New Mexico

Educational Retirement Board

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2004

New Mexico Educational Retirement Board

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2004

Prepared by ERB Staff

Educational Retirement Board
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Santa Fe, NM 87501
(505) 827-8030
(866) 691-2345

www.era.state.nm.us

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MISSION OF THE NM EDUCATIONAL RETIREMENT BOARD

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

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.

STATE OF NEW MEXICO
Educational Retirement Board
701 CAMINO DE LOS MARQUEZ
P.O. Box 26129
SANTA FE, NEW MEXICO 87502-0129
PHONE: (505) 827-8030
FAX: (505) 827-1855

Evalynne Hunemuller, Ed.D.
Acting Director

February 18, 2005

Dear Members, Retirees, and Friends:

We are pleased to present the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. This year marks the completion of our 47th 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.

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 judgment, this report represents an accurate presentation in all material aspects of the financial and actuarial status of the program.

This year's report reflects a much brighter investment scenario than was present in 2003. The stock market's upturn, coupled with a change in asset allocation that affect some new asset classes, resulted in a 15.4% return for the year ended June 30, 2004. Our portfolio has become more diversified which should lead to lower overall volatility and contribute to maximizing returns and minimizing risks. This model is consistent with the ERB's fundamental investment principles that focus on preserving the long-term value of the fund while at the same time producing the resources needed to meet the system's future benefit obligations.

It is critical to remember that the Educational Retirement Board's assets are invested for the long term. Our objective is to produce a very competitive long-term return that meets the system's funding requirements at an acceptable risk level.

The ultimate test, of course, of whether a retirement system is financially sound is whether it can meet all of its promised benefits as they come due. Although ERB will be able to meet its obligations to retirees for the next twenty to twenty-five years, the 2004 actuarial valuation shows that the funding period climbed to infinity, well above the General Accounting Standards Board's recommended public pension funding period of 40 years. The liabilities of the fund have increased to a level that outpaces the fund's combined contributions and investment returns over the past ten years. While investments, on average, have met or exceeded goals set by the actuarial calculations, contribution levels have not increased since 1992.

During the past three years, the Educational Retirement Board and staff have made decisions, not only with a review of current situations, but also with an eye to the future. ERB has never failed to send its pension checks out on the first of the month, every month, to its retirees. This will not change.

Our goals remain to ensure the long-term stability of the plan, to continue to guarantee the safety and security of our member's retirement, and to work toward increasing the benefits provided by the ERB.

Sincerely,

Delman Shirley

Delman Shirley
Chairperson, June 30, 2004

NM EDUCATIONAL RETIREMENT BOARD OF TRUSTEES

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

Dr. Pauline Turner, Vice Chairperson
Current term expires June 30, 2004
Elected by American Association of
University Professors

Mary Lou Cameron, Secretary
Current term expires December 31, 2005
Elected by New Mexico National
Education Association

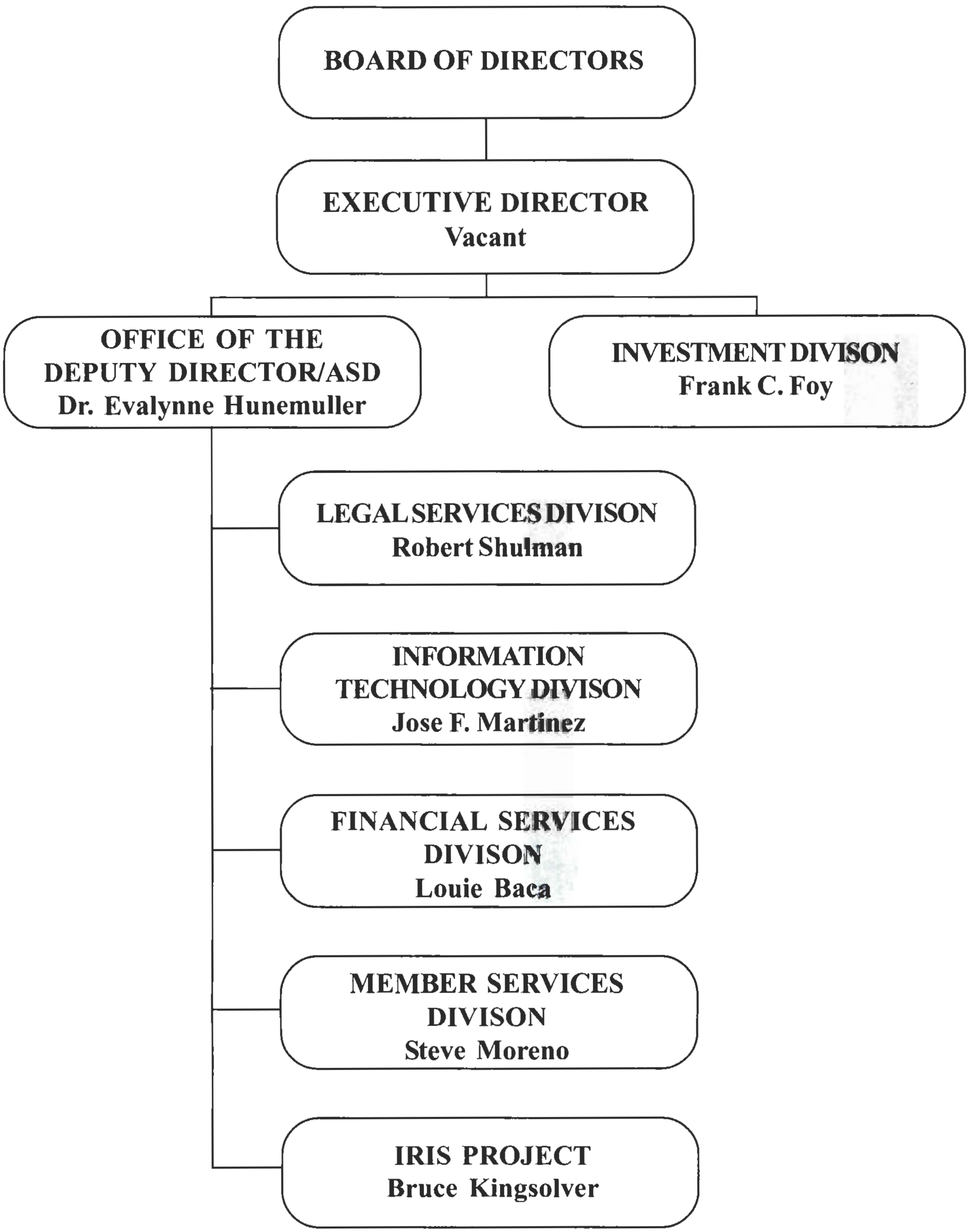
Bruce Malott, Member
Current term expires June 10, 2007
Appointed by the Governor

Veronica Garcia, Member
New Mexico Secretary of Public Education
Ex-Officio Member

Robert Vigil, Member
New Mexico State Treasurer
Ex-Officio Member

Annadelle Sanchez, Member
Current term expires February 17, 2007
Appointed by the Governor

NM EDUCATIONAL RETIREMENT BOARD ADMINISTRATIVE ORGANIZATION



NM EDUCATIONAL RETIREMENT BOARD OVERVIEW

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 bi-monthly.

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 bi-monthly meetings.

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 by in-house managers and partially by contract managers.

The **Legal Services 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 **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 information technology plans.

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

The **Member Services 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.

Significant Long Term Project: Integrated Retirement Information System (IRIS) - ERB has retained Tier Technologies, Inc. as the system integrator to install a new pension administration computer system from Vitech Systems Group. KPMG Risk Advisory Services is acting as the independent auditor to ensure the system meets ERB's requirements. This replaces the system used by ERB for the past 23 years and is necessary to meet the growth in membership that ERB has had as the state's population grows. Senior management has and will continue to closely supervise and monitor this critical project.

NM EDUCATIONAL RETIREMENT BOARD STAFF

ADMINISTRATION
Vacant, Executive Director
Dr. Evalynne Hunemuller, Deputy Director

PROGRAM SUPPORT
Lisa Ortiz, Administrative Services Manager
Debbi Lucero, Administrative Services Coordinator
Patricia Martinez, Executive Assistant
Judith Wils, Administrative Assistant
Louisa Padilla, Records/Imaging Clerk
Darlene Gibbs, Imaging Clerk
Mary Olague, Imaging Clerk
Celestino Archuleta, Plant/Systems Operator

LEGAL SERVICES
Robert Shulman, Attorney
Julie Naidich, Legal Assistant

INFORMATION TECHNOLOGY
Jose Martinez, Information Systems Manager
(Vacant), Computer Software Engineer
Jonas Aylward, Database Administrator
Dale Goar, Computer Systems Analyst
Gregory Trujillo, Computer Support Specialist

PENSION PROJECT
Bruce Kingsolver, Project Manager
Margaret Phoenix, Computer & Information Sys. Consultant

INVESTMENTS
Frank Foy, Division Director
Rose Struck, Investment Officer
Margaret Homko, Investment Officer
Selma Arnold, Financial Analyst
Leanne Larranaga, Financial Specialist

FINANCIAL SERVICES
Louie Baca, Division Director
Patricia Ortiz, Accountant & Auditor
Hongyu Liu, Accountant Specialist
Donna Vigil, Financial Specialist
Rita Sanchez, Bookkeeper
Christina Bustamante, Bookkeeper
Kathy Varela, Data Processing

MEMBER/EMPLOYER OUTREACH
Paul Swanson, Outreach Manager
Michelle Duran, Financial Advisor
Leonor Marrujo, Financial Advisor
Karla Hall, Financial Advisor
Teresa Barker, Customer Services Rep.

MEMBER SERVICES
Steve Moreno, Member Service Division Director
Harold Sexton, Financial Advisor
Alice Vargas, Financial Advisor
Connie Sanchez, Financial Advisor

PENSION/REFUND SECTION
Robert Rivera, Section Supervisor
Rose Tapia, Benefit Administrator
Jessica Sisneros, Benefit Specialist
Karla Leyba, Refund Administrator
Stephanie Vigil, Refund Specialist

CUSTOMER SERVICE SECTION
Kathy Webb, Section Supervisor
George Barela, Customer Service Specialist
(Vacant), Customer Service Specialist
Raul Duran, Customer Service Rep.
(Vacant), Customer Service Rep.

CONSULTANTS 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 consultant.

Gabriel, Roeder, Smith & Co. is the actuarial firm chosen by the Board and is responsible for:

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

Wilshire Associates is the investment consultant chosen by the Board and is responsible for advising the Board regarding:

- Returns earned by the Fund and by each of its managers relative to both benchmarks and a peer group of public pension funds;
- Analysis of investment style and risk and return of the Fund's investment managers;
- Asset allocation strategies; and
- Selection of external 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 New Mexico Attorney General provides legal counsel to the ERB, and The Groom Law Group of Washington, D.C. provides legal tax counsel.

An independent Certified Public Accountant firm conducts the financial audit of the ERB. Currently, that firm is Deloitte & Touche LLP.

Actuary

Gabriel, Roeder, Smith & Co.
1000 Town Center, Suite 1000
Southfield, Michigan 58075

Auditor

Deloitte & Touche LLP
Chase Tower, Suite 1600
Dallas, Texas 75201-6778

Investment Consultant

Wilshire Associates
1299 Ocean Avenue, Suite 700
Santa Monica, California 90401-1085

Financial Section

Deloitte

Deloitte & Touche LLP
111 Center Street
Suite 1800
Little Rock
USA

Tel: (501) 370-3600
Fax: (501) 375-7817
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets and statements of changes in plan net assets of the State of New Mexico Educational Retirement Board (the "ERB") as of and for the years ended June 30, 2004 and 2003, as listed in the foregoing table of contents. We also have audited the schedule of revenues and expenses – budget and actual (non-GAAP basis) for the year ended June 30, 2004, as listed in the foregoing table of contents. These financial statements are the responsibility of ERB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of the ERB are intended to present the net assets and changes in net assets of only that portion of the funds of the State of New Mexico (the "State") which are attributable to the transactions of the ERB. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2004 or 2003, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of ERB, as of June 30, 2004 and 2003, and changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the schedule of revenues and expenses – budget and actual (non-GAAP basis) for the year ended June 30, 2004, presents fairly the revenues and expenses on the basis of accounting as described in Note 2.

Management's Discussion and Analysis and the Required Supplementary Information of Funding Progress and of Employer Contributions are not a required part of the financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries 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 *Government Auditing Standards*, we have also issued our report dated January 10, 2005, on our consideration of ERB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 audits.

Our audits were performed for the purpose of forming an opinion on the financial statements of ERB taken as a whole. The accompanying financial information listed in the table of contents (except for the schedule of revenues and expenses - budget and actual (non-GAAP basis)) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole. We were not engaged to audit the non-financial information included in the Accountability in Government Act - Performance Measures or any information in the Investments, Actuarial Report or Statistical Section, and, accordingly, express no opinion on those items.

Deloitte & Touche LLP

January 10, 2005

MANAGEMENTÍS DISCUSSION AND ANALYSIS

Agency management prepared this Management's Discussion and Analysis (MD&A) of the financial position of the State of New Mexico Educational Retirement Board (Board) for the fiscal year ended June 30, 2004 (FY04). For more detailed information of the Board's FY04 financial activities, the reader should review the financial statements, including the notes and required supplementary information.

Financial Reporting Requirements

The financial statements include the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. The financial statements also include notes, which explain the history and purpose of the Board, significant accounting policies, investment details, statutory disclosures and other required supplementary information. These financial statements have been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Financial Highlights

• Net assets held in trust for pension benefits increased $828.2 million or 13.6% in FY04. The increase stemmed from a very strong upturn in the stock markets during the first half of the fiscal year. During the second half of the year, the market rebound slowed significantly, but still produced a small positive return for the last six months.

• Investment advisor fees and custodial fees increased $6.9 million or 103.5% in FY04. The higher fees were largely the result of a change in billing procedure for the Fund's international equity commingled funds. Prior to the current fiscal year, fees had been paid directly from the participation in the funds. During the current year, the contracts were changed to provide for invoicing of the manager fees. This created new budgetary items for three investment portfolios. In addition, a new asset class, High Yield Income, was added in March of 2004. This is being managed by an external management firm, and therefore added to the investment advisor fees.

