, the Board entered a contract with Wilshire Associates to act in the capacity of investment consultant to the Board. In this capacity, Wilshire will be responsible for analyzing the Board's investment portfolio and calculating the performance of its investment managers.

17. Preparation of Financial Statements

Board staff prepared the financial statements, exhibits, statements, schedules and notes for this fiscal year. This marks the first year when this complete financial report was prepared internally by the Chief Financial Officer and his staff.

COMBINING STATEMENT OF ADDITIONS, COMPONENTS OF PLAN NET ASSETS FOR

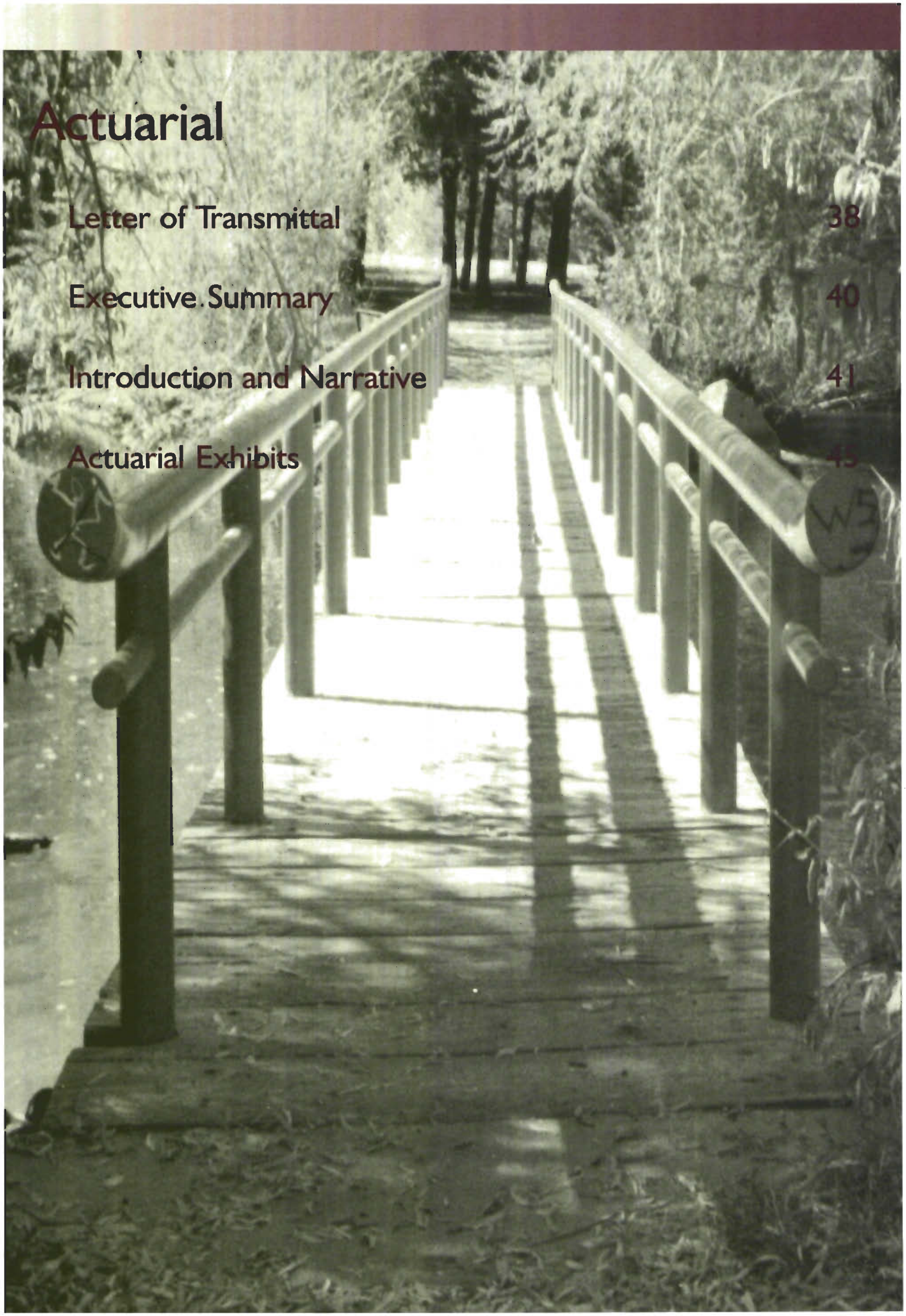
	Member Contribution Accounts	Age & Service	Disability
Additions:			
Interest income	$ -	-	-
Interest on restoration of service credit	-	-	-
Dividend income			-
Securities lending income	-	-	-
Membership contributions	150,068,398	-	-
Employer contributions	-	-	-
Penalties	-	-	-
Other	16,286	2,315	-
Total additions	150,084,684	2,315	-
Deductions:			
Administrative expenses	-	-	-
Depreciation expenses	-	-	-
Net depreciation in assets	-	-	-
Benefit payments	-	335,155,233	5,440,446
Refunds to terminated members with interest	23,684,106	-	-
Total deductions	23,684,106	335,155,233	5,440,446
Net increase (decrease) in plan net assets	126,400,578	(335,152,918)	(5,440,446)
Net assets transfers in (out):			
Net transfers	(58,606,886)	481,938,493	5,203,294
Total net asset transfers in (out)	(58,606,886)	481,938,493	5,203,294
Plan net assets, July 1, 2000	1,060,629,464	2,228,520,640	22,398,911
Plan net assets, June 30, 2001	$ 1,128,423,156	2,375,305,215	22,161,759

NOTE: Information for 2000 is not presented. The inclusion of that information would make the statement cumbersome and difficult to read.

DEDUCTIONS,AND CHANGES IN THE YEAR ENDED JUNE 30, 2001

Employer Contributions	Unreserved (Excess Earnings)	Income Accounts	Totals
-	-	142,566,952	$142,566,952
-	-	3,651,403	3,651,403
-	-	31,142,922	31,142,922
-	-	1,946,544	1,946,544
-	-	-	150,068,398
161,524,340	-	-	161,524,340
-	-	18,608	18,608
-	-	818	19,419
161,524,340	-	862,030,545	1,154,492,989
-	-	8,093,953	8,093,953
-	-	214,027	214,027
-	-	978,572,992	978,572,992
-	-	-	340,595,679
-	-	12,949,806	36,633,912
-	-	999,830,778	1,364,110,563
161,524,340	-	(820,503,531)	(873,171,977)
(248,236,025)	(1,067,094,153)	886,795,277	-
(248,236,025)	(1,067,094,153)	886,795,277	-
1,074,600,448	3,154,024,455	-	7,540,173,918
987,888,763	2,086,930,302	66,291,746	$6,667,001,941

Actuarial



Letter of Transmittal

December 27, 2001

Board of Trustees
Educational Retirement Board of New Mexico
P.O. Box 26129
Santa Fe, NM 87502-0129

Dear Members of the Board:

Subject: Actuarial Valuation as of June 30, 2001 (Revised)

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Educational Retirement Board of New Mexico (ERB) as of June 30, 2001. This revised version of our report reflects corrections that were made to the final, audited asset information after our original report was completed.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion the results presented also comply with the relevant statutes, and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Both are Enrolled Actuaries and Members of the American Academy of Actuaries, and both are experienced in performing valuations for large public retirement systems.

To the best of our knowledge, this report is based on benefit provisions in effect as of June 30, 2001, audited financial information prepared as of that date, member data gathered as of that date, and actuarial assumptions and methods previously adopted by the Board.

Actuarial Valuation

The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of ERB, and to analyze changes in ERB's condition. In addition, the report provides information required by ERB in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25), and it provides various summaries of the data.

Valuations are prepared annually, as of June 30 of each year, the last day of ERB's plan and fiscal year.

Financing Objectives

The member and employer contribution rates are established by statute. The current employer contribution rate is 8.65% and the current member contribution rate is 7.60%. In addition, certain higher education employers make an additional contribution equal to 3.00% of the total pay for their employees who elected to join the Alternative Retirement Program rather than ERB. These rates are intended to be sufficient to pay ERB's normal cost and to amortize ERB's 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 exceed the 30-year period allowed under GASB No. 25. (The amortization period, also referred to as the funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that ERB's experience exactly follows the actuarial assumptions.) This funding policy is set by the Board of Trustees, and is considered reasonable by the actuary. The Board has a goal of maintaining a funding period of no more than 25 years.

Progress Toward Realization of Financing Objectives

As of June 30, 2001, the funding period is 12.5 years. This is an increase from last year's funding period of 8.2 years. Therefore, the current statutory rate is adequate. The contribution that would be required in order to amortize the UAAL over 25 years, the Board's target period, is 7.35%. (Last year the 25-year funding rate was 5.98%.)

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from last year. The funded ratio at June 30, 2000 was 91.6%, while it is now 91.9%. Five years ago the ratio stood at 72.1%. During the last fiscal year, the UAAL increased from $624.8 million to $652.0 million.

The increase in the funding period is due primarily to higher salary increases last year than anticipated by our assumed rates for longer service employees.

Benefit Provisions

The actuarial valuation reflects the benefit and contribution provisions set forth in the relevant New Mexico statutes. There were no material changes made to these provisions since the previous actuarial valuation. There are no ancillary benefits (such as cost-of-living increases to retirees) funded by a source independent of ERB.

Assumptions and Methods

Ascuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. Some actuarial assumptions were revised since the last actuarial valuation. The last review of these assumptions occurred following the 2000 actuarial valuation, and the Board adopted all of our recommendations. We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB.

Member and Financial Data

Member data for retired, active, and inactive participants was supplied as of June 30, 2001, by the ERB staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the ERB staff and by the plan's auditors.

We would like to thank the ERB staff and the auditors for their assistance with this project.

Sincerely,

Gabriel, Roeder, Smith & Company

J. Christian Conradi

W Michael Carter

J. Christian Conradi, ASA, MAAA, EA
Senior Consultant

W. Michael Carter, FSA, MAAA, EA
Senior Consultant

Executive Summary

Item	2001	2000
Membership		
• Number of		
- Active members	60,155	60,090
- Retirees and beneficiaries	22,191	21,186
- Inactive, vested	4,800	4,450
- Inactive, nonvested	13,401	12,074
- Total	100,547	97,800
• Payroll	$1,819.6 million	$1,795.7 million
Statutory contribution rates		
• Employer	8.65%	8.65%
• Member	7.60%	7.60%
Assets		
• Market value	$6,667.0 million	$7,567.5 million
• Actuarial value	7,418.3 million	6,835.8 million
• Return on market value	-11.1%	13.1%
• Return on actuarial value	9.5%	15.1%
• Employer contributions	$161.5 million	$153.3 million
• External cash flow %	(1.0%)	(0.7%)
Actuarial Information		
• Normal cost %	12.72%	11.54%
• Unfunded actuarial accrued liability (UAAL)	$652.0 million	$624.8 million
• Funded ratio	91.9%	91.6%
• Funding period (years)	12.5	8.2
Gains/(losses)		
• Asset experience	$100.1 million	$421.3 million
• Liability experience	(208.0) million	(83.7) million
• Benefit changes (Ad hoc COLA)	N/A	N/A
• Assumption/method changes	31.9 million	N/A
• Total	$ (76.1) million	$337.6 million

Introduction

Table 1 shows the most significant actuarial results. Table 2 analyzes changes in the UAAL. Tables 3 and 4 show more detailed actuarial information. Tables 5a and 5b develop the GASB 25 Annual Required Contribution for the last fiscal year, and Tables 6a-6c show required GASB 25 disclosure information. Tables 7a, 7b, 15 and 16 show statistical information about the membership, and Tables 8a-11b, and Table 13 show information about plan assets. Tables 12a and 12b show the calculation of the actuarial gains and losses, and Table 14 shows the solvency test, used by some funds in their annual report. Finally, Appendix 1 is a summary of the benefit and contribution provisions of ERB, and Appendix 2 is a summary of the actuarial methods and assumptions.

Actuarial Information

The determination of the unfunded actuarial accrued liability (UAAL) and the funding period involves the following steps:

* The entry age normal funding method is used to allocate the actuarial present value of future benefits between the portion due for the current year (the normal cost), prior years (the actuarial accrued liability) and future years. The actuarial accrued liability is $8,070.3 million, as shown in line 6d on Table 1.

* Under the entry age normal cost method the current and future normal costs are determined as a level percentage of payroll. Table 4 shows an analysis of the normal cost rate. The amount needed to fund the current and future normal costs is 12.72% of payroll inclusive of member contributions. This is the total (member plus employer) contribution rate needed to pay for the average new member.

* A part of the normal cost is paid by the employee contributions of 7.60%, leaving 5.12% to be funded by the employers. I.e., the current year's employer normal cost is 5.12% of payroll. This is shown in Line 3 of Table 1.

* The unfunded actuarial accrued liability (UAAL) determined by subtracting the actuarial value of assets from the actuarial accrued liability. (The actuarial value of assets is a smoothed market value, as discussed in more detail below.) The UAAL is $652.0 million, as shown in line 8 on Table 1.

* Since the statutory employer contribution rate is 8.65%, and the employer normal cost rate is 5.12%, the difference of 3.53% is used to amortize the UAAL. The 3% contribution made on behalf of ARP members is also used to amortize the UAAL.

* Finally, the funding period is the anticipated period needed to reduce the UAAL to zero, assuming that plan experience exactly follows the assumptions, that no benefit changes are made, that payroll grows at 3.0% per year, and that the contributions are made as required. The funding period this year is 12.5 years.

Analysis of Changes

Table 2 shows an analysis of the changes in the UAAL. Since the UAAL is an actuarial present value, with future anticipated benefits discounted using an 8.00% interest rate, the UAAL increases each year by the imputed interest rate, less employer contributions made to amortize the UAAL. (Keep in mind that part of the employer contribution is used to pay the normal cost, so only part of each year's contribution is available to amortize the UAAL.)

As shown on Table 2, the UAAL increased by $50.0 million for imputed interest and decreased by $98.8 million because of payments made. This means that the UAAL was expected to decrease $48.8 million before recognizing plan experience. The UAAL as of June 30, 2000 was $624.8 million, and the expected UAAL at June 30, 2001, recognizing actual contributions made, was $576.0 million.

The plan experienced a liability loss of $208.0 million. This loss represents 2.6% of the total actuarial accrued liability. The main cause for this loss is the large salary increases granted for the 2000-01 school year. Of the $208.0 million loss, $127.8 million is due to salary-related losses, and the balance is mainly due to termination and retirement patterns. For members with more than three years of service, the average increase in pay between last year's valuation and this year's is 8.0%.

However, recognizing past investment gains produced a gain of $100.1 million. The investment gain resulted from the fact that the return on the actuarial value of assets - 9.5% - was larger than the 8.00% assumed investment return rate. (This gain occurred because of the five-year averaging method used to determine the actuarial value of assets; on market value the return was –11.1%.)

The Board has adopted several changes to the actuarial assumptions, including:

- Decreasing the inflation rate from 3.50% to 3.00%
- Increasing the assumed real return (the return in excess of inflation) from 4.50% to 5.00%
- Decreasing salary scales
- Decreasing payroll growth rate from 3.50% to 3.00%
- Assuming members always choose the greater of a refund and a deferred benefit as their terminated vested benefit

Note that the change to the assumed inflation rate and assumed real rate of return, in combination, produce no change to the assumed 8.00% investment return rate.

These assumptions changes, taken together, caused a decrease of $31.9 million in the UAAL.

As a result of all these changes and experience, the UAAL increased from $624.8 million to $652.0 million, and the funding period increased from 8.2 years to 12.5 years.

GASB 25 Disclosure

Governmental Accounting Standards Board Statement No. 25 (GASB 25) is the relevant accounting standard for governmental retirement systems like ERB.

Tables 5a and 5b show the calculation of the Annual Required Contribution (ARC) as computed under GASB 25, and they show what percent of this amount was actually received. For ERB, the ARC is defined to be the actual contributions required by statute, as long as this is not less than the minimum allowed under GASB 25. The GASB 25 minimum is equal to the normal cost, plus a 30-year amortization of the UAAL. (In prior years we have used a 40-year amortization period as permitted by GASB for a transition period. However, this year we decided to begin using the ultimate GASB 25 maximum period, so that readers have a better understanding of how the statutory contribution rate compares to a realistic measurement of GASB's minimum contribution rate requirement.)

Tables 6a, 6b, and 6c show information required to be reported under GASB 25. Table 6a shows a history of funding progress—a comparison of the actuarial value of assets with the actuarial accrued liability and a comparison of the UAAL with covered payroll. This table shows steady progress over the last five years, with the funded ratio increasing from 91.6% to 91.9% over the last year.

Table 6b shows a six-year comparison of the employer contributions actually received with the GASB 25 ARC. (Since GASB 25 did not become effective for ERB until the 1997 fiscal year, no results are shown for earlier fiscal years.)

Table 6c shows other information which must be included in the notes section of the financial report. The auditor's notes should also disclose the following items that may affect the comparability of the trend information shown in Tables 6a and 6b:

Actuarial assumptions were changed as June 30, 1998 and June 30, 2001.

Benefit Provisions

Appendix 1 summarizes the provisions of ERB. These have not been materially changed since the previous valuation.