• During the year, two managers were terminated in large cap growth equity and international equity. The large cap growth manager was replaced, and the international manager's mandate was divided between two additional managers. Also during the year, three new asset classes were funded: Real Estate Investment Trusts (REITS), Treasury Inflation Protected Securities (TIPS) and High Yield Fixed Income. The REITS and TIPS portfolios are being managed by internal staff in a passive style.

• Total cash and cash equivalents increased $17.0 million in FY04 primarily due to the investment portfolios holding a higher balance of cash at fiscal year end. Total cash and cash equivalents equaled $125.1 million or 1.6% of investments, which is within the Board's investment policy that limits cash holdings to 5% or less.

• Receivables increased almost $10.7 million in FY04 or 15.0% with the increase almost exclusively from investments receivable and interest and dividends at fiscal year end.

• Investment holdings increased $919.0 million or 13.8% primarily due to the recovery in the domestic and international equity markets.

• Capital assets, assets costing $1,000 and greater, increased by $1.4 million or 40.2%, due to a moderate amount of asset purchases, some asset disposals, and additional capitalization of software development costs on the new pension administration system.

• The Board received total appropriations from the trust fund of $8 million in FY01, FY02 and FY03, to implement the Integrated Retirement Information System (IRIS) Project. Phase 1 of IRIS, scheduled for completion in the spring of 2005, will be preceded by testing in the winter of 2004. Phase 2 of IRIS, the web-enablement phase, will be completed in fall of 2005.

• Accounts payable increased $2.3 million or 119.0% primarily due to an increase in the amount of investment advisor fees due at FY 04 year-end.

• Refunds payable decreased $110.4 thousand or 4.8%, which correlates with the trend of a decrease in refunds paid during FY04. Lower rates of interest paid out on refunds after September 2003 resulted in fewer refund requests.

• Investment purchases payable-brokers decreased $38.6 million or 67.0% from the prior year, indicating that a lesser number of investments were purchased at or near fiscal year end and remained outstanding on June 30, 2004. Securities sales and purchases, are usually based on "trade date + 3 days", meaning that the transaction will settle three business days after it is initiated.

• Securities lending collateral increased $156.0 million or 22.0%, indicating that a larger portion of the Board's portfolio was being lent at fiscal year end. Securities lending net income decreased $49.1 thousand or 3.0% due to the decreased amount of investments included in the securities lending portion of the Board's portfolio and the lower rate earned on the lent securities.

• Employer and member contributions increased $18.0 million or 5.4% in FY04 due to an increase in active membership coupled with salary increases. Benefit payments to retirees increased $26.3 million or 6.7% owing to the increase in the number of retirees and the amount of Cost-of-Living-Adjustments paid to retirees. Refunds and interest to terminated members decreased $1.95 million or .7%. The Board's total membership increased by 3,699 (3.4%) to 111,475 members in FY04.

• Administrative expenses decreased by $1.7 million or 40% in FY04 reflecting additional capitalization of costs associated with the new pension administration system.

• With the recovery in the market during the latter part of FY 03, ERB saw an improvement in net assets from an increase of $70.0 million in FY03 to an increase of $828.2 million in FY04.

Condensed Financial Information

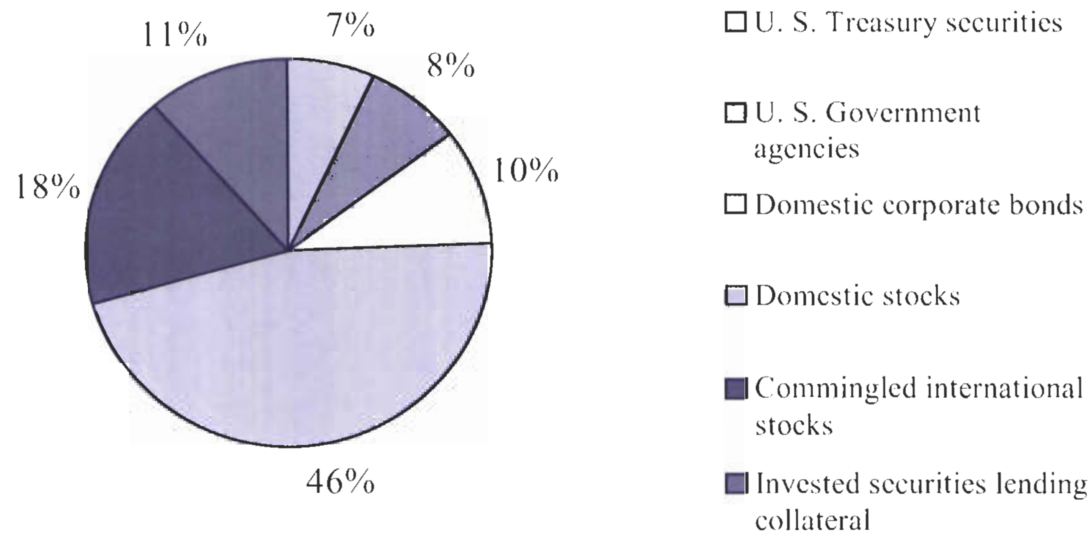
Statements of Plan Net Assets

	FY04	FY03
Cash and short-term investments	$ 125,067,216	$ 108,068,182
Receivables	81,885,008	71,199,484
Investments, at fair value	7,592,927,380	6,673,869,901
Capital assets (net of accum. depr.)	5,094,285	3,633,927
Total assets	$7,804,973,889	$6,856,771,494
Current liabilities	$ 893,301,003	$ 773,278,795
Long-term liabilities (comp. absences)	127,767	133,915
Total liabilities	$ 893,428,769	$ 773,412,710
Net assets held in trust for pension benefits	$6,911,545,120	$6,083,358,784

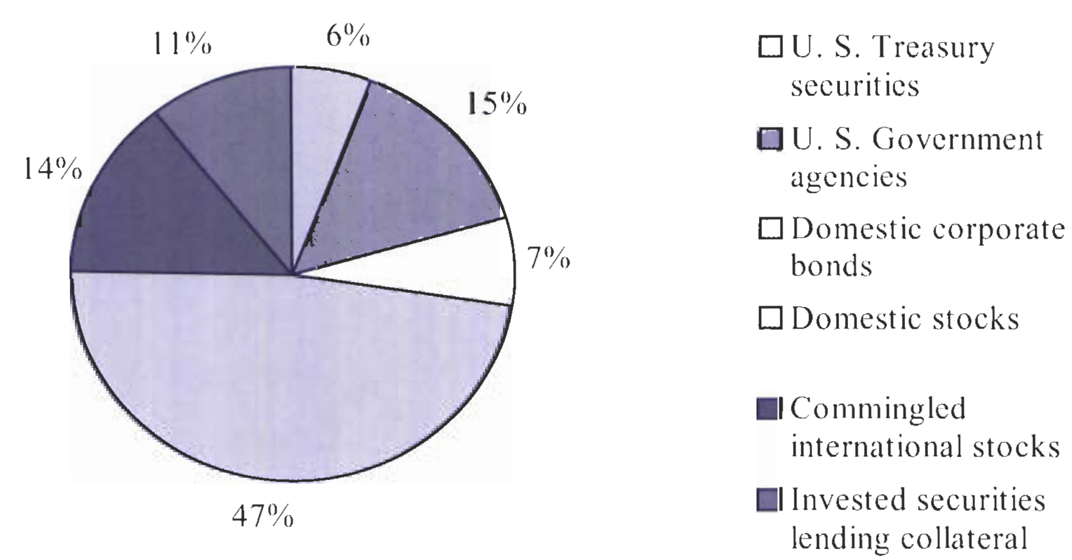
Statements of Changes in Plan Net Assets

	FY04	FY03
Contributions	$ 351,443,580	$ 333,437,104
Investment income less investment expenses	129,714,794	144,773,127
Net appreciation in the fair value of investments	794,213,571	16,156,143
Other income	4,200,818	4,344,038
Total additions	$1,279,572,763	$ 498,710,412
Benefit payments	$ 422,418,366	$ 396,081,755
Refunds	26,385,013	28,338,456
Administrative expenses	2,583,048	4,287,345
Total deductions	$ 451,386,427	$ 428,707,556
Increase in net assets	$ 828,186,336	$ 70,002,856
Net assets held in trust for pension benefits		
Beginning of the year	$6,083,358,784	$6,013,355,928
End of the year	$6,911,545,120	$6,083,358,784

FY04 Investments By Category



FY03 Investments By Category



Budgetary Highlights

There were no significant budgetary variations during the fiscal year ended June 30, 2004. The Board had savings over budgeted amounts totaling $2.2 million in the four expense categories (non-GAAP budgetary basis) during the 2004 fiscal year.

The final budget contained $4.0 million in re-budgeted cash balance related to carryover monies from the Building Addition/Remodel Project and the Integrated Retirement Information System (IRIS) Project. The Building Addition/Remodel Project had a carryover balance of $640,364 out of the initial $750,000 appropriation, which occurred in FY01 and $500,000 appropriated in FY 02. The IRIS Project had $2,894,752 in carryover monies available from appropriations in FY01 and in FY02.

Request for Information

This financial report is designed to provide various interested parties with a general overview of financial position and activities of the Board for the fiscal year ended June 30, 2004. If you have questions regarding this financial report or need additional information, please contact Louie Baca, Chief Financial Officer, at P.O. Box 26129, Santa Fe, NM 87502.

Capital Assets

The Net Investment in Capital Assets at June 30, 2004 is as follows:

Description	Cost	Accumulated Depreciation	Book Value
2004:			
Land	$ 248,172	—	248,172
Capital assets in progress	3,947,773	—	3,947,773
Depreciable Land Improvements	1,875	(1,312)	563
Building & Building Improvements	1,176,723	(693,746)	482,977
Furniture & Equipment	1,271,422	(856,622)	414,800
Total	$6,645,965	(1,551,680)	5,094,285
2003:			
Land	$ 248,172	—	248,172
Capital assets in progress	2,342,730	—	2,342,730
Depreciable Land Improvements	1,875	(1,125)	750
Building & Building Improvements	1,156,369	(646,593)	509,776
Furniture & Equipment	1,500,619	(968,120)	532,499
Total	$5,249,765	(1,615,838)	3,633,927

STATEMENT OF PLAN NET ASSETS
JUNE 30, 2004 AND 2003

	2004	2003
Assets		
Cash and short-term investments	$ 125,067,216	108,068,182
Receivables		
Contributions	44,905,427	42,951,929
Investment sales proceeds-brokers	10,281,258	7,090,361
Interest and dividends	26,692,162	21,154,666
Other	6,161	2,528
Total receivables	81,885,008	71,199,484
Investments, at fair value		
U. S. Treasury securities	518,020,368	383,767,250
U. S. Government agency securities	595,268,285	979,434,779
Domestic corporate bonds	740,380,071	470,180,574
Domestic stocks	3,495,689,676	3,199,553,289
Commingled international stocks	1,376,704,172	930,026,908
Invested securities lending collateral	866,864,808	710,907,101
Total investments	7,592,927,380	6,673,869,901
Capital assets, at cost, net of accumulated depreciation of $1,551,680 and $1,615,838 respectively	1,146,512	1,291,197
Capital assets in progress	3,947,773	2,342,730
Total capital assets	5,094,285	3,633,927
Total assets	7,804,973,889	6,856,771,494
Liabilities		
Accounts payable	4,255,759	1,943,065
Accrued payroll and employee benefits	81,174	58,853
Accrued compensated absences	127,767	133,915
Due to other state agencies	502,342	167,273
Refunds payable	2,198,038	2,308,415
Investment purchases payable-brokers	19,226,642	57,809,285
Funds held for others	172,239	84,803
Securities lending collateral	866,864,808	710,907,101
Total liabilities	893,428,769	773,412,710
Net assets held in trust for pension benefits	**$ 6,911,545,120**	**6,083,358,784**

See notes to financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Additions		
Contributions		
Employer	$ 189,324,788	179,010,098
Member	162,118,792	154,427,006
Total contributions	351,443,580	333,437,104
Investment income		
From investing activities		
Net appreciation in fair value of investments investments	794,213,571	16,156,143
Interest income	83,351,928	105,911,179
Dividend income	58,246,628	43,844,090
Total investing activity gain	935,812,127	165,911,412
Investing activity expenses:		
Investment advisor fees	(12,901,948)	(6,046,788)
Custody fees	(571,675)	(574,348)
Total investing activity expenses	(13,473,623)	(6,621,136)
Net gain from investing activities	922,338,504	159,290,276
From securities lending activities		
Securities lending income	9,194,886	12,679,081
Securities lending expenses:		
Borrower rebates	(7,207,810)	(10,669,987)
Agent fees	(397,215)	(370,100)
Total securities lending expenses	(7,605,025)	(11,040,087)
Net income from securities lending activities	1,589,861	1,638,994
Total net investment gain	923,928,365	160,929,270
Miscellaneous Income		
Penalties	684	681
Interest on restoration of service	4,200,134	4,343,174
Other	-	183
Total additions	1,279,572,763	498,710,412
Deductions		
Refunds to terminated members	21,859,555	21,132,480
Interest on refunds	4,525,458	7,205,976
Administrative expenses	2,583,048	4,287,345
Age and service benefit payments	416,862,335	390,931,959
Disability benefit payments	5,556,031	5,149,796
Total deductions	451,386,427	428,707,556
Net increase	828,186,336	70,002,856
Net assets held in trust for pension benefits		
Beginning of the year	6,083,358,784	6,013,355,928
End of the year	$6,911,545,120	6,083,358,784

See notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Educational Retirement Board

A. Plan Description

The State of New Mexico Educational Retirement Board (Board) was created by the Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer and have the responsibility for operating the Educational Employees' Retirement Plan (the Plan). The Plan is a cost-sharing, multiple-employer plan established and administered by the Board to provide retirement, disability, and death benefits for certified teachers and all other employees of the State of New Mexico (the State) educational institutions, junior colleges, technical-vocational institutions, and certain state agencies.

Contributing employers to the Plan include the following:

• Public Schools	89
• Universities and Colleges	15
• Charter Schools	32
• Special Schools	6
• State Agencies	14

B. Reporting Entity

The Board is an agency of the State of New Mexico. The Plan administered by the Board is considered part of the State of New Mexico financial reporting entity and is a pension trust fund of the State.

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

C. Participation

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

Faculty and professionals initially employed after July 1, 1991 with 1 out of 15 institutions of higher education may elect to participate in the Plan or an Alternate Retirement Plan (ARP) administered by ERB. The election must be made within ninety (90) days of employment and is irrevocable.

The Board serves 156 employers in the State of New Mexico and has an active and inactive membership of 111,475 in 2004 and 107,776 in 2003.

Status and number of all participants on June 30 consisted of the following:

	2004	2003
(1) Retirees and beneficiaries of deceased retirees currently receiving benefits	24,947	24,085
(2) Inactive members	23,627	21,077
(3) Current active members	62,901	62,614

D. Benefit Provisions

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

A brief summary of Plan coverage provisions follows:

A member is eligible to retire when one of the following events occurs:

* The member's age and earned service credit add up to the sum of 75 or more;
* The member's age is 65 or more with at least five years of earned service credit; or
* The member has service credit totaling 25 years or more.

(1) A further requirement to be eligible to retire is that a member must have at least one year of employment after July 1, 1957 and at least five years of contributory employment. Eligible members who have one year of employment after July 1, 1957, but less than the required five years of contributory employment, may contribute to the Fund for each year needed. The cost of such contributions is fifteen and two-tenths percent (15.2%) of the average salary of the last five years for each year of contributory employment needed plus three percent (3%) compounded interest from July 1, 1957 to the date of payment.

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

(3) Normal Benefit: There are no reductions to the monthly benefit as described under the Rule of 75 and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of contributions less benefits paid.

(4) Optional Forms of Payment: There are two optional forms of payment available: Option B or Option C. The benefit reduction with an Option B or C form of payment depends on the age of the member and the age of the beneficiary at the time of retirement. The form of payment election and the beneficiary designated to receive a survivor's benefit are irrevocable.

Option B: The normal monthly benefit is reduced to provide for a one hundred percent (100%) survivor's benefit. The reduced benefit is payable during the life of the member with the provision that upon death, the same benefit is paid to the beneficiary for his or her lifetime. The named beneficiary may not be changed after the effective date of retirement. If the beneficiary predeceases the member, the member's benefit is adjusted by adding the amount by which the benefit was reduced at retirement due to the election of Option B.

Option C: The normal monthly benefit is reduced to provide for a fifty-percent (50%) survivor's benefit. The reduced benefit is payable during the life of the member with the provision that upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. The named beneficiary may not be changed after the effective date of retirement. If the beneficiary predeceases the member, the member's benefit is adjusted by adding the amount by which the benefit was reduced at retirement due to the election of Option C.

(5) Cost of Living Adjustment (COLA): Retired members and surviving beneficiaries receiving benefits receive an automatic COLA in their benefit each July 1st, beginning in the year the member attains or would have attained age 65. The adjustment is equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed four percent (4%), nor be less than two percent (2%) unless the change in CPI is less than two percent (2%), in which case the COLA would equal the change in CPI. Members retired prior to July 1, 1984 are also entitled to an increase of the lesser of three percent (3%) or the increase in CPI for years prior to the attainment of age 65. Members on disability retirement are entitled to a COLA commencing on July 1st of the third full year following disability

retirement. A member on regular retirement that can prove retirement because of a disability may qualify for a COLA beginning July 1st in the third full year of retirement.

(6) Disability Retirement:
Eligibility: A member is eligible for a disability benefit provided (a) he or she has credit for at least ten years of service, and (b) the disability is approved by the Board.

Monthly Benefit: The monthly benefit is equal to two percent (2%) of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) two percent (2%) of FAS times years of service projected to age 60.

Form of Payment: The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are available.

(7) Deferred Retirement: A member with five or more years of earned service credit on deferred status may retire when eligible under the Rule of 75 or when the member attains age 65.

(8) The *Educational Retirement Act*, Section 22-11-1 to 22-11-53, NMSA 1978, assigns the authority to establish and amend benefit provisions to the Board.

E. Refund of Contributions

Members may withdraw their contributions only when they terminate covered employment in the State and certification of termination has been provided by their former employers. Interest paid to members when they withdraw their contributions following termination of employment is seventy-five percent (75%) of the average earnings rate of the Fund during the five fiscal years preceding the year of withdrawal. Interest is not earned on contributions credited to accounts prior to July 1, 1971 nor those on deposit for less than one year.

2. Summary of Significant Accounting Policies

A. Basis of Accounting

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.

B. Budgets and Budgetary Accounting

Formal budgetary integration is used as a management control device by the Board in administering the 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 expenses as current expenses, excludes depreciation expense, and recognizes revenue when cash is received. Budgetary comparisons for the Fund are presented in the Statement of Revenues and Expenses – Budget and Actual (Non-GAAP Basis).

The Accountability in Government Act, Chapter 15, Laws of 1999, provides a general process for implementation of performance-based budgeting over a four-year period. The Board was included in performance-based budgeting for the first time in FY 2002. The Board developed performance measures, which were approved by the State Budget Division (SBD) and the Legislative Finance Committee (LFC) and included in the General Appropriations Act. The Board is required to periodically report to SBD and LFC on these performance measures.

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 approved by SBD and LFC in accordance with State laws and regulations.

The Board follows these procedures in establishing the annual budget:

(1) By August 31st, the Board prepares a Budget Appropriation Request to be presented to the next Legislature. The Request includes proposed expenses 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 Request. Recommendations and adjustments are made prior to presenting the Budget Appropriation Request to the Legislature

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

(6) On May 1st, the Board submits its Annual Operating Budget to DFA and LFC based on the final appropriation from the Legislature.

(7) Budgetary control is exercised at the appropriation unit level (revenue source and expenditure category) and any changes between budget categories must be approved by DFA and LFC.

C. Investments

Investments are reported at fair market value. Overnight investments with the Office of the State Treasurer and the Short-term Investment Funds (STIF) at Northern Trust have been reported as cash equivalents on the accompanying Statement of Plan Net Assets. Northern Trust determines the fair market value of investments through their pricing sources, primarily Interactive Data Corporation, then secondarily Bloomberg, and finally to the broker for those securities not priced in the two other sources.

There are certain market risks, credit risks, foreign exchange currency risks or events which may subject the Plan's investment portfolio to economic changes occurring in certain industries, sectors or geographies.

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, securities lending income, and investment expense, which includes management and custodial fees, securities lending expense and all other significant investment-related costs.

D. Capital Assets

Capital assets represent the cost of assets, net of accumulated depreciation, used for the administration of the Plan. Capital assets include the Board's administration building located in Santa Fe, NM.

The Board's capitalization policy, based on the requirements from the Department of Finance and Administration, is to include all assets costing $1,000 and greater. All additions are capitalized at historical cost as of the date of acquisition and depreciation is calculated on a straight-line basis over the asset's estimated useful life with no salvage value.

Estimated useful lives are as follows:

-Building and Building Improvements	25 years
-Depreciable Land Improvements	10 years
-Furniture and Equipment	10 years
-Data Processing Equipment (including software)	5 years

E. 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 (for the contribution component) and income accounts (for the interest component(s)).

F. 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

3. Cash Deposits

The Board is required by Statute to remit any money received for or on behalf of the Plan into its own account at the New Mexico State Treasury. Excess money at the end of the day in the Board's account at the New Mexico State Treasury is pooled and invested by the Office of the New Mexico 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 New Mexico State Treasury, the Board invests in Short-term Investment Funds (STIF) at Northern Trust. Each internal and external investment manager has a component in the STIF. The STIF is used to facilitate more efficient trade procedures with the Board's external money managers. Net cash balances in each internal and external investment manager's portfolios are swept into the STIF at the end of each day. Overnight investments of $121,964,434 and $105,754,544 for 2004 and 2003 respectively, are considered cash equivalents and are reported as part of the cash balance in the Statement of Plan Net Assets.

For 2004 the majority of the Board's cash deposits, $121,964,434, is in repurchase agreements in a collateralized commingled fund at Northern Trust. The remaining $3,102,782 of cash deposits is classified as Category 1. (See Note 4. Investments for an explanation of risk categories.) For 2003 the majority of the Board's cash deposits, $105,754,544, is in repurchase agreements in a collateralized commingled fund at Bankers Trust. The remaining $2,313,638 of cash deposits is classified as Category 1.

4. Investments

The Board is authorized by statute to invest the assets of the Plan in the following instruments (Refer to Section 22-11-13, NMSA 1978, for additional limitations on authorized investments.):

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

B. Obligations of governments other than the United States or their political subdivisions, agencies or instrumentalities;

C. Obligations of a municipality or political subdivision of the State that were issued pursuant to law;

D. Contracts for the present purchase and resale at a specified time in the future, not to exceed one year, of specific securities;

E. Obligations of any corporation, partnership, or trust organized within the United States and preferred stock or common stock of any corporation, partnership, or trust organized within the United States;

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

G. Obligations of any corporation, partnership or trust organized outside the United States; and preferred stock or common stock of any corporation, partnership, or trust organized outside the United States

H. Currency transactions, including spot- or cash-basis currency transactions; forward currency contracts and buying or selling options or futures on foreign currencies;

I. Stocks or shares of a diversified investment company registered under the Investment Company Act of 1940, as amended; or

J. Industrial revenue bonds issued pursuant to the Industrial Revenue Bond Act [Sections 3-32-1 through 3-32-16, NMSA 1978].

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

(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.

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

Investment Description	2004	2003
Investments – Category 1:		
(Held by Board's agent in Board's name)		
U.S. Government agency securities (not on securities loan)	$ 498,232,848	$ 838,772,289
Domestic corporate bonds (not on securities loan)	662,459,493	470,180,574
Domestic stocks (not on securities loan)	3,334,753,410	3,027,549,512
Subtotal	4,495,445,751	4,336,502,375
Investments – not categorized:		
Commingled international stocks	1,376,704,172	930,026,908
Investments held by broker-dealers under securities loans with cash collateral:		
U.S. Government and agencies securities	615,055,805	524,429,740
Domestic corporate bonds	77,920,578	-
Domestic stocks	160,936,266	172,003,777
Securities lending cash collateral investments	866,864,808	710,907,101
Total	$ 7,592,927,380	$ 6,673,869,901

Derivatives:

Collateralized Mortgage Obligations – In accordance with investment policy and fiduciary principles, the Plan invests in mortgage-backed securities, including certain agency collateralized mortgage obligations (CMO). CMO selections are chosen from a conservative segment that offers low volatility. CMO securities are included in aggregate with other U. S. Government and Agency securities in the disclosure of custodial risk above. The Plan had $195.6 million in CMO securities at June 30, 2004 and $801.6 million at June 30, 2003.

5. Securities Lending

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

The cash collateral amount at fiscal year end was greater than the one hundred two percent (102%) of market value requirement.

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

In FY 2004, the Board, through its agent, HSBC Bank (HSBC), 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. HSBC 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:

	2004	2003
Loans outstanding	1 day	1 day
Collateral reinvestment	19 days	17 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%) borrower default indemnification by the securities lending agent, the Board has determined that it has minimal credit risk with the securities lending program.

The Board experienced no losses in its securities lending program during FY04 or FY03 nor were there any accumulated losses from prior periods.

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*
2004			
Lent for cash collateral:			
U. S. Government & Agency Securities	$615,055,805	$621,881,604	$
U. S. Equities	160,936,266	165,447,800	
U. S. Corporate Obligations with variable rates	77,920,577	80,455,050	335,250,435
Asset-backed Securities with variable rates			95,036,029
Repurchase Agreements			411,593,200
Commercial Paper			24,895,144
	$853,912,648	$867,784,454	$866,864,808
2003			
Lent for cash collateral:			
U. S. Government & Agency Securities	$524,429,740	$533,543,750	$
U. S. Equities	172,003,777	177,857,000	
U. S. Corporate Obligations with variable rates			270,294,985
Asset-backed Securities with variable rates			112,889,635
Commercial Paper			327,722,481
	$696,433,517	$711,400,750	$710,907,101

* Reported at fair value

6. Capital Assets

Capital Assets relate to all assets of the Board that are used in operations and have useful lives extending beyond a single reporting period. The Capital Assets in Progress represent costs associated with the Integrated Retirement Information System (IRIS) Project. Although these costs have been capitalized, depreciation expense will not be calculated until the project is completed during FY 2005.

Depreciation expense for 2004 was $219,057 and for 2003 was $274,242.

Capital asset activity for the year ended June 30, 2004 and 2003 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
2004:				
Land	$ 248,172	$	$	$ 248,172
Capital assets in progress	2,342,730	1,605,043		3,947,773
Depreciable Land Improvements	1,875			1,875
Building & Building Improvements	1,156,369	20,354		1,176,723
Furniture & Equipment	1,500,619	60,648	289,845	1,271,422
Total	5,249,765	1,686,045	289,845	6,645,965
Accumulated depreciation				
Depreciable Land Improvements	1,125	187		1,312
Building & Building Improvements	646,593	47,153		693,746
Furniture & Equipment	968,120	171,717	283,215	856,622
Total	1,615,838	219,057	283,215	1,551,680
Capital Assets, Net	$3,633,927	$ 1,466,988	$ 6,630	$5,094,285

	Beginning Balance	Additions	Deletions	Ending Balance
2003:				
Land	$ 248,172	$	$	$ 248,172
Capital assets in progress	2,205,176	137,554		2,342,730
Depreciable Land Improvements	1,875			1,875
Building & Building Improvements	1,136,225	20,144		1,156,369
Furniture & Equipment	1,445,456	123,887	68,724	1,500,619
Total	5,036,904	281,585	68,724	5,249,765
Accumulated depreciation				
Depreciable Land Improvements	937	188		1,125
Building & Building Improvements	600,074	46,519		646,593
Furniture & Equipment	805,307	227,535	64,722	968,120
Total	1,406,318	274,242	64,722	1,615,838
Capital Assets, Net	$3,630,586	$ 7,343	$ 4,002	$3,633,927

7. Due to Individual School Districts

This account represents the amount due to various participating public employers for over-remittances of employer contributions during the fiscal years ended June 30, 2004 and 2003. Over-remittances can be applied to future reporting periods or refunded, at the option of the administrative unit in the next fiscal year.