This valuation reflects benefits promised to members by statute. There are no ancillary benefits - retirement type benefits not required by statutes but which might be deemed an ERB liability if continued beyond the availability of funding by the current funding source.

Actuarial Assumptions and Methods

In determining costs and liabilities, actuaries use assumptions about the future, such as rates of salary increase, probabilities of retirement, termination, death and disability, and an investment return assumption. ERB's Board adopts the assumptions used, taking into account the actuary's recommendations, as summarized in Appendix 2.

The most significant assumptions are (i) the assumed investment return, currently set at 8.00%, and (ii) the assumption regarding future salary increases, which is based on a table that varies by service and averages about 5.6%.

In addition to the actuarial assumptions, the actuary also makes use of an actuarial funding method to allocate costs to particular years. In common with most public-sector plans, ERB uses the entry age normal method. This method produces a relatively level pattern of funding over time, and thereby provides equity between various generations of taxpayers. We continue to believe this method is appropriate for ERB. Some of the actuarial assumptions used in this valuation were changed from the ones used last year. Last summer, we prepared an analysis of plan experience over the last several years, made recommendations for several changes, and these were adopted by the Board of Trustees. The subsection on Analysis of Changes, earlier in this Discussion Section, gives more detail about the changes and their aggregate impact.

Assets

ERB assets are held in trust. The ERB staff and the ERB auditors have provided the asset information used in this valuation.

Table 8a presents a summary of the market value of assets held by the fund, and Table 8b shows the allocation of assets held for investment. About 67% of the assets are now held in equities, kept stable from 67% last year and 63% the year before. Table 9 shows a reconciliation of the assets from the beginning of the prior year to the valuation date.

Tables 10a and 10b show the development of the actuarial value of assets (AVA). The AVA is a smoothed market value. A smoothed value is used in order to dampen some of the year-to-year fluctuations that would occur if the market value were used instead. The method used phases in differences between the actual and expected market returns over five year. The expected return is determined using the 8.00% assumption and the plan's market value, adjusted for contributions received and benefits and refunds paid. Both the actual and expected returns are computed net of administrative expenses.

Note that the actuarial value is 111% of the market value. I.e., historical gains are now being recognized to offset the down turn of the market value.

Table 11a shows the investment return rate for the year on both market value (-11.1%) and actuarial value (9.5%). Table 11b shows historical return rates since the current actuarial asset method was adopted.

Finally, Table 13 shows a history of cash flows to the trust, and the net cash flow measured as a percentage of the assets. The cash flow is slightly negative, 1.0% of market value, but this is not a sign of concern in a mature plan such as ERB.

Member Data

Membership data was provided on electronic files by the ERB staff. Data for active members included sex, birthdate, service, salary paid in the prior year, and accumulated contributions. Data for inactive, nonretired members was similar, but included the member's accrued benefit as well. For retired members, data included status (service retiree, disabled retiree or beneficiary), sex, birthdate, pension amount, form of payment, beneficiary sex and birthdate if applicable, and date of retirement.

While not verifying the correctness of the data at the source, we performed various tests to ensure the internal consistency of the data and its overall reasonableness.

Table 7a summarizes data on all members. Table 7b is a history of key statistical information about active members, and Table 15 is a history of statistical information about retirees. Table 16 is an age/service distribution of active members and their average pay.

The number of active members increased 0.1% since last year, from 60,090 to 60,155. Note that the actual number of active members during the year will be somewhat higher, since the June 30 count excludes May and June retirees, but does not include new teachers who will join the system for the 2001-2002 school year.

Total payroll increased 1.3% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2000-01 member pay). However, this figure is increased by one year's pay increase to determine the member's rate of pay at July 1, 2001. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 1.2% since last year. While average pay increased only slightly, average pay for members who were active in both this valuation and in last year's increased by 6.6%. This reflects the effect of retirements and terminations, and their replacement by new members who generally earn much less.

Actuarial Information

		July 1, 2001 (1)	July 1, 2000 (2)
1.	Payroll		
	a. Supplied by System	$1,819,553,855	$1,795,715,200
	b. Adjusted for one-year's pay increase	1,921,943,600	1,908,477,100
2.	Actuarial present value of future pay	13,136,602,632	$13,825,566,286
3.	Normal cost rate (payable monthly)		
	a. Total normal cost rate	12.72%	11.54%
	b. Less: member contribution rate	(7.60%)	(7.60%)
	c. Employer normal cost rate	5.12%	3.94%
4.	Employer normal cost (Item 3c * Item 1b)	$98,403,512	$75,193,998
5.	Actuarial accrued liability for active members		
	a. Actuarial present value of future benefits	$5,968,823,600	$5,583,541,500
	b. Less: actuarial present value of future normal costs (Item 3a * Item 2)	(1,670,975,855)	(1,595,470,349)
	c. Actuarial accrued liability	$4,297,847,745	$3,988,071,151
6.	Total actuarial accrued liability for:		
	a. Retirees and beneficiaries	$3,604,455,400	$3,322,038,600
	b. Inactive members	168,032,149	150,509,848
	c. Active members (Item 5c)	4,297,847,745	3,988,071,151
	d. Total	$8,070,335,294	$7,460,619,599
7.	Actuarial value of assets	$7,418,311,093	$6,835,842,591
8.	Unfunded actuarial accrued liability (UAAL) (Item 6d - Item 7)	$652,024,201	$624,777,008
9.	Amortization payment		
	a. Employer contribution rate	8.65%	8.65%
	b. Less: Employer normal cost rate (Item 3c)	(5.12%)	(3.94%)
	c. Amortization rate	3.53%	4.71%
	d. Amortization contribution (Item 9c * Item 1b)	$67,844,609	$89,889,271
	e. Expected ARP contribution	2,533,279	2,494,833
	f. Total	$70,377,888	$92,384,104
11.	Funding period based on current 8.65% employer contribution requirement, with payments increasing at assumed payroll growth rate	12.5 years	8.2 years

Table I

Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

Basis (1)	June 30, 2001 (2)	June 30, 2000 (3)
1. UAAL at prior valuation	$ 624.8	$ 983.1
2. Increases/(decreases) due to:		
a. Interest on UAAL	50.0	78.6
b. Amortization payments [1]	(98.8)	(99.3)
c. Liability experience	208.0	83.7
d. Asset experience	(100.1)	(421.3)
e. Changes in actuarial assumptions and methods	(31.9)	N/A
f. Ad hoc COLA	N/A	N/A
g. Total	27.2	(358.3)
3. Current UAAL (1+2g)	652.0	624.8

Note : Dollar amounts in millions

[1] Actual contributions reduced by normal cost, and adjusted for timing.

Table 2

Actuarial Present Value of Future Benefits

		June 30, 2001 (1)	June 30, 2000 (2)
1.	Active members		
	a. Service retirement benefits	5,379,912,000	$ 5,128,018,000
	b. Refunds	481,532,400	350,942,100
	c. Survivor benefits	40,826,900	39,161,600
	d. Disability retirement benefits	66,552,300	65,419,800
	e. Total	$ 5,968,823,600	$ 5,583,541,500
2.	Retired members		
	a. Service retirement	$ 3,410,037,700	$ 3,141,597,600
	b. Disability retirement	40,939,900	37,995,200
	c. Beneficiaries	153,477,800	142,445,800
	d. Total	$ 3,604,455,400	$ 3,322,038,600
3.	Inactive members		
	a. Vested terminations	$ 131,893,335	$ 119,344,315
	b. Nonvested terminations	36,138,814	31,165,533
	c. Total	$ 168,032,149	$ 150,509,848
4.	Total actuarial present value of future benefits	$ 9,741,311,149	$ 9,056,089,948

Table 3

Analysis of Normal Cost

		June 30, 2001 (1)	June 30, 2000 (2)
1.	Gross normal cost rate (payable monthly)		
	a. Service retirement benefits	8.92%	8.66%
	b. Refunds	3.57%	2.56%
	c. Disability retirement benefits	0.16%	0.22%
	d. Survivor benefits	0.07%	0.09%
	e. Total	12.72%	11.54%
2.	Less: member contribution rate	(7.60%)	(7.60%)
3.	Employer normal cost rate	5.12%	3.94%

Table 4

Calculation of GASB 25 ARC as Percent of Payroll
(For Following Fiscal Year)

	June 30, 2001 (1)	June 30, 2000 (2)
1. GASB 25 minimum amortization period (years)	30	40
2. Amortization contribution percentage		
a. Amortization payment	$ 41,513,982	$ 33,207,502
b. Less: expected payment for ARP members	2,533,279	2,494,833
c. Net (a-b)	$ 38,980,703	$ 30,712,668
d. Expected payroll	1,921,943,600	1,908,477,100
e. Amortization contribution percentage (c/d)	2.03%	1.61%
3. GASB 25 Annual Required Contribution		
a. Employer normal cost rate	5.12%	3.94%
b. Amortization percentage	2.03%	1.61%
c. Total	7.15%	5.55%
d. Statutory rate	8.65%	8.65%
e. ARC (max of (c,d))	8.65%	8.65%

Table 5a

Actual Contributions as Percentage of GASB 25 ARC for Year Ending 06/30/2001

1.	**Actual contributions**		
	a.	On behalf of ERB members	$ 159,064,846
	b.	On behalf of ARP members	2,459,494
	c.	Total	$ 161,524,340
2.	**Statutory employer contribution rate**		8.65%
3.	**Imputed fiscal year payroll for ERB members** (Item 1a / Item 2)		$ 1,838,899,954
4.	**GASB 25 Annual Required Contribution**		
	a.	Required GASB 25 employer contribution for ERB members as percent of payroll	8.65%
	b.	Required GASB 25 employer contribution for ERB members (Item 4a * Item 3)	$ 159,064,846
	c.	GASB 25 ARC (Item 4b + Item 1b)	$ 161,524,340
5.	**Percentage of ARC contributed (Item 1c / Item 4c)**		100.0%

Table 5b

Schedule of Funding Progress
As required by GASB #25)

Valuation Date (1)	Actuarial Value of Assets (AVA) (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as % of Payroll (4)/(6) (7)
June 30, 1996	$3,993.6	$5,542.3	$1,548.7	72.1%	$1,413.6	109.6%
June 30, 1997	$4,516.4	$5,854.4	$1,338.0	77.1%	$1,448.7	92.4%
June 30, 1998	$5,169.5	$6,398.8	$1,229.3	80.8%	$1,542.8	79.7%
June 30, 1999	$5,988.5	$6,971.7	$983.1	85.9%	$1,637.5	60.0%
June 30, 2000	$6,835.8	$7,460.6	$624.8	91.6%	$1,795.7	34.8%
June 30, 2001	$7,418.3	$8,070.3	$652.0	91.9%	$1,819.6	35.8%

Note : Dollar amounts in millions

Table 6a

Schedule of Employer Contributions (As required by GASB #25)

Fiscal Year	Annual Required Contribution	Percentage Contributed
1996	Not computed	N/A
1997	$131,535,477	98.9%
1998	$136,190,862	100.0%
1999	$145,521,527	100.0%
2000	$153,260,317	100.0%
2001	$161,524,340	100.0%

Table 6b

Notes to Required Supplementary Information (as required by GASB #25)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2001
Actuarial cost method	Entry Age Normal
Amortization method	Level payment, open
Remaining amortization period (years)	12.5
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	4.50% to 13.00%
*Includes inflation at	3.00%
Cost-of-living adjustments	2.00%

Table 6c

Membership Data

		June 30, 2001	June 30, 2000
		(1)	(2)
1.	Active members		
a.	Number	60,155	60,090
b.	Total payroll supplied by System	$ 1,819,553,855	$ 1,795,715,200
c.	Average salary	$ 30,248	$ 29,884
d.	Average age	44.9	44.5
e.	Average service	9.2	9.1
2.	Vested inactive members (excluding pending refunds)		
a.	Number	4,800	4,450
b.	Total annual deferred benefits	$ 26,345,464	$ 23,980,934
c.	Average annual deferred benefit	5,489	5,389
3.	Nonvested inactive members and vested pending refunds		
a.	Number	13,401	12,074
b.	Employee assessments with interest due	$ 36,138,814	$ 31,165,533
c.	Average refund due	2,697	2,581
4.	Service retirees		
a.	Number	19,930	19,027
b.	Total annual benefits	$ 317,670,322	$ 292,449,484
c.	Average annual benefit	15,939	15,370
5.	Disabled retirees		
a.	Number	580	562
b.	Total annual benefits	$ 4,235,904	$ 3,993,592
c.	Average annual benefit	7,303	7,106
6.	Beneficiaries		
a.	Number	1,681	1,597
b.	Total annual benefits	$ 17,251,985	$ 15,797,862
c.	Average annual benefit	10,263	9,892

Table 7a

Historical Summary of Active Member Data

	Active Members		Covered Payroll		Average Salary			
Year Ending June 30,	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1982	42,015	—	$622	—	$14,810	—	40.9	10.7
1984	40,385	-3.9%	670	7.7%	16,600	12.1%	42.0	9.9
1986	45,311	12.2%	786	17.3%	17,353	4.5%	41.7	9.7
1988	45,492	0.4%	863	9.8%	18,968	9.3%	43.9	10.1
1990	48,858	7.4%	1,033	19.7%	21,146	11.5%	42.6	8.5
1992	51,161	4.7%	1,150	11.3%	22,486	6.3%	43.0	8.9
1993	52,296	2.2%	1,191	3.6%	22,774	1.3%	43.2	8.9
1994	53,744	2.8%	1,259	5.7%	23,420	2.8%	43.3	9.0
1995	54,840	2.0%	1,356	7.7%	24,735	5.6%	43.2	9.0
1996	55,782	1.7%	1,414	4.3%	25,341	2.4%	43.7	9.1
1997	56,685	1.6%	1,449	2.5%	25,556	0.8%	43.9	9.1
1998	58,097	2.5%	1,543	6.5%	26,555	3.9%	44.0	9.0
1999	58,615	0.9%	1,637	6.1%	27,936	5.2%	44.3	9.2
2000	60,090	2.5%	1,796	9.7%	29,884	7.0%	44.5	9.1
2001	60,155	0.1%	1,820	1.3%	30,248	1.2%	44.9	9.2

Table 7b

Plan Net Assets
(Assets at Market or Fair Value)

Item (1)	Valuation as of June 30, 2001 (2)	Valuation as of June 30, 2000 (3)
1. Cash and cash equivalent	$ 104,653,543	$ 106,861,870
2. Receivables:		
a. Contributions	$ 43,866,087	$ 38,818,036
b. Investment income	27,886,454	31,003,568
c. Investment sales proceeds - brokers	47,907,015	38,457,392
d. Other	13,357	8,052
e. Total receivables	$ 119,672,913	$ 108,287,048
3. Investments		
a. U.S. treasury securities	$ 580,929,000	$ 652,553,228
b. U.S. government agencies	820,044,813	772,971,188
c. Domestic corporate bonds	681,938,490	908,086,475
d. Domestic equities	3,352,274,718	4,018,232,778
e. International equities	1,072,736,336	1,070,564,740
f. Total investments	$ 6,507,923,357	$ 7,422,408,409
4. Invested securities lending collateral	$ 458,223,989	$ 614,944,316
5. Properties : land, building, furniture and equipment (at cost, less accumulated depreciation)	$ 1,139,216	$ 1,359,575
6. Total assets	$ 7,191,613,018	$ 8,253,861,218
7. Liabilities		
a. Accounts payable	$ 1,217,349	$ 1,413,327
b. Accrued expenses	171,701	138,468
c. Refunds payable	3,091,297	3,859,390
d. Investment purchases payable - brokers	61,695,792	65,826,431
e. Due to other funds	210,949	154,038
f. Securities lending collateral	458,223,989	614,944,316
g. Total liabilities	$ 524,611,077	$ 686,335,970
8. Total market value of assets available for benefits (Item 6 - Item 7)	$ 6,667,001,941	$7,567,525,248

Table 8a

Allocation of Cash and Investments

		June 30, 2001	June 30, 2000
1.	Cash and short-term equivalents	1.6%	1.4%
2.	U.S. treasury securities	8.8%	8.7%
3.	U.S. government agencies	12.4%	10.3%
4.	Domestic corporate bonds	10.3%	12.1%
5.	Domestic equities	50.7%	53.3%
6.	International equities	16.2%	14.2%
7.	Total investments	100.0%	100.0%

Table 8b

Reconciliation of Plan Net Assets

	Year Ending June 30, 2001 (1)	Year Ending June 30, 2000 (2)
1. Value of assets at beginning of year	$ 7,567,525,248	$ 6,740,382,211
2. Revenue for the year		
a. Contributions		
i. Member contributions (including redeposits and service purchases)	$ 153,719,801	$ 142,625,585
ii. Employer contributions	159,064,846	150,849,850
iii. Employer contributions for ARP members	2,459,494	2,410,467
iv. Total	$ 315,244,141	$ 295,885,902
b. Income		
i. Interest, dividends, and other income	$ 148,343,115	$ 160,218,869
ii. Investment expenses	(4,790,177)	(5,190,952)
iii. Net	$ 143,552,938	$ 155,027,917
c. Net realized and unrealized gains	($ 978,572,992)	$ 725,739,548
d. Total Revenue	$ (519,775,913)	$ 1,176,653,367
3. Expenditures for the year		
a. Refunds	$ 36,633,912	$ 35,152,631
b. Benefit payments	340,595,679	311,813,766
c. Administrative and miscellaneous expenses	3,517,803	2,543,933
d. Total expenditures	$ 380,747,394	$ 349,510,330
4. Increase in net assets (Item 2 - Item 3)	($ 900,523,307)	$ 827,143,037
5. Value of assets at end of year (Item 1 + Item 4)	$ 6,667,001,941	$ 7,567,525,248

Note: Other income for FY2001 includes ($27,351,350) correction to FY2000 asset value made after last year's report was prepared.