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, 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, 2004 and 2003.

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 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 but less than seven hundred twenty (720) 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 but less than one thousand (1,000) hours at fifty percent (50%) of their current hourly rate. All sick leave balances in excess of six hundred (600) hours but less than seven hundred twenty (720) hours for each employee have been recorded at fifty percent (50%) of their current hourly rate.

The following table provides a summary of the change in accrued compensated absences for the fiscal year ended June 30, 2004 and 2003:

	2004	2003
Balances payable at beginning of the fiscal year	$ 133,915	$ 142,134
Additions	123,870	112,850
Deletions	(130,018)	(121,069)
Balances payable at the end of the fiscal year	$ 127,767	$ 133,915

It is estimated that approximately $124,049 of this year-end liability will be payable within the next fiscal year. Funds used to liquidate this liability will come from the fund.

9. Leases

The Board leases mailing equipment, office space and storage spaces 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.

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 Ending June 30	Future Minimum Lease Payments
2005	$ 34,439
2006	14,005
2007	400
Total	$ 48,844

Lease expense was $31,102 for the fiscal year ended June 30, 2004 and $35,127 for the fiscal year ended June 30, 2003.

10. Retirement Plans

Employees of the Board who do not possess a teaching or administrative certificate have the option of participating in the Educational Employees' Retirement Plan or the Public Employees Retirement Plan. Some 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 public schools, higher education institutions, junior colleges, technical-vocational institutions, and certain state agencies.

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. The requirements may be amended by acts of the Legislature. The Board's contributions to ERA for the fiscal years ending June 30, 2004, 2003, and 2002 were $43,509, $48,760, and $53,970, 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. The requirements may be amended by acts of the Legislature. The Board's contributions to PERA for the fiscal years ending June 30, 2004, 2003, and 2002 were $376,915, $384,519, and $346,424, respectively, equal to the amount of the required contributions for each fiscal year.

11. 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. 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, state agencies, state courts, magistrate courts, and 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 during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf unless that person retires before the employer's NMRHCA effective date, in which event, the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990; and former legislators who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.3 percent of each participating employee's annual salary. Each employee contributes to the fund .65 percent of the employee's salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional participation fee of five dollars ($5.00) if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

Each participating retiree pays a variable monthly premium based on coverage desired and years of service. The basic rate in FY 2004 was $97.60. An additional premium of five dollars ($5.00) per month is charged 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, 401 Roma Avenue NW, Suite 200, Albuquerque, NM 87102.

For the fiscal year ended June 30, 2004, $23,414 in employer contributions and $11,707 in employee contributions were remitted to the Retiree Health Care Authority by the Board.

For the fiscal year ended June 30, 2003, the Board remitted $24,830 in employer contributions and $12,415 in employee contributions to the Retiree Health Care Authority.

12. Contingencies

Rule 2.82.3.9-J 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 retain a balance of $500 or less in his or her contribution account for the purpose of refunding any balances.For 2004, 35,572 terminated members with an aggregate balance of $4,150,182 were eligible to receive refunds. For 2003, 34,228 terminated members were eligible to receive refunds in the aggregate amount of $3,902,749. 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.

13. Risk Management

With the exception of investment losses, the Board is exposed to various business 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, the Board is responsible only for a small deductible payment in amounts that vary according to the type of claim.

14. Statutory Disclosures

Section 2.2.2.12A(4) of the Audit Rule 2003, 2.2.2 NMAC entitled, *"Requirements for Contracting and Conducting Audits of Agencies"* requires that state agencies disclose all special, deficiency and specific appropriations. The Board received the following specific appropriations:

ERB expects to complete the Pension Information Management System (IRIS) in 2005. It is anticipated that funding for IRIS will be carried over to FY 2005 and therefore be available for the completion of the project.

Any unspent amounts of the above specific appropriations revert to the Educational Employees' Retirement Fund, the source of the funding, and not to the State of New Mexico General Fund.

Building Remodel/Addition:

Laws of 2000, 2nd S.S., Chapter 23, Section 29 (FY00-FY08)	$ 750,000
Expended in FY01	(8,389)
Encumbered in FY01	(63,999)
Rebudgeted in FY02	$ 677,612
Expended in FY02	(8,624)
Encumbered in FY02	(46,986)
Rebudgeted in FY03	$ 686,001
Expended in FY03	(9,490)
Encumbered in FY03	(74,744)
Rebudgeted in FY04	$ 648,753
Expended in FY04	(13,871)
Encumbered in FY04	(60,873)
Unencumbered Balance at 6/30/04	$ 648,752
Laws of 2002, Chapter 110, Section 58 (FY02-FY08)	$ 500,000
Unencumbered Balance at 6/30/04	$ 1,148,752

Pension Information Management System (IRIS):

Laws of 2000, Second Special Session/Chapter 5, Section 8 (FY00-FY02)	$ 3,000,000
Expended in FY01	(38,007)
Encumbered in FY01	(41,514)
Rebudgeted in FY02	$ 2,920,479
Expended in FY02	(2,166,943)
Encumbered in FY02	(795,050)
Rebudgeted in FY03	$ -
Expended in FY03	(795,050)
Encumbered in FY03	-
Laws of 2001, Second Session/Chapter 64, Section B (FY01-FY04)	$ 3,000,000
Expended in FY02	-
Encumbered in FY02	(1,281,812)
Rebudgeted in FY03	$ 1,718,188
Expended in FY03	(871,639)
Encumbered in FY03	(1,206,353)
Rebudgeted in FY04	$ 922,008
Expended in FY04	(539,007)
Encumbered in FY04	(1,589,722)
Unencumbered Balance at 6/30/04	$ -
Laws of 2002,Second Session/Chapter 4, Section 7,Item 11 (FY03-FY04)	$ 2,000,000
Expended in FY03	-
Encumbered in FY03	-
Rebudgeted FY03	$ 2,000,000
Expended in FY04	-
Encumbered in FY04	(1,607,110)
Unencumbered Balance at 6/30/04	$ 392,890

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Valuation Date June 30	(1) Actuarial Value of Assets (AVA)	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded Actuarial Accrued Liability (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) Unfunded Actuarial Liability as a % of Covered Payroll (3) / (5)
1999	$5,988.5	$6,971.6	$983.1	85.9%	$1,637.5	60.0%
2000	$6,835.8	$7,460.6	$624.8	91.6%	$1,795.7	34.8%
2001	$7,418.3	$8,070.3	$652.0	91.9%	$1,819.6	35.8%
2002	$7,595.1	$8,748.0	$1,152.9	86.8%	$1,978.5	58.3%
2003	$7,518.2	$9,266.6	$1,748.4	81.1%	$2,032.5	86.0%
2004	$7,488.0	$9,927.1	$2,439.1	75.4%	$2,142.4	113.8%

Notes:
1. Dollar amounts are in millions.
2. Actuarial assumptions were changed as of June 30, 2001 and June 30, 2003.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2004
(UNAUDITED)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1999	$145,521,527	100.0%
2000	$153,260,317	100.0%
2001	$161,524,340	100.0%
2002	$173,863,363	100.0%
2003	$179,010,098	100.0%
2004	$203,937,432	92.8%

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Actuarial Methods and Significant Assumptions

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

	2004	2003
Valuation date	June 30, 2004	June 30, 2003
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level payment, open	Level payment, open
Remaining amortization period	Infinite	78.0 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	8.00%	8.00%
Projected salary increases*	4.50% to 13.00%	4.50% to 13.00%
* Includes inflation calculated at	3.00%	3.00%
Cost of living adjustments	2.00%	2.00%

COMBINING STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN COMPONENTS OF PLAN NET ASSETS
JUNE 30, 2004

	Member Contributions	Age & Service	Disability	Employer Contributions	Unreserved (Excess Earnings)	Income Accounts	Totals
Additions:							
Employer contributions	$			189,324,788			$ 189,324,788
Member contributions	162,118,792						162,118,792
Total contributions	162,118,792			189,324,788			351,443,580
Net appreciation in fair value of investments						794,213,571	794,213,571
Interest						83,351,928	83,351,928
Dividends						58,246,628	58,246,628
Securities lending income, net						1,589,861	1,589,861
Less investing activity expenses						(13,473,623)	(13,473,623)
Total net investment gain/loss						923,928,365	923,928,365
Penalties						684	684
Interest on restoration of service credit						4,200,134	4,200,134
Other							
Total additions	162,118,792			189,324,788		928,129,183	1,279,572,763
Deductions:							
Refunds to terminated members with interest	21,859,555					4,525,458	26,385,013
Administrative expenses						2,363,991	2,363,991
Depreciation expenses						219,057	219,057
Benefit payments		416,862,335	5,556,031				422,418,366
Total deductions	21,859,555	416,862,335	5,556,031			7,108,506	451,386,427
Net increase (decrease) in plan net assets	140,259,237	(416,862,335)	(5,556,031)	189,324,788		921,020,677	828,186,336
Net assets transfers in (out)	(253,383,929)	1,212,079,897	15,460,353	(689,374,590)	636,238,946	(921,020,677)	
Plan net assets, July 1, 2003	1,332,999,991	2,327,833,640	18,764,161	1,082,375,739	1,321,385,253		6,083,358,784
Plan net assets, June 30, 2004	$ 1,219,875,299	3,123,051,202	28,668,483	582,325,937	1,957,624,199		$ 6,911,545,120

SCHEDULE OF ADJUSTMENTS TO BUDGETARY BASIS
JUNE 30, 2004

Revenue GAAP Basis	$ 1,279,572,763
Net (appreciation) in investment value	(794,213,571)
Investment advisor and custody fees	13,473,623
Current year revenue not needed for budgeted expenses	(479,390,815)
Revenue (non-GAAP) budgetary basis	$ 19,442,000

Expenses GAAP basis - Administrative*	$ 2,583,048
Prior year encumbrances paid in current year	(4,603,180)
Current year encumbrances to be paid in subsequent year	10,547,203
Prior year accounts payable paid in current year	1,852,593
Current year accounts payable to be paid in subsequent year	(4,118,295)
Capital outlay including capital assets in progress	1,686,045
Depreciation expense	(219,057)
Loss on sale of capital assets	(6,630)
Investment advisor and custody fees	13,473,623
Decrease in accrued compensated absences	6,147
Reimbursement of prior year administrative expenses	543
Prior year adjustments	95,157
Expenses (non-GAAP) budgetary basis	$ 21,297,198

*Reflects budgeted expenses only

RECONCILIATION BETWEEN BUDGET DOCUMENT AND S-8 FORM
JUNE 30, 2004

	Actual Budgetary Basis	Actual S-8 Form	Difference Favorable (Unfavorable)	Notes
Revenues:				
Other state funds	$ 19,442,000	$ 18,724,700	$ 717,300	(1)
Total revenue	**$ 19,442,000**	**$ 18,724,700**	**$ 717,300**	
Expenses:				
Personal services and employee benefits	$ 2,631,704	$ 2,321,800	$ 309,904	(2)
Contractual services	17,960,955	15,708,400	2,252,555	(3)
Other costs	704,539	694,500	10,039	(4)
Operating transfers	-	-	-	
Total expenditures	**$ 21,297,198**	**$ 18,724,700**	**$ 2,572,498**	

Notes:

(1) Form S-8 total revenue submitted as equal to Form S-8 total expenditures.

(2) Pension Project Personal Services and Employee Benefits expenditures of $311.8 not included on Form S-8. Error on S-8 of $1.9 in expenditures.

(3) Pension Project Contractual Services expenditures of $97.9 and encumbrances of $2,140.7 not included on Form S-8; other encumbrances for contractual services lowered by $13.9 on Form S-8 to projected needed encumbrances.

(4) Pension Project Other Costs expenditures of $4.8 and Other Cost encumbrances lowered by $4.9 on Form S-8 to projected needed encumbrances.