Table 9

Determination of Excess Earnings to be Deferred

Year ended :	June 30, 1998 (1)	June 30, 1999 (2)	June 30, 2000 (3)	June 30, \ 2001 (4)
1. MVA at beginning of year	$ 5,107,334,876	$ 6,082,051,510	$ 6,740,382,211	$ 7,567,525,248
2. Net new investments				
a.Contributions	$ 260,935,922	$ 278,858,412	$ 295,885,902	$ 315,244,141
b.Benefits and refunds paid	(282,652,725)	(304,790,657)	(346,966,397)	(377,229,591)
c.Subtotal	$ (21,716,803)	$ (25,932,245)	$ (51,080,495)	$ (61,985,450)
3 MVA at end of year	$ 6,082,051,510	$ 6,740,382,211	$ 7,567,525,248	$ 6,667,001,941
4 .Net MVA earnings (3 - 1 - 2)	$ 996,433,437	$ 684,262,946	$ 878,223,532	$ (838,537,857)
5. Assumed investment return rate	8.00%	8.00%	8.00%	8.00%
6. Expected return	$ 407,718,118	$ 485,526,831	$ 537,187,357	$ 602,922,602
7. Excess return (4 - 6)	$ 588,715,319	$ 198,736,115	$ 341,036,175	(1,441,460,459)
8. Excess return deferral percent	20%	40%	60%	80%
9. Amount deferred	$ 117,743,064	$ 79,494,446	$ 204,621,705	$ (1,153,168,367)

Note :MVA is market value of assets.

Table 10a

Development of Actuarial Value of Assets

1.	**Market value of assets as of valuation**	$	6,667,001,941
2.	**Deferred amounts for fiscal year ending June 30,**		
	a. 2001	$	(1,153,168,367)
	b. 2000	$	204,621,705
	c. 1999	$	79,494,446
	d. 1998	$	117,743,064
	e. Total	$	(751,309,152)
3.	**Actuarial value of assets (1) - (2)**	$	7,418,311,093
4.	**Actuarial value as percent of market**		111.3%

Table 10b

Estimation of Yields

		Year Ending	
		June 30, 2001	June 30, 2000
		(1)	(2)
A.	**Market value yield**		
1.	Beginning of year market assets	$ 7,567,525,248	$ 6,740,382,211
2.	Investment income (including realized and unrealized gains and losses)	$ (835,020,054)	$ 880,767,465
3.	End of year market assets	$ 6,667,001,941	$ 7,567,525,248
4.	Estimated dollar weighted market value yield	-11.1%	13.1%
B.	**Actuarial value yield**		
1.	Beginning of year actuarial assets	$ 6,835,842,591	$ 5,988,547,319
2.	Actuarial return	$ 644,453,952	$ 898,375,767
3.	End of year actuarial assets	$ 7,418,311,093	$ 6,835,842,591
4.	Estimated actuarial value yield	9.5%	15.1%

Table 11a

History of Investment Return Rates

Plan Year Ending June 30 of (1)	Market (2)	Actuarial (3)
1995	18.5%	11.5%
1996	12.2%	12.0%
1997	20.3%	13.4%
1998	19.6%	15.0%
1999	11.3%	16.4%
2000	13.1%	15.1%
2001	-11.1%	9.5%

Table 11b

Investment Experience Gain or Loss

	Item (1)	June 30, 2001 (2)	June 30, 2000 (3)
1.	Actuarial assets, beginning of year	$ 6,835,842,591	$ 5,988,547,319
2.	Total contributions during year	$ 315,244,141	$ 295,885,902
3.	Benefits and refunds paid	$ (377,229,591)	$ (346,966,397)
4.	Assumed net investment income at 8%		
	a. Beginning of year assets	$ 546,867,407	$ 479,083,786
	b. Contribution	12,609,766	11,835,436
	c. Benefits and refunds paid	(15,089,184)	(13,878,656)
	d. Total	$ 544,387,989	$ 477,040,566
5.	Expected actuarial assets, end of year		
	(Sum of items 1 through 4)	$ 7,318,245,130	$ 6,414,507,390
6.	Actual actuarial assets, end of year	$ 7,418,311,093	$ 6,835,842,591
7.	Asset gain (loss) for year (Item 6 - Item 5)	$ 100,065,963	$ 421,335,201

Table 12a

Total Experience Gain or Loss

Item	June 30, 2001 (2)	June 30, 2000 (3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	$ 624,777,008	$ 983,120,274
2. Normal cost for the previous year	$ 220,238,258	$ 200,332,034
3. Less: contributions for the year	$ (315,244,141)	$ (295,885,902)
4. Interest at 8 %		
a. On UAAL	$ 49,982,161	$ 78,649,623
b. On normal cost	8,809,530	8,013,281
c. On contributions	(12,609,766)	(11,835,436)
d. Total	$ 46,181,925	$ 74,827,468
5. Expected UAAL (Sum of Items 1 - 4)	$ 575,953,050	$ 962,393,874
6. Actual UAAL	$ 652,024,201	$ 624,777,008
7. Total gain (loss) for the year (Item 5 - Item 6)	$ (76,071,151)	$ 337,616,867
B. Source of gains and losses		
8. Asset gain (loss) for the year	$ 100,065,963	$ 421,335,201
9. Liability gain (loss) for the year	$ (208,007,239)	$ (83,718,334)
10. Assumption change	$ 31,870,125	N/A
11. Ad hoc COLA	N/A	N/A
12. Total	$ (76,071,151)	$ 337,616,867

Table 12b

History of Cash Flow

Year Ending June 30, (1)	Contributions[1] (2)	Expenditures: Benefit Payments (3)	Expenditures: Refunds (4)	Expenditures: Administrative Expenses[2] (5)	Expenditures: Other (6)	Expenditures: Total (7)	External Cash Flow for the Year[3] (8)	Market Value of Assets (9)	External Cash Flow as Percent of Market Value (10)
1990	160.8	(110.2)	(19.0)	(1.3)	(3.1)	(133.6)	27.2	2,088.7	1.3%
1992	185.5	(142.6)	(18.7)	(1.5)	(3.2)	(166.0)	19.5	2,729.3	0.7%
1993	188.4	(159.1)	(18.1)	(1.6)	0.0	(178.8)	9.6	3,178.6	0.3%
1994	214.2	(175.3)	(19.8)	(1.7)	0.0	(196.8)	17.4	3,190.0	0.5%
1995	229.7	(193.1)	(22.3)	(2.0)	0.0	(217.4)	12.3	3,792.3	0.3%
1996	238.9	(210.6)	(23.9)	(2.3)	0.0	(236.8)	2.1	4,257.2	0.0%
1997	245.6	(231.6)	(24.7)	(1.9)	0.0	(258.2)	(12.6)	5,107.3	(0.2%)
1998	260.9	(254.4)	(28.2)	(2.1)	0.0	(284.7)	(23.8)	6,082.1	(0.4%)
1999	278.9	(274.8)	(30.0)	(2.7)	0.0	(307.5)	(28.6)	6,740.4	(0.4%)
2000	295.9	(311.8)	(35.2)	(2.5)	0.0	(349.5)	(53.6)	7,567.5	(0.7%)
2001	315.2	(340.6)	(36.6)	(3.5)	0.0	(380.7)	(65.5)	6,667.0	(1.0%)

Amounts in $ millions

1 Column (2) includes employee assessments and employer contributions, as well as employer contributions for ARP members.
2 Excludes investment expenses starting in 1997.
3 Column (8) = Column (2) + Column (7).

Table 13

Solvency Test

	June 30, 2001 (1)	June 30, 2000 (2)
1. **Actuarial accrued liability (AAL)**		
a. Active member contributions	$ 1,023,953,742	$ 967,956,658
b. Retirees and beneficiaries	3,604,455,400	3,322,038,600
c. Active and inactive members (employer financed)	3,441,926,152	3,170,624,341
d. Total	$ 8,070,335,294	$ 7,460,619,599
2. **Actuarial value of assets**	$ 7,418,311,093	$ 6,835,842,591
3. **Cumulative portion of AAL covered**		
a. Active member contributions	100%	100%
b. Retirees and beneficiaries	100%	100%
c. Active and inactive members (employer financed)	81%	80%

Table 14

Historical Retired Participants' Data

Year Ending June 30,	Number	Average Monthly Benefit
(1)	(2)	(3)
1984	8,462	$430
1986	10,004	512
1988	11,375	663
1990	12,741	767
1992	14,107	846
1993	15,001	890
1994	15,814	966
1995	16,593	976
1996	17,381	1,011
1997	18,317	1,055
1998	19,244	1,104
1999	20,109	1,139
2000	21,186	1,228
2001	22,191	1,274

Table 15

Distribution of Active Members

As of

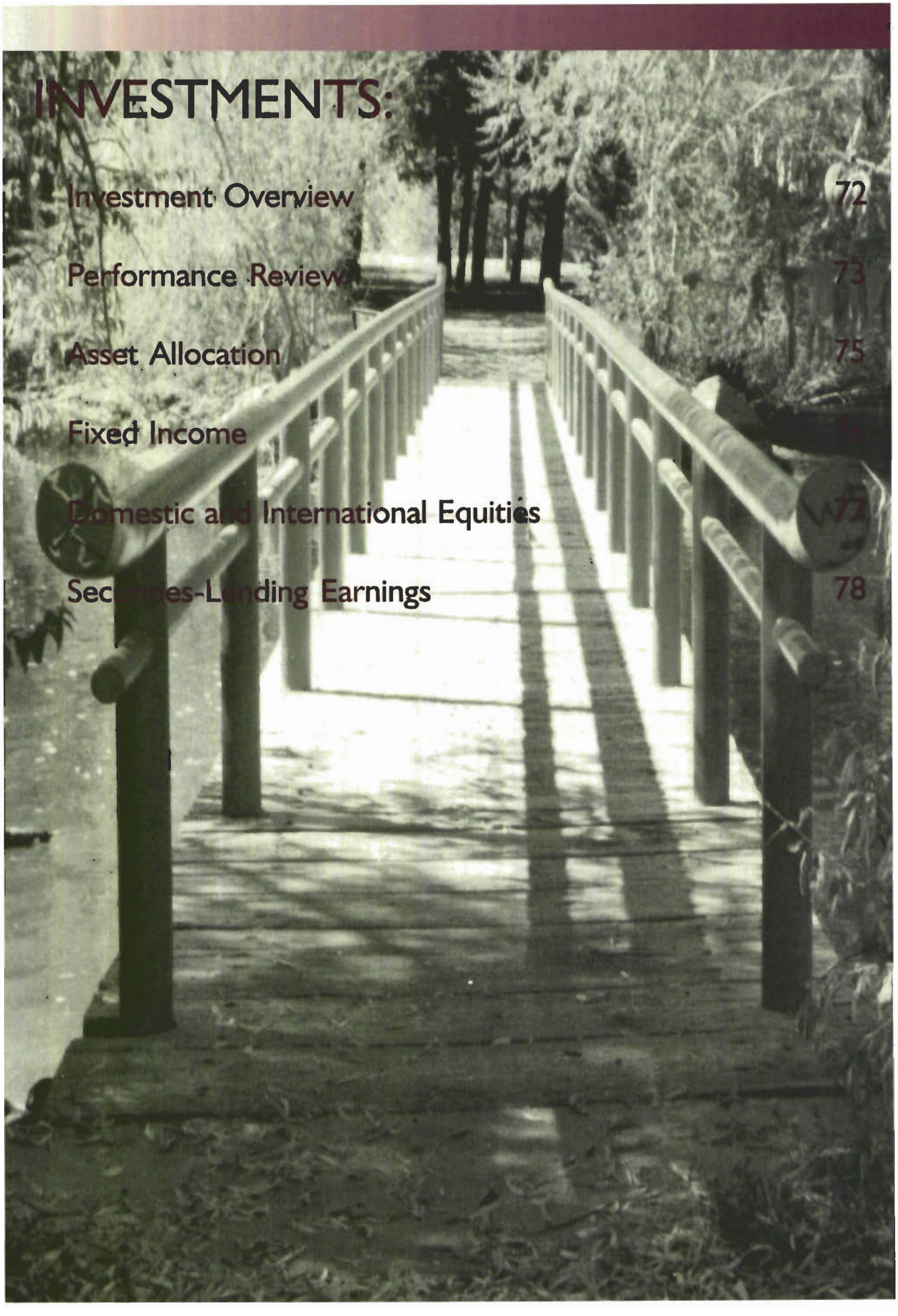
Attained Age	Years of Credited Service 0 Count & Avg. Comp.	1 Count & Avg. Comp.	2 Count & Avg. Comp.	3 Count & Avg. Comp.	4 Count & Avg. Comp.	5-9 Count & Avg. Comp.	10-14 Count & Avg. Comp.
Under 25	667 $14,925	786 $18,141	116 $16,472	65 $15,577	15 $19,157	15 $18,899	0 $0
25-29	625 $19,865	1,552 $24,248	683 $24,717	518 $25,300	329 $27,049	413 $24,598	5 $23,718
30-34	568 $22,831	1,415 $23,252	693 $23,546	600 $24,464	517 $26,630	1,619 $29,177	274 $27,750
35-39	690 $21,592	1,499 $20,988	726 $23,255	659 $24,312	528 $25,217	1,983 $28,103	1,141 $31,828
40-44	539 $25,441	1,390 $21,537	764 $22,818	705 $23,796	593 $23,938	2,520 $27,894	1,605 $34,448
45-49	518 $24,089	1,162 $23,964	640 $24,831	617 $27,048	538 $27,687	2,454 $29,171	2,070 $33,739
50-54	370 $24,539	835 $26,594	518 $26,151	475 $27,746	382 $27,283	1,958 $30,282	1,971 $34,733
55-59	179 $24,668	469 $25,164	262 $26,025	244 $28,585	220 $27,387	934 $30,279	1,116 $34,197
60-64	75 $25,250	180 $25,620	109 $24,444	119 $24,536	82 $23,725	483 $28,043	520 $31,686
65-69	27 $20,647	58 $22,426	34 $18,321	33 $29,619	25 $21,680	152 $23,795	106 $30,340
70 & Over	19 $18,551	37 $17,333	15 $14,185	12 $17,280	15 $18,763	60 $17,360	57 $22,043
Total	4,277 $21,680	9,383 $22,871	4,560 $23,944	4,047 $25,337	3,244 $26,071	12,591 $28,676	8,865 $33,473

Table 16

by Age and by Years of Service

06/30/2001

15-19 Count & Avg.Comp	20-24 Count & Avg. Comp.	25-29 Count & Avg. Comp.	30-34 Count & Avg. Comp.	35-39 Count & Avg. Comp.	40 & Over Count & Avg.Comp	Total Count & Avg. Comp.
0 $0	0 $0	0 $0	0 $0	0 $0	0 $0	1,664 $16,652
0 $0	0 $0	0 $0	0 $0	0 $0	0 $0	4,125 $24,052
7 $28,089	0 $0	0 $0	0 $0	0 $0	0 $0	5,693 $25,588
298 $32,542	15 $29,156	0 $0	0 $0	0 $0	0 $0	7,539 $25,833
1,139 $38,187	474 $36,543	16 $20,410	0 $0	0 $0	0 $0	9,745 $28,622
1,348 $39,511	1,476 $43,662	427 $42,500	3 $47,225	0 $0	0 $0	11,253 $32,455
1,451 $40,982	1,393 $43,464	1,039 $48,244	137 $54,108	0 $0	0 $0	10,529 $35,495
883 $37,675	818 $43,122	553 $47,252	215 $57,233	20 $58,492	0 $0	5,913 $35,621
347 $37,838	377 $38,656	249 $45,689	120 $66,672	58 $59,438	5 $58,607	2,724 $34,830
82 $41,430	63 $34,331	47 $47,753	26 $68,604	10 $75,049	6 $68,547	669 $32,262
27 $21,327	16 $46,291	23 $38,458	6 $46,212	8 $48,543	6 $63,851	301 $24,064
5,582 $38,783	4,632 $42,206	2,354 $46,465	507 $59,016	96 $59,959	17 $63,966	60,155 $30,248



INVESTMENTS:

Investment Overview

I. Investment Overview

Recognizing the important and perpetual nature of the fund and the fiduciary responsibilities of the Board, the primary goal in investing the assets shall be to provide significant real returns adjusted for inflation with acceptable risk (volatility). The "prudent man" standard as defined in the state statutes applies. In light of these dual goals, the Investment Division continues to diversify the fund's assets for purposes of both controlling risk and enhancing return.

The primary equity goal is to build a high quality, diversified portfolio of stocks. The primary focus is on large cap "blue chip" stocks with further diversification achieved through allocations to small cap, mid cap, and international equities.

Fixed income securities shall be managed using a rate anticipation style. The duration of the portfolio will be lengthened or shortened based on the outlook for interest rates. In addition, sector analysis, spread analysis and swaps will be used to increase the return on the portfolio.