SCHEDULE OF CASH AND CASH EQUIVALENTS
JUNE 30, 2004

Educational Employees' Retirement Fund
Pension Trust Account
C-FRAS Funds 605 and 629

	2004	2003
Balance shown by State Treasurer	$ 61,273,773	$ 40,739,039
Outstanding warrants	(34,875,117)	(33,644,161)
DFA balance at June 30	26,398,656	7,094,878
Adjustments to DFA balance:		
Transaction not reflected at DFA		232
Petty cash	50	45
Other cash balances:		
Northern Trust Short-term Investment Fund (STIF)	98,664,434	100,954,544
Qualified Excess Benefit Arrangement (QEBA) Trust		
Checking Account at Wells Fargo Bank (135-2107933)	4,076	18,483
Balance per financial statements*	$ 125,067,216	$ 108,068,182

	2004	2003
* Repurchase agreements included in the balance considered to be cash equivalents:		
Overnight investment - State Treasurer	$ 23,300,000	$ 4,800,000
Overnight investment - Northern Trust (STIF)	98,664,434	100,954,544
Total repurchase agreements	$ 121,964,434	$ 105,754,544

		2004	2003
Pledged collateral for Wells Fargo demand deposit account:			
Total amount on deposit at June 30, 2004		$ 4,076	$ 18,483
Less: FDIC coverage		(4,076)	(18,483)
Total uninsured public funds	$	-	$ -

Reconciliation of Revenues and Expenses from the Central Accounting System Reports to the Statement of Revenues and Expenses - Budget and Actual (Non-GAAP Basis)
For the Year Ended June 30, 2004

	Central Accounting System Actuals	Less Amounts Not Budgeted	Central Accounting System Encumbrances	Reconciling Differences	Total	Invalid Encumbrances	Actuals on Budgetary Basis
Revenue:							
Other state funds	$ 354,497,867	(335,055,867)			19,442,000		$ 19,442,000
Total revenue	$ 354,497,867	(335,055,867)			19,442,000		$ 19,442,000
Expenses:							
Personal services & employee benefits	$ 2,631,704				2,631,704		$ 2,631,704
Contractual services	7,470,985		10,489,970		17,960,955		17,960,955
Other costs	647,305		57,233		704,539		704,539
Operating transfers							
Refunds	26,605,214	(26,605,214)					
Annuity payments	422,424,168	(422,424,168)					
Total expenses	$ 459,779,376	(449,029,381)	10,547,203		21,297,198		$ 21,297,198

YEAR-END ENCUMBRANCE ANALYSIS
JUNE 30, 2004

Administrative Encumbrances	Outstanding Encumbrances Per DFA	Adjustments to DFA	Encumbrances Reversed for Accounts Payable	Balance
Personal services & employee benefits	$			$
Contractual services	11,548,931		(4,087,740)	7,461,191
Other costs	141,915	(1)	(30,554)	111,360
Operating transfers				
Total administrative encumbrances	$ 11,690,846	(1)	(4,118,295)	$ 7,572,551

ACCOUNTABILITY IN GOVERNMENT ACT - PERFORMANCE MEASURES
JUNE 30, 2004
(UNAUDITED)

Type	Description	Target	Actual	Notes
Output	Number of successful retirements occurring in a timely manner.	1,600	1,512	(1)
Quality	Percentage of member retirements computed accurately.	99.5%	99.5%	
Output	Number of benefit estimates and purchase of service requests computed annually.	4,500	5,432	(2)
Efficiency	Reduce the number of working days to respond to requests for benefits estimates and purchase of service requests.	1.5	1.5	
Outcome	Average number of working days to respond to requests for benefits estimates and purchase of services requests.	20	20	
Output	Number of member workshops conducted.	37	34	
Outcome	Percentage of member satisfaction with seminars and training events.	95%	95%	
Output	Number of refunds processed.	6,500	6,083	(3)
Outcome	Average number of working days to process refund requests.	18	18	
Output	Total net assets held in trust for pension benefits.		$6,911 billion	(4)
Outcome	Five-year ave. rate of return on investments.	8%	1.82%	(5)
Output	Percentage completion of new pension system (IRIS).	100%	75%	

Notes:

(1) The number of actual retirements was less than anticipated when the performance measure targets were developed during the prior fiscal year.

(2) The number of benefit estimates and purchase of service requests were greater than anticipated when the performance measure targets were developed during the prior fiscal year.

(3) The number of actual refunds was less than anticipated when the performance measure targets were developed during the prior fiscal year.

(4) The target number for total net assets was not available.

(5) ERB's stock market investments lost approximately $1.5 billion in market value during FY01 and FY02, thus causing the decline from the target in the five-year average rate of return. In FY03, ERB investments exceeded 15% return on its investment.

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP BASIS)
JUNE 30, 2004

	Original Budget	Final Budget	Actual Budgetary Basis	Variance - Final Budget Favorable (Unfavorable)
Revenues:				
Other state funds	$ 15,342,000	$ 19,442,000	$ 19,442,000	$
Total revenue	15,342,000	19,442,000	19,442,000	
Rebudgeted cash balance		4,035,116	4,035,116	
Total budgeted revenue	$ 15,342,000	$ 23,477,116	$ 23,477,116	$
Expenses:				
Personal services and employee benefits	$ 2,526,500	$ 2,837,981	$ 2,631,704	$ 206,277
Contractual services	12,089,900	18,534,947	17,960,955	573,993
Other costs	725,600	2,096,687	704,539	1,392,148
Operating transfers		7,500		7,500
Total expenses	$ 15,342,000	$ 23,477,116	$ 21,297,198	$ 2,179,918

Investments Section

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Educational Retirement Board
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Evalynne Hunemuller, Ed.D.
Acting Director

January 21, 2005

Members and Retirees of NM ERB:

The turnaround in the stock market that began in 2003 and continued throughout most of fiscal year 2004 contributed to a strong one-year return of 15.4%. Fund assets increased by $800 million, bringing the total on June 30, 2004 to $6.8 billion. This represented the first time since FY2000 that the Fund exceeded its actuarial assumed rate of 8%, the long-term target necessary to meet future retiree benefits. Despite the negative returns of 2001/2002, ERB's ten-year rate of return was 8.83%, significantly above this 8% target. The one-year return was also nearly twice the Fund's other objective of earning 5% above the Consumer Price Index, a measure of the Fund's ability to generate real rates of return. The ten-year annualized return also comfortably exceeded this target of 7.5%. While the one-year and ten-year results are ahead of the Fund's objectives, the intermediate term returns (three-year and five-year) show the negative effects of the prolonged market downturn. These annualized returns for the three-year and five-year periods respectively were 2.68% and 1.82%, well below the long-term objectives. These returns were prepared in accordance with the guidelines of the AIMR Performance Presentation Standard.

ERB's one-year total fund return of 15.4% was 80 basis points (0.8%) below its policy target return of 16.2%. The policy target represents the return that would have been earned by the Fund based on its target asset allocation and assuming that the investments in each separate asset class mirrored their benchmark returns. Since the Fund's asset allocation tracked very closely to its target, the underperformance was primarily the result of lower returns from some of the Fund's investment managers. The Board regularly monitors the performance of the Fund's managers, and votes to maintain or terminate managers as necessary. The Board, however, recognizes that investment performance is best evaluated over longer periods of time, representing a full market cycle.

During the fiscal year, the Board revised its asset allocation policy, continuing its efforts to fully diversify the Fund's investments, thereby lowering the long-term volatility (risk) of the Fund's returns. Two new portfolios were added to the Fixed Income arena: a high yield corporate bond portfolio and a TIPS (Treasury Inflation Protected Securities) portfolio. These portfolios were funded by reducing the core fixed income portfolio. In addition, a new 5% allocation was made to REITS (real estate investment trusts). These are publicly traded equity securities of real estate holding companies. While these are domestic equities, REITs tend to track the returns of the real estate market rather than the stock market. Funds for this portfolio were taken from the domestic equity allocation.

Investment returns for the fiscal year were exceptionally high, as the stock market rebounded from low levels. With moderate economic growth and rising interest rates, the Board and investment staff anticipate that market returns will be considerably more modest over the next few years. Earning the 8% actuarial rate may prove to be a challenge.

Sincerely,

Frank Foy
Division Director

INVESTMENTS OVERVIEW

I. Investment Objectives

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 over long periods of time with acceptable risk (volatility). In light of these dual goals, the Investment Division seeks to diversify the fund's assets for purposes of both controlling risk and enhancing return. Over the long term, the Fund's objective also is to earn the actuarial rate of return, currently set at 8%.

The primary equity goal is to build a high quality, diversified portfolio of stocks. The primary focus is on large capitalization "blue chip" stocks with further diversification achieved through allocations to small capitalization and international equities. Stock portfolios are managed in both "growth" and "value" styles to provide further diversification.

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. Fixed income investments are primarily focused on investment grade securities, with additional diversification into high yield and TIPS (Treasury Inflation Protected Securities) portfolios.

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, international, and a portion of the large cap equity assets as well as a high yield fixed income portfolio. The remainder of the fixed income assets, a portion of the large cap equity assets, and the REIT (real estate investment trust) portfolio 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 and are included in ERB's written Investment Policy.

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

Asset allocation is the single greatest determinant of Fund return and risk. Based on a study conducted by the Fund's investment consultant which considered both anticipated liabilities and expected market returns, the Board adopted a new asset allocation plan in July of

2003. The targeted allocation is shown in Exhibit A. The asset mix of the investment portfolio favors a high proportion of common stocks, as they are expected to produce higher returns over the long term. At year end equity exposure was 67% of the total portfolio, close to its 66% goal. The domestic equities are further diversified according to capitalization size and investment style, international equities are divided between established and emerging markets, and the investment grade portion of fixed income is subdivided into U.S. Treasury, mortgage, and corporate bond portfolios. A 5% allocation to REITS, which are equity securities of real estate holding companies further diversifies the Fund by giving it exposure to the real estate market.

Exhibit A
Asset Allocation Policy

Asset Class	Target Weight	Minimum	Maximum
EQUITIES			
Domestic Equities	46%	41%	51%
International Equities	20%	17%	23%
Total Equities	**66%**	61%	71%
REAL ESTATE/REITS	**5%**	3%	8%
FIXED INCOME			
High Yield Bonds	5%	3%	8%
Investment Grade Bonds	20%	17%	23%
TIPS	4%	2%	6%
Total Fixed Income	**29%**	24%	34%

INVESTMENT PERFORMANCE OVERVIEW

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. The long term approach to asset allocation requires that the Fund be periodically rebalanced by taking profits from the better performing asset classes and redeploying the cash into areas which have fallen in value. This discipline enforces a buy low/sell high philosophy during periods of market volatility and uncertainty. The equity assets have been further subdivided into several distinct segments of the market. 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, both in terms of asset class and investment style both to enhance returns and to dampen the overall volatility of Fund performance.

II. Investment Activity

During the year, investment staff was active in implementing the new asset allocation plan. At the beginning of the fiscal year a new large cap equity growth manager, Goldman Sachs, was hired to replace Putnam Investments, whose contract had expired.

Two new internally managed portfolios, TIPS and REITS, were initiated during the second fiscal quarter.

Both of these portfolios are managed in a "passive" style, so that their holdings and returns should mimic the benchmarks. In March an investment firm was selected by the Board to manage the new High Yield fixed income portfolio. Cash to fund these new asset classes was taken from existing portfolios. Exhibit B compares the old asset allocation with the new plan implemented during fiscal year 2004.

Exhibit B
Changes in Asset Allocation

Asset Class	FY2004 Target Weight	FY2003 Target Weight
EQUITIES		
Domestic Equities	46%	53%
International Equities	20%	17%
Total Equities	**66%**	**70%**
REAL ESTATE/REITS	**5%**	
FIXED INCOME		
High Yield Bonds	5%	
Investment Grade Bonds	20%	30%
TIPS	4%	
Total Fixed Income	**29%**	**30%**

III. Economic Overview

The first half of the fiscal year experienced a continuation of the stock market recovery which began in March of 2003. With the economy beginning to show firmer signs of expansion, confidence among both consumers and investors improved. Low interest rates allowed homeowners to refinance and businesses to reinvest. Inflation remained low and corporate profits expanded. The favorable economic indicators supported a wave of optimism in the capital markets. For the first six months of the fiscal year, the Standard & Poor's 500 index gained 15%, with higher returns earned by small cap stocks. Indeed, the greatest returns were realized by small or speculative stocks which had been beaten down the most during the market slump. This optimism faded during the second half, however, as employment failed to improve significantly, oil prices began to increase and the situation in Iraq became more problematic. At the same time expectations became widespread that the Federal Reserve would increase interest rates.

The latter six months of the year saw a slowdown in the stock market recovery, adding only 3% to the year's total. The bond market gained only a fraction of a percent for the year, due in large part to the expectation of rate increases. Indeed, the Federal Reserve began the first of a string of increases of June 30, 2004, the last day of the fiscal year.

IV. ERB Portfolio Performance

The domestic equity portfolio gained 20%, underperforming its target return of 21.3%. Several of the Fund's active managers did not achieve their benchmark returns, a result which was largely attributed to the speculative nature of the rebounding market. Many of the best performing stocks in the benchmark indices were companies with poor earnings prospects which nevertheless rebounded sharply from extremely low levels. With ERB's emphasis on quality stocks, the portfolios did not participate fully in this recovery phase. International stocks had a very strong year, although ERB's managers underperformed slightly. ERB's international stock composite gained 31.24% vs. the benchmark 32.6%. The strongest performing portfolio was Emerging Markets, managed by Alliance Capital, which gained 35%.

The internally managed fixed income portfolio lost 1.05% for the year, trailing its benchmark return of 0.3%. The newly added TIPS and REIT portfolios were only present for two quarters. As passive portfolios, they are expected to earn benchmark returns. The high yield portfolio was funded on March 1, 2004 and returned .12% for its one quarter of performance. The Fund as a whole earned 15.4% vs. its policy benchmark of 16.2.

INVESTMENT RATES OF RETURN

Fiscal Year Ended 6/30/04

Asset Class *Benchmark*	1 year 2004	3 year 2002-04	5 year 2000-04
Domestic Equity *Wilshire 5000*	20.08% *21.24%*	-1.00% *7.90%*	-1.40% *-1.04%*
International Equity *MSCI ACWI ex US*	31.25% *32.50%*	4.45% *5.25%*	2.54% *0.96%*
Fixed Income *Target Index**	-1.05% *0.32%*	6.13% *6.41%*	6.78% *7.03%*
TOTAL FUND *POLICY INDEX***	15.39% *16.20%*	2.68% *3.98%*	1.82% *2.71%*

* Total Fixed Income Index: 79% Lehman Aggregate, 17% Citigroup High Yield Cash Pay, 14% Lehman US TIPS

** Policy Index: 46% Wilshire 5000, 20% Lehman Aggregate, 20% MSCI ACWI Free X US Index, 5% Citigroup High Yield Cash Pay, 4% Lehman US TIPS, 5% Wilshire REITs

Calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

MARKET VALUE OF INVESTMENTS
JUNE 30, 2004

Type of Investment	Market Value (000s)	Percent of Total Fund
Domestic Equity		
Large Cap	2,776,534	40.42%
Small Cap	420,634	6.12%
Total Domestic Equity	3,197,168	46.55%
International Equity	1,377,236	20.05%
Fixed Income		
High Yield	351,159	5.11%
TIPS	262,475	3.82%
Core Fixed Income	1,278,132	18.61%
Total Fixed Income	1,891,766	27.54%
Real Estate Investment Trusts	329,456	4.80%
Cash	73,056	1.06%
Fund Total	6,868,682	100.00%

LIST OF LARGEST ASSETS HELD
JUNE 30, 2004

Ten Largest Stock Holdings

Company	Shares	Market Value
Microsoft	2,983,023	85,195,136
Pfizer	2,353,758	80,686,824
General Electric	2,019,302	65,425,384
Citigroup	1,340,134	62,316,231
Intel	2,026,552	55,932,835
Walmart Stores	1,041,689	54,959,511
Exxon Mobil	1,229,447	54,599,741
Bank America	602,931	51,020,021
Cisco Systems	1,980,275	46,932,517
Pepsico	858,167	46,238,037

Ten Largest Bond Holdings

Bond	Par Value	Market Value
US Treas 6.5% 2.15.10	50,000,000	56,344,000
Federal Natl Mtg Assn 6.0% 5/15/08	50,000,000	53,854,300
FHR 4.5% 10/15/31	50,000,000	45,905,840
Federal Natl Mtg Assn MBS65.5% 7/01/23.0% 5/15/08	44,483,986	45,064,903
FNR 3.5% 1/25/33	46,963,139	42,707,104
US Treas 9.25% 2/15/16	25,000,000	34,703,247
Federal Natl Mtg Assn 6.375% 6/15/09	30,000,000	32,812,500
FHLMC 6 month call 5.55% 2/12/16	32,900,000	32,733,526
US Treas 5.75% 8/15/10	30,000,000	32,709,300
FHLMC '04 call 5.125% 8/20/12	30,000,000	30,056,400

A complete list of portfolio holdings is available upon request.