II. Investment Process

While ultimately responsible, the Board relies on the Investment Committee of the Board (the Director and three Board members) to monitor the activities of the Investment Division. Within the applicable statutes and investment guidelines established by the Board, the Investment Division uses both internal and external managers for its assets. External investment management firms manage the small cap, mid cap, international, and a portion of the large cap assets. Fixed income assets and a portion of the large cap equity assets are managed internally. For internally managed assets, final decisions and execution of orders are the responsibility of the Investment Officers.

In the day-to-day operation of the Investment Division, the in-house staff evaluates the investment environment to determine the relative attractiveness of both individual securities and the various asset classes. Based on their analysis, net cash flow from the portfolios is reinvested, always bearing in mind the long-term asset allocation goals set by the Board. These asset allocation decisions were made in conjunction with an analysis of the long-term liabilities of the fund. In view of the importance of asset allocation to investment performance, staff and the Investment Committee regularly monitor the position of the fund relative to its target allocation. The general guidelines relating to these asset classes are reviewed annually by the Investment Committee.

The investment activity is governed by the Educational Retirement Act of New Mexico wherein the eligible investments are defined. The "prudent man"standard, as defined in the state statutes, requires all members of the Board and investment staff to discharge their duties solely in the interest of fund participants and beneficiaries and with the care, skill, prudence and diligence which they would exercise in the conduct of their own affairs.

III. Asset Allocation

The asset mix of the investment portfolio has been gradually changed in favor of common stocks. At year end equity exposure was 68% of the total portfolio, close to its 70% goal. The most significant change was an expansion of international equities, specifically a new 2% allocation to emerging markets. This addition was funded by a corresponding decrease in fixed income assets. The targeted allocation is 43% large cap, 5% each in small and mid cap, and 17% international equities, with the remaining 30% in fixed income. The actual distribution on June 30, 2000 was very close to this goal, with the exception of a slight underweighting in large cap equities.

Investment Performance Review

I. ERB Fund Strategy

The ERB investment strategy focuses on a long-term approach, investing in high quality securities, which may be held for substantial periods of time. Diversifying the portfolio across several different asset classes mitigates risk by ensuring that the Fund is not completely exposed to one poorly performing market. Over the past few years the Board has been implementing an asset allocation plan which seeks to enhance return within acceptable risk levels by gradually increasing the Fund's exposure to equities. The equity assets have been further subdivided into several distinct segments of the market, including international stocks. Each of these sub-portfolios is managed by a different investment firm, lessening the Fund's dependence on any one money manager. The Board will continue to diversify the Fund, particularly in regard to investment styles, in order to lessen the exposure to volatile growth stocks.

II. Economic Overview

The fiscal year ending June 30, 2001, was marked by a pronounced slowdown in economic growth and corporate earnings. Quarterly changes in real gross domestic product (GDP) averaged little more than 1%, with the last quarter growing by a negligible 0.3%. Looking back from later in the year, it was determined that a recession actually began in the spring of 2001. By the end of the prior fiscal year, the Federal Reserve had raised the Fed Funds rate to 6.5% in an effort to combat underlying inflationary forces. FY2001 represented a sharp turnaround from this trend. As the economy began to signal a slowdown, the Fed aggressively cut rates. Between Jan and June of 2001, the Fed cut rates 6 times, bringing the Fed Funds rate to 3.75%. While inflation hovered around the 3% level, it was clearly not accelerating.

As of June 30, 2001, the economy has weakened considerably. Orders for capital equipment, particularly in the technology sector, have fallen steeply. Unemployment levels have increased, while industrial production has been negative for 3 consecutive quarters. Consumer confidence remains quite steady, however, and it is hoped that consumer spending will continue to support the economy. With lower mortgage rates providing a stimulus for refinancing, the consumer actually has more cash available. Meanwhile, the Fed continues to cut rates, and Washington debates various strategies to stimulate the economy. With low inflation and a Federal budget surplus, there fortunately is maneuvering space to deal with the slowdown.

III. Market Performance

For the first time since fiscal year 1988, the Standard & Poor's 500 Index had a negative return for the year (-14.8%). While the last quarter was positive, the bounce was not robust enough to offset the prior three negative quarters. The year was marked by sharp deterioration in corporate earnings. Growth stocks, which had led the bull market of the past several years, suffered the biggest losses. Indeed, the divergence between the returns of growth and value stocks was unprecedented, as value stocks more than made up for several years of underperformance. For the second consecutive year, small and mid-cap stocks outperformed the large caps, actually posting positive returns. The technology-heavy NASDAQ market lost 45% of its value during this period.

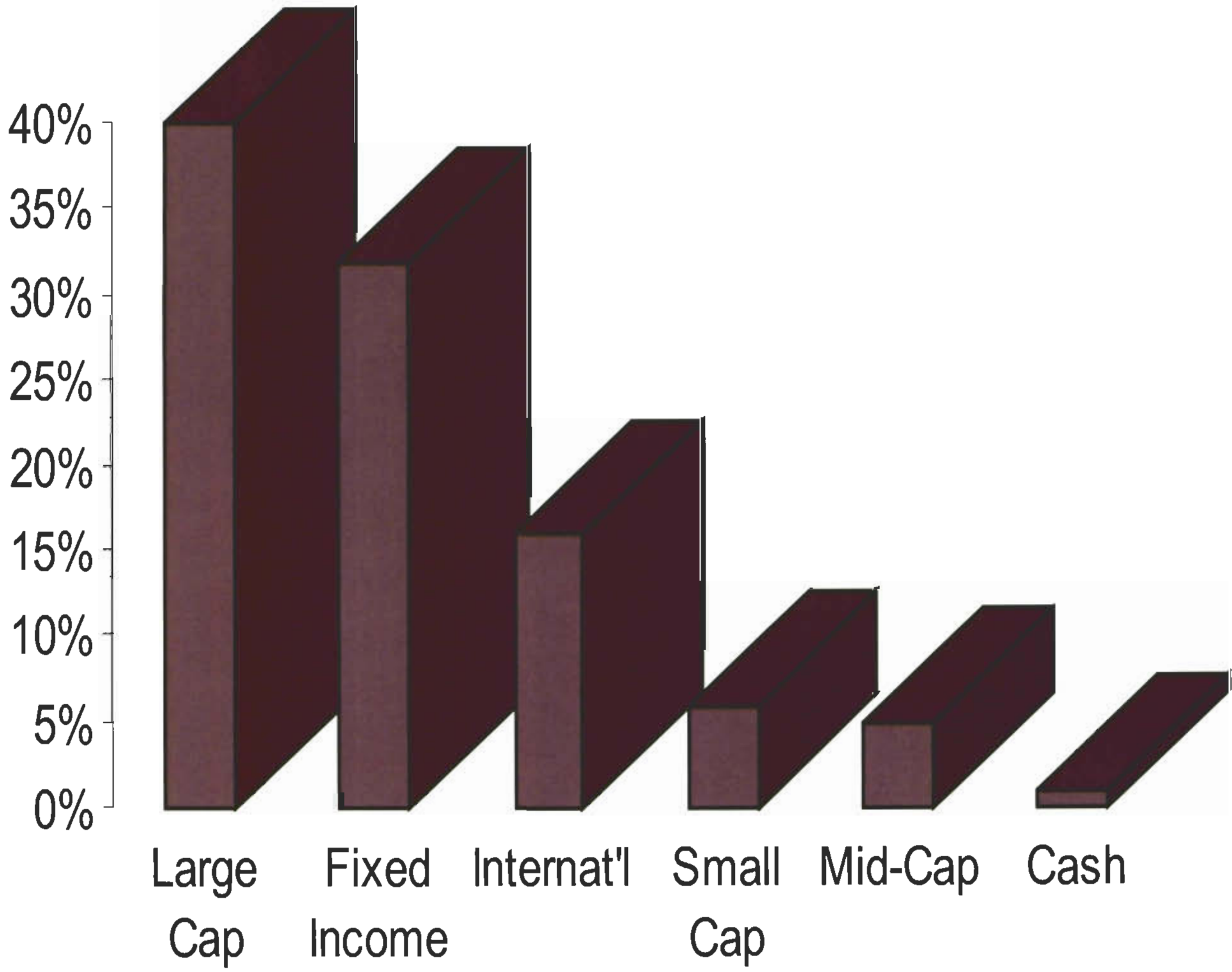
International equity markets actually fared worse than the U.S. market, with the MSCI EAFE index down 24%. Pessimism about economic conditions both in the U.S. and abroad led to weak returns in most local markets. In many cases, these poor returns were exacerbated by currency translation into the stronger U.S. dollar, a particular problem for EURO-denominated markets.