SCHEDULE OF INVESTMENT FEES AND COMMISSIONS
FOR YEAR ENDED JUNE 30, 2004

	Investment Fees	Commissions
Domestic Fixed Income	407,638	N/A
Domestic Equities	7,547,682	3,221,419
International Equities	5,588,866	*N/A
Short Term Investment (NTR)	135,344	N/A
Total	13,679,530	3,221,419
Custodian Fees	473,868	N/A
Consultant Fees	304,675	N/A
Grand Total	**$14,458,073**	**$3,221,419**

*International equities are held in commingled funds; commissions are not reported.

Actuarial Section

GABRIEL, ROEDER, SMITH & COMPANY
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December 10, 2004

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, 2004

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, 2004.

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. Each is an Enrolled Actuary and Member of the American Academy of Actuaries, and all are experienced in performing valuations for large public retirement systems. All three meet the Qualification Standards of the American Academy of Actuaries.

To the best of our knowledge, this report is based on benefit provisions in effect as of June 30, 2004, 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 40-year period currently 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.

Progress Toward Realization of Financing Objectives

As of June 30, 2004, ERB has an infinite funding period. This is an increase from last year's funding period of 78.0 years. Therefore, if the 8.65% employer contribution rate and 7.60% member contribution rate remain in place, and all actuarial assumptions are exactly realized, including an 8.00% investment return on the actuarial value of assets, then the UAAL will never achieve complete amortization. The contribution that would be required in order to amortize the UAAL over 40 years is 10.67%. (Last year the 40-year funding rate was 9.33%.) Forty years is the maximum funding period under GASB 25, effective through FY 2006, when a GASB 25 transition period ends and the maximum amortization period becomes 30 years.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio at June 30, 2003 was 81.1%, while it is now 75.4%. Five years ago the ratio stood at 85.9%, and ten years ago the ratio was 68.3%. However, if the ratio were calculated using the market value rather than the actuarial value of assets, it would be 69.6% as of June 30, 2004. During the last fiscal year, the UAAL increased from $1,748.5 million to $2,439.1 million.

Future Expected Changes

All of the standard actuarial measurements, including the funded ratio and the funding period, are functions of the actuarial value of assets. The actuarial value of assets recognizes investment gains and losses – the positive or negative differences between the actual net investment return on market value and the expected 8.00% investment return – over a period of five years, at the rate of 20% per year. Therefore, 20% of the losses from FY 2001, 40% of the losses from FY 2002, 60% of the losses from FY 2003, and 80% of the gain in FY 2004 are not yet reflected in the actuarial measurements. As these losses and gains are recognized over the next four valuations, we expect the funded ratio to decrease further, in the absence of any changes in the benefit-and-contribution structure of ERB, and in the absence of offsetting experience gains.

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

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. The last review of these assumptions occurred following the 2002 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, 2004, 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

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

W. Michael Carter

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

WB Fornia

William B. Fornia, FSA, MAAA, EA
Senior Consultant

EXECUTIVE SUMMARY

Item	2004	2003
Membership		
• Number of		
- Active members	62,901	62,614
- Retirees and beneficiaries	24,947	24,085
- Inactive, vested	5,955	5,391
- Inactive, nonvested	17,672	15,686
- Total	111,475	107,776
• Payroll	$2,142.4 million	$2,032.5 million
Statutory contribution rates		
• Employer	8.65%	8.65%
• Member	7.60%	7.60%
Assets		
• Market value	$6,911.5 million	$6,083.4 million
• Actuarial value	$7,488.0 million	$7,518.2 million
• Return on market value	15.3%	2.7%
• Return on actuarial value	0.8%	0.1%
• Employer contributions	$189.3 million	$179.1 million
• External cash flow %	-1.4%	-1.5%
• Ratio of actuarial to market value	108.3%	123.6%
Actuarial Information		
• Normal cost %	12.92%	12.92%
• Unfunded actuarial accrued liability (UAAL)	$2,439.1 million	$1,748.5 million
• Funded ratio	75.4%	81.1%
• Funding period (years)	Infinite	78.0
• GASB Annual Required Contribution	10.67%	9.33%
Gains/(losses)		
• Asset experience	$(534.7) million	$(594.6) million
• Liability experience	(97.7) million	81.8 million
• Benefit changes	N/A	N/A
• Assumption/method changes	-	(65.7) million
• Total	$(632.4) million	$(578.5) 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 actuarial present value of future benefits is determined for the present members, including retired members, beneficiaries, inactive members and active members. This amounts to $11,883.0 million, as shown on Table 3.

- 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 $9,927.1 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 12.92% 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 5.32% to be funded by the employers. I.e., the current year's employer normal cost is 5.32% of payroll. This is shown in Line 3 of Table 1.

- The unfunded actuarial accrued liability (UAAL) is 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 $2,439.1 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 5.32%, the difference of 3.33% 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 3.75% per year, and that the contributions are made as required. As shown in line 10 on Table 1, the current employer rate is not sufficient to amortize the UAAL over any period.

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 $139.9 million for imputed interest and decreased by $81.7 million because of payments made. This means that the UAAL was expected to increase $58.2 million before recognizing plan experience. The UAAL as of June 30, 2003 was $1,748.5 million, and the expected UAAL at June 30, 2004, recognizing actual contributions made, was $1,806.7 million.

The plan experienced a liability gain of $97.7 million. This gain represents 1.0% of the total actuarial accrued liability.

There was an actuarial loss on investments of $534.7 million. The investment loss resulted from the fact that the return on the actuarial value of assets, 0.8%, was less than the 8.00% assumed investment return rate. This loss was the result of recognizing an additional 20% of the losses from FY 2001, FY 2002, and FY 2003, as well as recognizing 20% of the actuarial investment loss from FY 2004. The market rate of return in FY 2004 was 15.3%.

There were no material benefit changes adopted since last actuarial valuation, and there were not changes made to the actuarial assumptions and methods.

As a result of all the experience, the UAAL increased from $1,748.6 million to $2,439.1 million, and the funding period increased from 78.0 years to infinite.

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 employer normal cost, plus a 40-year amortization of the UAAL. Beginning in the fiscal year ending June 30, 2007, the maximum amortization period will decrease from 40 years to 30 years.

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 few years from 1992 to 2001, with the best funded ratio in 2001, 91.9%, then it decreased to 86.8% as of 2002, 81.1% as of 2003, and 75.4% as of 2004.

Table 6b shows an eight-year comparison of the employer contributions actually received with the GASB 25 ARC. Note that this shows that 92.8% of the ARC was contributed during FY 2004, since the 8.65% employer contribution rate is less than the 40-year contribution calculated in last year's valuation (9.33%). For FY 2005, the financial reports prepared for ERB will show that only 81% of the ARC was contributed for FY 2005. This is because the 8.65% statutory rate is less than the calculated 40-year contribution rate of 10.67%.

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 at June 30, 1998, June 30, 2001 and June 30, 2003.

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. Appendix 2 summarizes the current assumptions.

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.

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 71% of the assets are now held in equities, compared to 68% last year and 66% 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 years. 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 108% of the market value. Over time, we would expect the actuarial value to trend back towards the market value, so this disparity should shrink in the future.

Table 11a shows the investment return rate for FY 2004 on market value was 15.3%, while it was 0.8% on actuarial value. 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, 1.4% 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 includes sex, birthdate, service, salary paid in the prior year, and accumulated contributions. Data for inactive, nonretired members was similar, but includes the member's accrued benefit as well. For retired members, data includes 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 0.5% since last year, from 62,614 to 62,901. 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 2004-2005 school year.

Total payroll increased 5.4% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2003-04 member pay). However, this figure is increased by one year's pay increase to determine the member's rate of pay at July 1, 2004. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 4.9% since last year. Average pay for members active in both this valuation and the last year's valuation increased 5.8%. The difference between these two figures is due to the effect of retirements and terminations, and their replacement by new members who generally earn less.

ACTUARIAL INFORMATION

		July 1, 2004 (1)	July 1, 2003 (2)
1.	Payroll		
	a. Supplied by System (annualized)	$ 2,142,449,003	$ 2,032,479,090
	b. Adjusted for one-year's pay increase	2,272,843,401	2,144,882,038
2.	Actuarial present value of future pay	$ 15,138,981,263	$ 14,530,195,684
3.	Normal cost rate (payable monthly)		
	a. Total normal cost rate	12.92%	12.92%
	b. Less: member contribution rate	(7.60%)	(7.60%)
	c. Employer normal cost rate	5.32%	5.32%
4.	Employer normal cost (Item 3c * Item 1b)	$ 120,915,269	$ 114,107,724
5.	Actuarial accrued liability for active members		
	a. Actuarial present value of future benefits	$ 7,121,535,646	$ 6,729,619,109
	b. Less: actuarial present value of future normal costs (Item 3a * Item 2)	(1,955,956,379)	(1,877,301,282)
	c. Actuarial accrued liability	$ 5,165,579,267	$ 4,852,317,827
6.	Total actuarial accrued liability for:		
	a. Retirees and beneficiaries	$ 4,523,337,929	$ 4,220,117,566
	b. Inactive members	238,141,371	194,191,579
	c. Active members (Item 5c)	5,165,579,267	4,852,317,827
	d. Total	$ 9,927,058,567	$ 9,266,626,972
7.	Actuarial value of assets	$ 7,487,979,776	$ 7,518,163,450
8.	Unfunded actuarial accrued liability (UAAL) (Item 6d - Item 7)	$ 2,439,078,791	$ 1,748,463,522
9.	Amortization payment		
	a. Employer contribution rate	8.65%	8.65%
	b. Less: Employer normal cost rate (Item 3c)	(5.32%)	(5.32%)
	c. Amortization rate	3.33%	3.33%
	d. Amortization contribution (Item 9c * Item 1b)	$ 75,685,685	$ 71,424,572
	e. Expected ARP contribution	3,572,483	3,563,732
	d. Total	$ 79,258,168	$ 74,988,304
10.	Funding period based on current 8.65% employer contribution requirement, with payments increasing at assumed payroll growth rate	Infinite	78.0 years

TABLE 1

ANALYSIS OF CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

Basis (1)		June 30, 2004 (2)		June 30, 2003 (3)
1. UAAL at prior valuation	$	1,748.5	$	1,152.8
2. Increases/(decreases) due to:				
a. Interest on UAAL		139.9		92.2
b. Amortization payments[1]		(81.7)		(75.0)
c. Liability experience		97.7		(81.8)
d. Asset experience		534.7		594.6
e. Changes in actuarial assumptions and methods				65.7
f. Benefit change		N/A		N/A
g. Total	$	690.6	$	595.7
3. Current UAAL (1+2g)	$	2,439.1	$	1,748.5

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, 2004 (1)	June 30, 2003 (2)
1. Active members		
a. Service retirement benefits	$ 6,411,154,258	$ 6,052,112,822
b. Refunds and deferred termination benefits	565,759,362	538,887,830
c. Survivor benefits	65,938,957	62,588,330
d. Disability retirement benefits	78,683,069	76,030,127
e. Total	$ 7,121,535,646	$ 6,729,619,109
2. Retired members		
a. Service retirement	$ 4,269,279,686	$ 3,989,973,067
b. Disability retirement	49,771,460	45,439,515
c. Beneficiaries	204,286,783	184,704,984
d. Total	$ 4,523,337,929	$ 4,220,117,566
3. Inactive members		
a. Vested terminations	$ 185,665,710	$ 148,674,141
b. Nonvested terminations	52,475,661	45,517,438
c. Total	$ 238,141,371	$ 194,191,579
4. Total actuarial present value of future benefits	$ 11,883,014,946	$ 11,143,928,254

TABLE 3

ANALYSIS OF NORMAL COST

	June 30, 2004 (1)	June 30, 2003 (2)
1. Gross normal cost rate (payable monthly)		
a. Service retirement benefits	8.94%	8.94%
b. Refunds and deferred termination benefits	3.71%	3.71%
c. Disability retirement benefits	0.16%	0.16%
d. Survivor benefits	0.11%	0.11%
e. Total	12.92%	12.92%
2. Less: member contribution rate	(7.60%)	(7.60%)
3. Employer normal cost rate	5.32%	5.32%

TABLE 4

CALCULATION OF GASB 25 ARC AS PERCENT OF PAYROLL (FOR FOLLOWING FISCAL YEAR)

	June 30, 2004 (1)	June 30, 2003 (2)
1. Long term GASB 25 funding period (years)	40	40
2. Amortization contribution percentage		
a. Amortization payment	$ 125,233,671	$ 89,656,069
b. Less: expected payment for ARP members	3,572,483	3,563,732
c. Net (a-b)	$ 121,661,189	$ 86,092,337
d. Expected payroll	2,272,843,401	2,144,882,038
e. Amortization contribution percentage (c/d)	5.35%	4.01%
3. GASB 25 Annual Required Contribution		
a. Employer normal cost rate	5.32%	5.32%
b. Amortization percentage	5.35%	4.01%
c. Total	10.67%	9.33%
d. Statutory rate	8.65%	8.65%
e. ARC (max of (c,d))	10.67%	9.33%

TABLE 5A

ACTUAL CONTRIBUTIONS AS PERCENTAGE OF GASB 25 ARC
FOR YEAR ENDING 06/30/2004

1.	Actual contributions	
	a. On behalf of ERB members	$ 185,881,431
	b. On behalf of ARP members	3,443,357
	c. Total	$ 189,324,788
2.	Statutory employer contribution rate	8.65%
3.	Imputed fiscal year payroll for ERB members (Item 1a / Item 2)	$ 2,148,918,277
4.	GASB 25 Annual Required Contribution	
	a. Required GASB 25 employer contribution for ERB members as percent of payroll	9.33%
	b. Required GASB 25 employer contribution for ERB members (Item 4a * Item 3)	$ 200,494,075
	c. GASB 25 ARC (Item 4b + Item 1b)	$ 203,937,432
5.	Percentage of ARC contributed (Item 1c / Item 4c)	92.8%

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)	Accrued Liability (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as % of Payroll (4)/(6) (7)
June 30, 1992	$2,549.8	$3,912.7	$1,362.9	65.2%	$1,150.4	118.5%
June 30, 1993	2,798.2	4,207.7	1,409.5	66.5%	1,191.0	118.3%
June 30, 1994	3,180.1	4,657.7	1,477.6	68.3%	1,258.7	117.4%
June 30, 1995	3,561.8	5,079.6	1,517.8	70.1%	1,356.5	111.9%
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%
June 30, 2002	7,595.1	8,748.0	1,152.8	86.8%	1,978.5	58.3%
June 30, 2003	7,518.2	9,266.6	1,748.5	81.1%	2,032.5	86.0%
June 30, 2004	7,488.0	9,927.1	2,439.1	75.4%	2,142.4	113.8%

Note : Dollar amounts in millions

TABLE 6A

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(AS REQUIRED BY GASB #25)

Fiscal Year	Annual Required Contribution	Percentage Contributed
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%
2002	$173,863,363	100.0%
2003	$179,132,226	100.0%
2004	$203,937,432	92.8%

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, 2004
Actuarial cost method	Entry Age Normal
Amortization method	Level payment, open
Amortization period for GASB 25 ARC***	40
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%

** The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the employer normal cost plus a 40-year amortization of the UAAL, and (b) the 8.65% statutory employer contribution rate, plus the 3.00% contribution on behalf of ARP members. The 40-year amortization period applies through FY 2006, after which it will be 30 years.

TABLE 6C

MEMBERSHIP DATA

		June 30, 2004 (1)	June 30, 2003 (2)
1.	Active members		
	a. Number	62,901	62,614
	b. Total payroll supplied by System (annualized)	$ 2,142,449,003	$ 2,032,479,090
	c. Average salary	$ 34,061	$ 32,460
	d. Average age	45.6	45.3
	e. Average service	9.4	9.3
2.	Vested inactive members (excluding pending refunds)		
	a. Number	5,955	5,391
	b. Total annual deferred benefits	$ 33,933,907	$ 30,708,547
	c. Average annual deferred benefit	$ 5,698	$ 5,696
3.	Nonvested inactive members and vested pending refunds		
	a. Number	17,672	15,686
	b. Employee assessments with interest due	$ 52,475,661	$ 45,517,438
	c. Average refund due	$ 2,969	$ 2,902
4.	Service retirees		
	a. Number	22,363	21,620
	b. Total annual benefits	$ 397,132,017	$ 372,397,610
	c. Average annual benefit	$ 17,758	$ 17,225
5.	Disabled retirees		
	a. Number	629	598
	b. Total annual benefits	$ 5,197,543	$ 4,745,450
	c. Average annual benefit	$ 8,263	$ 7,936
6.	Beneficiaries		
	a. Number	1,955	1,867
	b. Total annual benefits	$ 22,823,021	$ 20,638,204
	c. Average annual benefit	$ 11,674	$ 11,054

Note: Retirement benefits include impact of July 1 cost-of-living increases.

TABLE 7A

HISTORICAL SUMMARY OF ACTIVE MEMBER DATA

Year Ending June 30,	Active Members		Covered Payroll		Average Salary		Average Age	Average Service
	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase		
(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
2002	61,091	1.6%	1,979	8.7%	32,387	7.1%	45.2	9.3
2003	62,614	2.5%	2,032	2.7%	32,460	0.2%	45.3	9.3
2004	62,901	0.5%	2,142	5.4%	34,061	4.9%	45.6	9.4

TABLE 7B

Plan Net Assets
(Assets at Market or Fair Value)

Item	Valuation as of June 30, 2004	June 30, 2003
(1)	(2)	(3)
1. Cash and cash equivalents	$ 125,067,216	$ 108,068,182
2. Receivables:		
a. Contributions	$ 44,905,427	$ 42,951,929
b. Investment income	26,692,162	21,154,666
c. Investment sales proceeds - brokers	10,281,258	7,090,361
d. Other	6,161	2,528
e. Total receivables	$ 81,885,008	$ 71,199,484
3. Investments		
a. U.S. treasury securities	$ 518,020,368	$ 383,767,250
b. U.S. government agencies	595,268,285	979,434,779
c. Domestic corporate bonds	740,380,071	470,180,574
d. Domestic equities	3,495,689,676	3,199,553,289
e. International equities	1,376,704,172	930,026,908
f. Total investments	$ 6,726,062,572	$ 5,962,962,800
4. Invested securities lending collateral	$ 866,864,808	$ 710,907,101
5. Properties : land, building, furniture and equipment (at cost, less accumulated depreciation)	$ 5,094,285	$ 3,633,927
6. Total assets	$ 7,804,973,889	$ 6,856,771,494
7. Liabilities		
a. Accounts payable	$ 4,255,759	$ 1,943,065
b. Accrued expenses	208,941	192,768
c. Refunds payable	2,198,038	2,308,415
d. Investment purchases payable - brokers	19,226,642	57,809,285
e. Due to other funds	674,581	252,076
f. Securities lending collateral	866,864,808	710,907,101
g. Total liabilities	$ 893,428,769	$ 773,412,710
8. Total market value of assets available for benefits (Item 6 - Item 7)	$ 6,911,545,120	$ 6,083,358,784

Table 8A

ALLOCATION OF CASH AND INVESTMENTS

		June 30, 2004	June 30, 2003
1.	Cash and short-term equivalents	1.8%	1.8%
2.	U.S. treasury securities	7.6%	6.3%
3.	U.S. government agencies	8.7%	16.1%
4.	Domestic corporate bonds	10.8%	7.7%
5.	Domestic equities	51.0%	52.8%
6.	International equities	20.1%	15.3%
7.	Total investments	100.0%	100.0%

TABLE 8B

RECONCILIATION OF PLAN NET ASSETS

	Year Ending June 30, 2004 (1)	Year Ending June 30, 2003 (2)
1. Value of assets at beginning of year		
a. Value reported in prior valuation	$ 6,083,358,784	$ 6,011,150,752
b. Prior period adjustments	-	2,083,048[1]
c. Revised value	$ 6,083,358,784	$ 6,013,233,800
2. Revenue for the year		
a. Contributions		
i. Member contributions (including redeposits and service purchases)	$ 166,318,926	$ 158,770,180
ii. Employer contributions	185,881,431	175,697,304
iii. Employer contributions for ARP members	3,443,357	3,434,922
iv. Total	$ 355,643,714	$ 337,902,406
b. Income		
i. Interest, dividends, and other income	$ 143,189,101	$ 151,395,127
ii. Investment expenses	(13,473,623)	(6,621,136)
iii. Net	$ 129,715,478	$ 144,773,991
c. Net realized and unrealized gains	$ 794,213,571	$ 16,156,143
d. Total revenue	$ 1,279,572,763	$ 498,832,540
3. Expenditures for the year		
a. Refunds	$ 26,385,013	$ 28,338,456
b. Benefit payments	422,418,366	396,081,755
c. Administrative and miscellaneous expenses	2,583,048	4,287,345
d. Total expenditures	$ 451,386,427	$ 428,707,556
4. Increase in net assets (Item 2 - Item 3)	$ 828,186,336	$ 70,124,984
5. Value of assets at end of year (Item 1 + Item 4)	$ 6,911,545,120	$ 6,083,358,784

[1] Sum of (i) $2,205,176 in expenses capitalized after completion of June 30, 2002 actuarial valuation and (ii) ($122,128) prior period adjustment

TABLE 9

Determination of Excess Earnings to be Deferred

Year ended:	June 30, 2001 (1)	June 30, 2002 (2)	June 30, 2003 (3)	June 30, 2004 (4)
1. MVA at beginning of year	$ 7,567,525,248	$ 6,667,001,941	$ 6,011,150,752	$6,083,358,784
2. Net new investments				
a. Contributions	$ 315,244,141	$ 328,593,452	$ 337,902,406	$ 355,643,714
b. Benefits and refunds paid	(377,229,591)	(396,002,905)	(424,420,211)	(448,803,379)
c. Subtotal	$ (61,985,450)	$ (67,409,453)	$ (86,517,805)	$ (93,159,665)
3. MVA at end of year	$ 6,667,001,941	$ 6,011,150,752	$6,083,358,784	$6,911,545,120
4. Net MVA earnings (3 - 1 - 2)	$ (838,537,857)	$ (588,441,736)	$ 158,725,837	$ 921,346,001
5. Assumed investment return rate	8.00%	8.00%	8.00%	8.00%
6. Expected return	$ 602,922,602	$ 530,663,777	$ 477,431,348	$ 482,942,316
7. Excess return (4 - 6)	$(1,441,460,459)	$(1,119,105,513)	$ (318,705,511)	$ 438,403,685
8. Excess return deferral percent	20%	40%	60%	80%
9. Amount deferred	$ (288,292,092)	$ (447,642,205)	$ (191,223,307)	$ 350,722,948

Note : MVA is market value of assets.

Table 10a

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

1.	Market value of assets as of valuation	$	6,911,545,120
2.	Deferred amounts for fiscal year ending June 30,		
	a. 2004	$	350,722,948
	b. 2003	$	(191,223,307)
	c. 2002	$	(447,642,205)
	d. 2001	$	(288,292,092)
	e. Total	$	(576,434,656)
3.	Actuarial value of assets (1) - (2)	$	7,487,979,776
4.	Actuarial value as percent of market value		108.3%

TABLE 10B

ESTIMATION OF YIELDS

	Year Ending June 30, 2004 (1)	Year Ending June 30, 2003 (2)
A. Market value yield		
1. Beginning of year market assets	$ 6,083,358,784	$ 6,011,150,752
2. Investment income (including realized and unrealized gains and losses)	$ 923,929,049	$ 163,013,182
3. End of year market assets	$ 6,911,545,120	$ 6,083,358,784
4. Estimated dollar weighted market value yield	15.3%	2.7%
B. Actuarial value yield		
1. Beginning of year actuarial assets	$ 7,518,163,450	$ 7,595,149,744
2. Actuarial return	$ 62,975,991	$ 9,531,511
3. End of year actuarial assets	$ 7,487,979,776	$ 7,518,163,450
4. Estimated actuarial value yield	0.8%	0.1%

TABLE 11A

HISTORY OF INVESTMENT RETURN RATES

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%
2002	-8.8%	3.3%
2003	2.7%	0.1%
2004	15.3%	0.8%

TABLE 11B

Investment Experience Gain or Loss

Item (1)	June 30, 2004 (2)	June 30, 2003 (3)
1. Actuarial assets, beginning of year	$ 7,518,163,450	$ 7,595,149,744
2. Total contributions during year	$ 355,643,714	$ 337,902,406
3. Benefits and refunds paid	$ (448,803,379)	$ (424,420,211)
4. Assumed net investment income at 8%		
a. Beginning of year assets	$ 601,453,076	$ 607,611,980
b. Contributions	14,225,749	13,516,096
c. Benefits and refunds paid	(17,952,135)	(16,976,808)
d. Total	$ 597,726,690	$ 604,151,268
5. Expected actuarial assets, end of year (Sum of items 1 through 4)	$ 8,022,730,475	$ 8,112,783,207
6. Actual actuarial assets, end of year	$ 7,487,979,776	$ 7,518,163,450
7. Asset gain (loss) for year (Item 6 - Item 5)	$ (534,750,699)	$ (594,619,757)

Table 12a

TOTAL EXPERIENCE GAIN OR LOSS

Item (1)	June 30, 2004 (2)	June 30, 2003 (3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	$ 1,748,463,522	$ 1,152,821,656
2. Normal cost for the previous year	$ 277,118,760	$ 265,666,258
3. Less: contributions for the year	$ (355,643,714)	$ (337,902,406)
4. Interest at 8 %		
a. On UAAL	$ 139,877,082	$ 92,225,732
b. On normal cost	11,084,750	10,626,650
c. On contributions	(14,225,749)	(13,516,096)
d. Total	$ 136,736,083	$ 89,336,286
5. Expected UAAL (Sum of Items 1 - 4)	$ 1,806,674,651	$ 1,169,921,794
6. Actual UAAL	$ 2,439,078,791	$ 1,748,463,522
7. Total gain (loss) for the year (Item 5 - Item 6)	$ (632,404,140)	$ (578,541,728)
B. Source of gains and losses		
8. Asset gain (loss) for the year	$ (534,750,699)	$ (594,619,757)
9. Liability experience gain (loss) for the year	$ (97,653,441)	$ 81,756,424
10. Assumption change	$	(65,678,395)
11. Benefit change	N/A	N/A
12. Total	$ (632,404,140)	$ (578,541,728)

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)
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%
2002	328.6	(367.5)	(28.5)	(5.8)	0.0	(401.8)	(73.2)	6,011.2	-1.2%
2003	337.9	(396.1)	(28.3)	(4.3)	0.0	(428.7)	(90.8)	6,083.4	-1.5%
2004	355.6	(422.4)	(26.4)	(2.6)	0.0	(451.4)	(95.8)	6,911.5	-1.4%

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, 2004 (1)	June 30, 2003 (2)
1. Actuarial accrued liability (AAL)		
a. Active member contributions	$ 1,880,263,185	$ 1,144,836,500
b. Retirees and beneficiaries	4,523,337,929	4,220,117,566
c. Active and inactive members (employer financed)	3,523,457,453	3,901,672,906
d. Total	$ 9,927,058,567	$ 9,266,626,972
2. Actuarial value of assets	$ 7,487,979,776	$ 7,518,163,450
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)	31%	55%

TABLE 14

HISTORICAL RETIRED PARTICIPANTSÍ DATA

Year Ending June 30, (1)	Number (2)	Average Monthly Benefit (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
2002	23,052	1,315
2003	24,085	1,376
2004	24,947	1,420

Note: Retirement benefits include impact of July 1 cost-of-living increases.