As a result of the steady and steep drop in interest rates, the fixed income market realized strong positive returns. The Salomon Brothers Large Pension Fund Index, which ERB uses as its benchmark, returned 11.8% for the year.

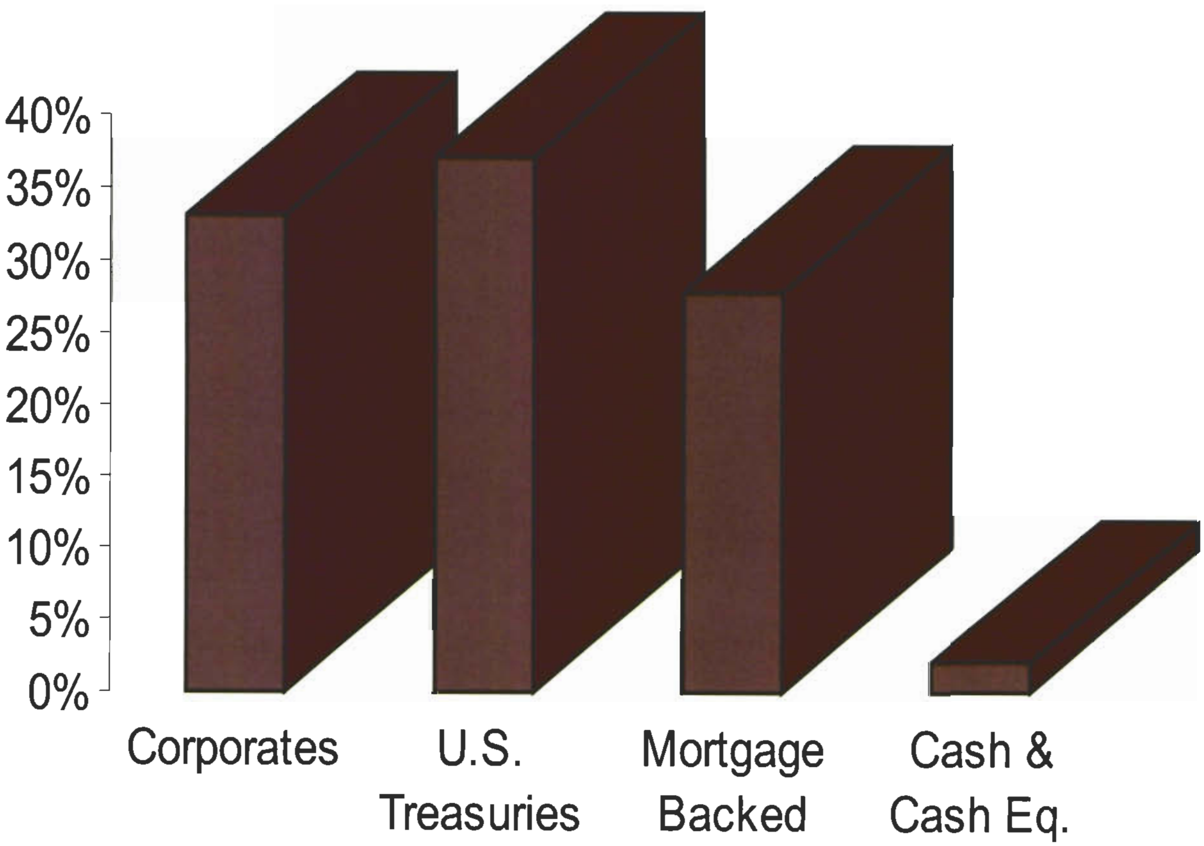
IV. ERB Portfolio Performance

The actively managed large capitalization portfolio, with a negative return of 27.7%, sharply underperformed its benchmark (S&P 500) return of –14.8%, while the passive portfolio modestly outperformed the index with a return of –14.2%. The mid cap portfolio had a -.16% return compared to its benchmark return of 8.9%, while the two small cap portfolios also underperformed, with a combined return of –10.3%, versus the benchmark's .57%. In general, the domestic equity portion of the Fund was hurt by an overweighting of growth stocks at a time when growth stocks fell out of favor. The three international managers returned -24.8%, slightly less than benchmark's –24.1%. The fixed income portfolio achieved a total return of 11.6% slightly below the 11.8% return of its benchmark, the Salomon Large Pension Fund Index. The total fund returned –10.1%, compared to the –6.6% return earned by the Composite Index benchmark. This poor relative performance contrasts sharply with the prior fiscal year during which the Fund outperformed its target by nearly 4 percentage points, and is primarily due to the concentration in growth-style equities. From a longer term perspective, the 5 year average for the Fund of 10.04% is nearly in line with its target return of 10.34%.

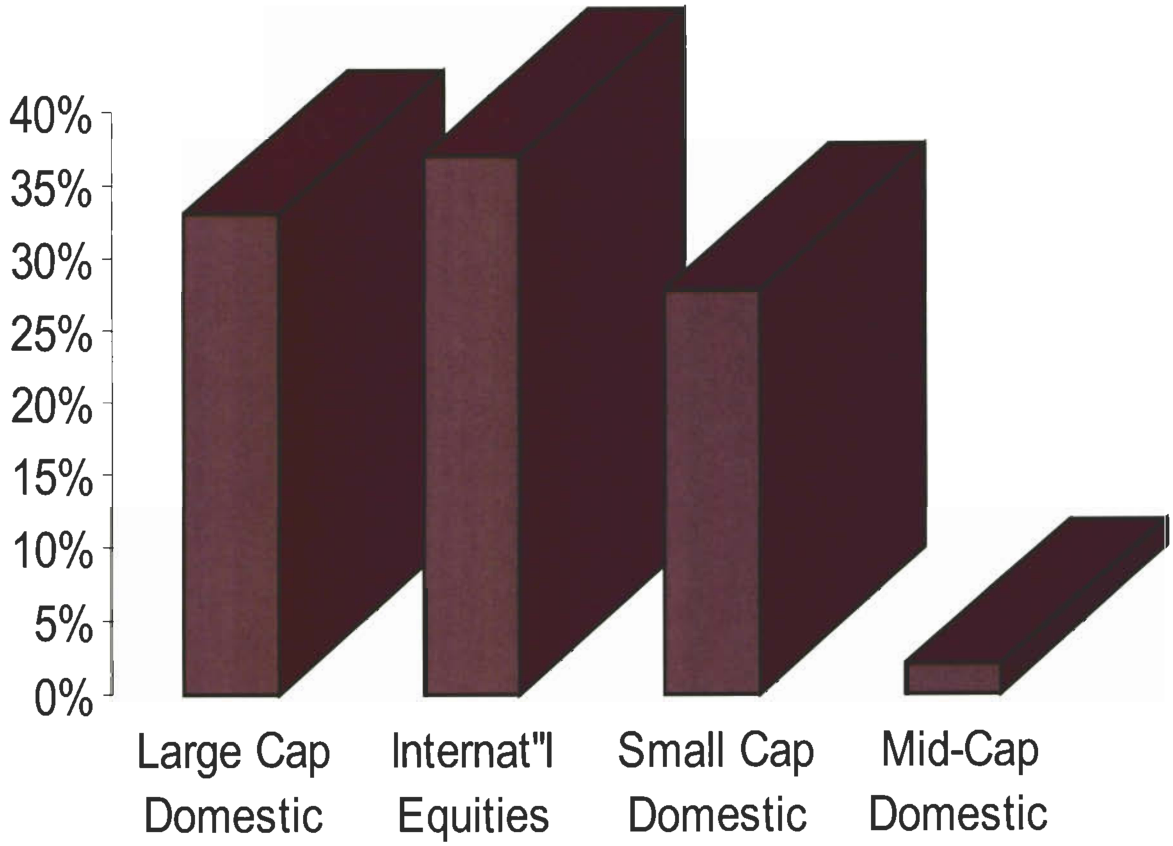
Asset Allocation as of 6/30/2001



Fixed Income as of 6/30/2001



Domestic & International Equities as of 6/30/2001



Securities Lending Earnings

Fiscal Year 2001
Earned June 2000 through May 2001
Paid July 2000 through June 2001

PAY MONTH	INCOME
July	$ 89,804.83
August	121,361.70
September	148,307.64
October	115,782.64
November	133,395.35
December	128,526.46
January	189,581.44
February	211,659.14
March	199,167.07
April	150,510.70
May	134,379.48
June	248,211.20
Total	$ 1,870,687.65

Vision of The Educational Retirement Board

The New Mexico Educational Retirement Board will be the best retirement system in the country. We will incorporate innovative ways to protect and maximize benefits for members and will develop effective programs to support members' transition from the work place to an involved and meaningful retirement. We will increase the skills, competencies, and job satisfaction of our employees to better serve our members.

State of New Mexico
Educational Retirement Board
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