TABLE 15

DISTRIBUTION OF ACTIVE MEMBERS BY AGE AND BY YEARS OF SERVICE AS OF 06/30/2004

TABLE 16

Years of Credited Service

Attained Age	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.	15-19 Count & Avg. Comp.	20-24 Count & Avg. Comp.	25-29 Count & Avg. Comp.	30-34 Count & Avg. Comp	35/Over Count & Avg. Comp.	Total Count & Avg. Comp.
Under 25	494	512	181	92	33	14	0	0	0	0	0	0	1,326
	$16,500	$19,221	$18,810	$16,073	$16,149	$18,307	$0	$0	$0	$0	$0	$0	$17,847
25-29	551	951	846	590	446	509	7	0	0	0	0	0	3,900
	$26,513	$26,153	$27,598	$27,819	$28,456	$28,175	$24,436	$0	$0	$0	$0	$0	$27,294
30-34	547	866	749	674	589	1,966	309	2	0	0	0	0	5,702
	$30,014	$24,936	$25,909	$27,679	$29,454	$32,440	$32,074	$22,256	$0	$0	$0	$0	$29,315
35-39	1,118	1,161	798	628	581	2,073	1,219	236	7	0	0	0	7,821
	$27,444	$24,651	$25,522	$26,860	$27,575	$30,985	$36,218	$36,182	$26,020	$0	$0	$0	$29,365
40-44	471	767	723	678	648	2,410	1,636	1,055	297	17	0	0	8,702
	$29,840	$24,389	$25,231	$25,813	$27,152	$30,063	$35,276	$40,225	$40,322	$30,091	$0	$0	$31,164
45-49	418	709	678	612	661	2,548	1,992	1,383	1,145	412	10	0	10,568
	$27,810	$25,275	$26,493	$26,497	$27,259	$30,548	$37,224	$41,560	$47,569	$46,018	$39,588	$0	$34,541
50-54	325	583	541	564	502	2,195	2,063	1,742	1,308	1,079	274	0	11,176
	$32,382	$28,850	$29,774	$30,139	$29,812	$33,510	$36,846	$42,238	$48,887	$52,205	$53,602	$0	$38,791
55-59	240	392	407	389	352	1,473	1,405	1,476	1,055	777	429	42	8,437
	$36,323	$30,709	$31,508	$31,670	$31,283	$33,779	$36,992	$42,178	$49,295	$52,723	$57,390	$66,023	$40,448
60-64	102	193	165	175	154	673	655	623	431	382	201	75	3,829
	$44,478	$30,554	$30,694	$33,279	$29,063	$33,303	$35,662	$42,045	$45,266	$51,957	$63,449	$66,464	$40,444
65 & Over	61	82	64	86	67	306	250	175	117	97	73	62	1,440
	$34,210	$24,928	$20,007	$22,998	$29,856	$27,263	$30,217	$35,584	$42,644	$45,333	$58,136	$72,965	$34,492
Total	4,327	6,216	5,152	4,488	4,033	14,167	9,536	6,692	4,360	2,764	987	179	62,901
	$28,064	$25,475	$26,787	$27,686	$28,430	$31,549	$36,178	$41,356	$47,494	$51,017	$57,447	$68,612	$34,061

Statistical Section

PARTICIPATING EMPLOYERS
JUNE 30, 2004

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

CHARTER SCHOOLS
Academy for Technology and the Classics
Amistad Elementary
Amy Biehl High School
Anansi
Bridge Academy
Cottonwood Valley
East Mountain High School
Horizon Academy
Jefferson Montessori Academy
La Academia de Esperanza
La Academia de Lengua y Cultura
Lacy Simms
Learning Community
Los Puentes
Monte del Sol
Moreno Valley
Nuestros Valores
Paseo del Monte
Public Academy for Performing Arts
Red River Valley
Robert F. Kennedy
Roots and Wings
San Diego Riverside
Sidney Gutierrez
South Valley Academy
Southwest Secondary Learning Center
Taos Municipal
Turquoise Trail
Twenty-First Century
Walatowa

SPECIAL SCHOOLS
NM Boys School
NM Military Institute
NM School for the Deaf
NM School for the Visually Handicapped
Youth Diagnostic Center
University Hospital

COLLEGES AND UNIVERSITIES
Albuquerque TVI
Clovis Community College
Eastern NM University (Portales)
Eastern NM University (Roswell)
Luna Community College
Mesalands Community College
NM Highlands University
NM Junior College
NM State University
NM Institute of Mining & Technology
Northern NM Community College
San Juan College
Santa Fe Community College
University of New Mexico
Western NM University

STATE AGENCIES
Central Regional Education Coop
High Plains Regional Education Coop
Regional Education Coop #7
Northeast Rec
Pecos Valley Rec #8
Regional Educational Center #6
Region IX Educational Coop
Southwest Rec #10
NM Activities Association
NM Department of Corrections
NM Department of Education
NM Department of Health
NM Department of Vocational Rehabilitation
NM Educational Retirement Board

GROWTH OF RETIRED PARTICIPANTS

Year Ending June 30 (1)	Number of Retirees (2)	All Retirees Average Monthly Benefit (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
2002	23,052	1,315
2003	24,085	1,376
2004	24,947	1,420

HISTORY OF CONTRIBUTION RATES

Fiscal Year Beginning July 1 (1)	Employee Rate % (2)	Employer Rate % (3)	Total Rate % (4)
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
2002	7.60	8.65	16.25
2003	7.60	8.65	16.25
2004	7.60	8.65	16.25

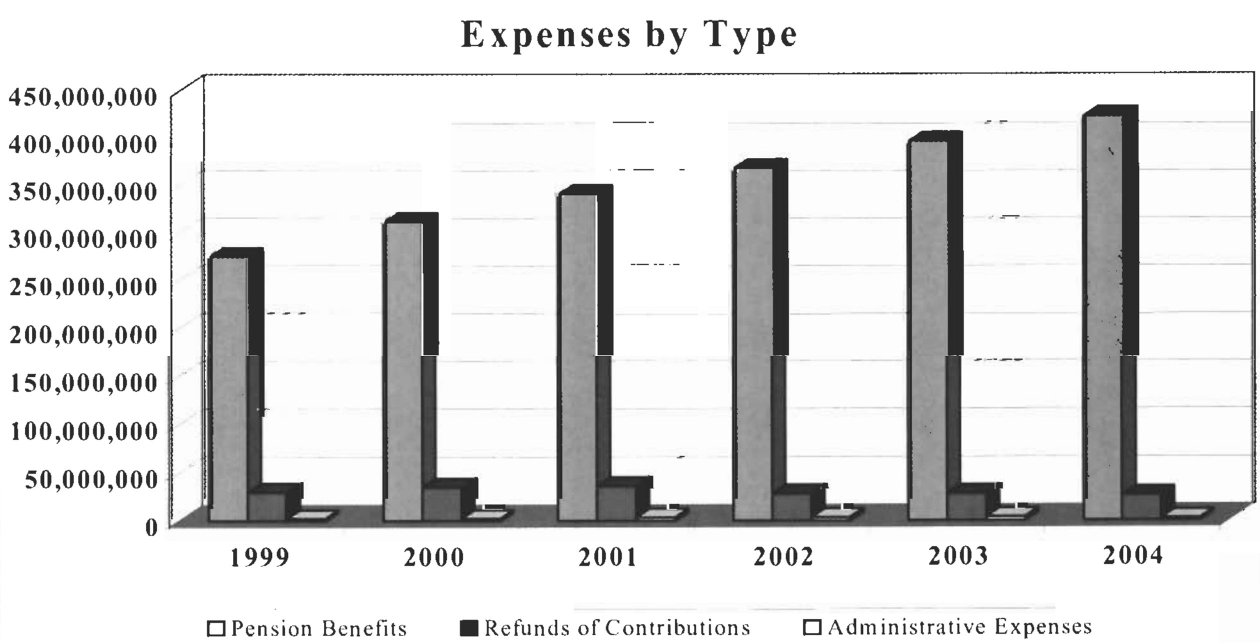
MEMBERSHIP DATA

		June 30, 2004 (1)	June 30, 2003 (2)
1.	**Active members**		
a.	Number	62,901	62,614
b.	Total payroll supplied by System (annualized)	$2,142,449,003	$2,032,479,090
c.	Average salary	$ 34,061	$ 32,460
d.	Average age	45.6	45.3
e.	Average service	9.4	9.3
2.	**Vested inactive members** (excluding pending refunds)		
a.	Number	5,955	5,391
b.	Total annual deferred benefits	$ 33,933,907	$ 30,708,547
c.	Average annual deferred benefit	$ 5,955	$ 5,696
3.	**Nonvested inactive members and vested pending refunds**		
a.	Number	17,672	15,686
b.	Employee assessments with interest due	$ 52,475,661	$ 45,517,438
c.	Average refund due	$ 2,969	$ 2,902
4.	**Service retirees**		
a.	Number	22,363	21,620
b.	Total annual benefits	$ 397,132,017	$ 372,397,610
c.	Average annual benefit	$ 17,758	$ $17,225
5.	**Disabled retirees**		
a.	Number	629	598
b.	Total annual benefits	$ 5,197,543	$ 4,745,450
c.	Average annual benefit	$ 8,263	$ 7,936
6.	**Beneficiaries**		
a.	Number	1,955	1,867
b.	Total annual benefits	$ 22,823,021	$ 20,638,204
c.	Average annual benefit	$ 11,674	$ 11,054

Note: Retirement benefits include impact of July 1 cost-of-living increases.

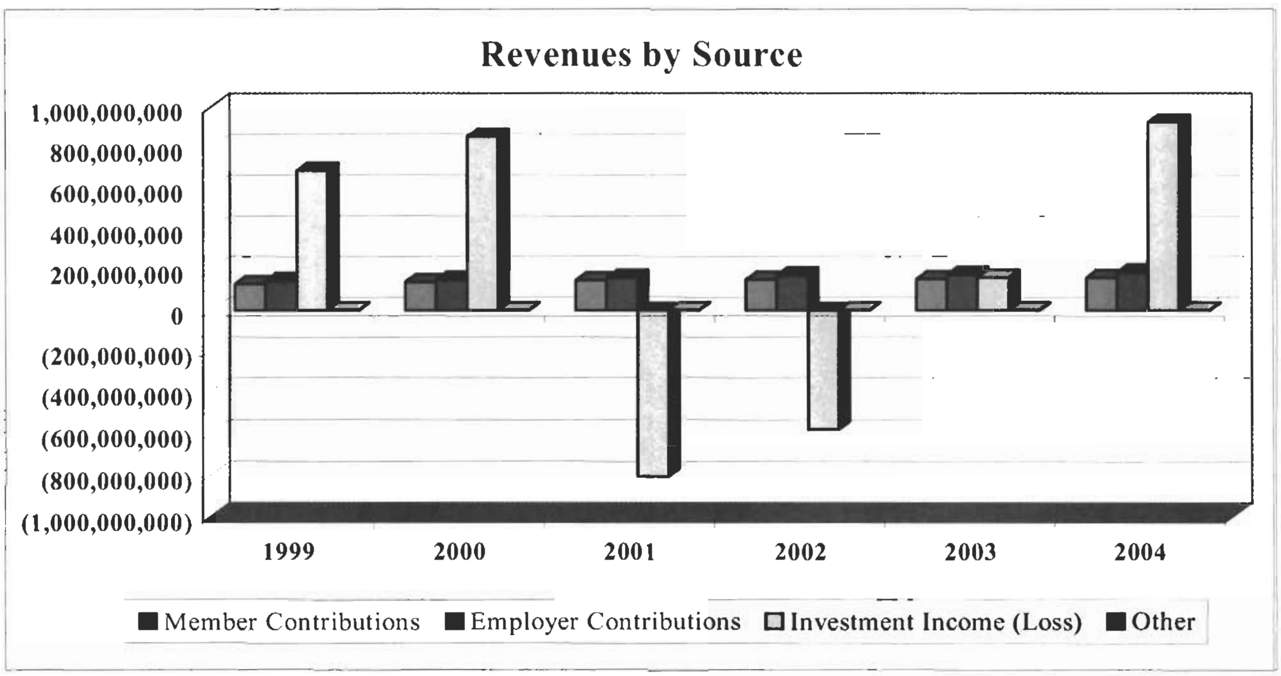
SCHEDULE OF EXPENSES BY TYPE

Year Ended June 30	Pension Benefits	Refunds of Contributions	Administrative Expenses	Total
1999	274,835,971	29,954,686	2,666,293	307,456,950
2000	311,813,766	35,152,631	2,543,933	349,510,330
2001	340,595,679	36,633,912	3,517,803	380,747,394
2002	367,494,870	28,508,035	3,622,362	399,625,267
2003	396,081,755	28,338,456	4,287,345	428,707,556
2004	422,418,366	26,385,013	2,583,048	451,386,427



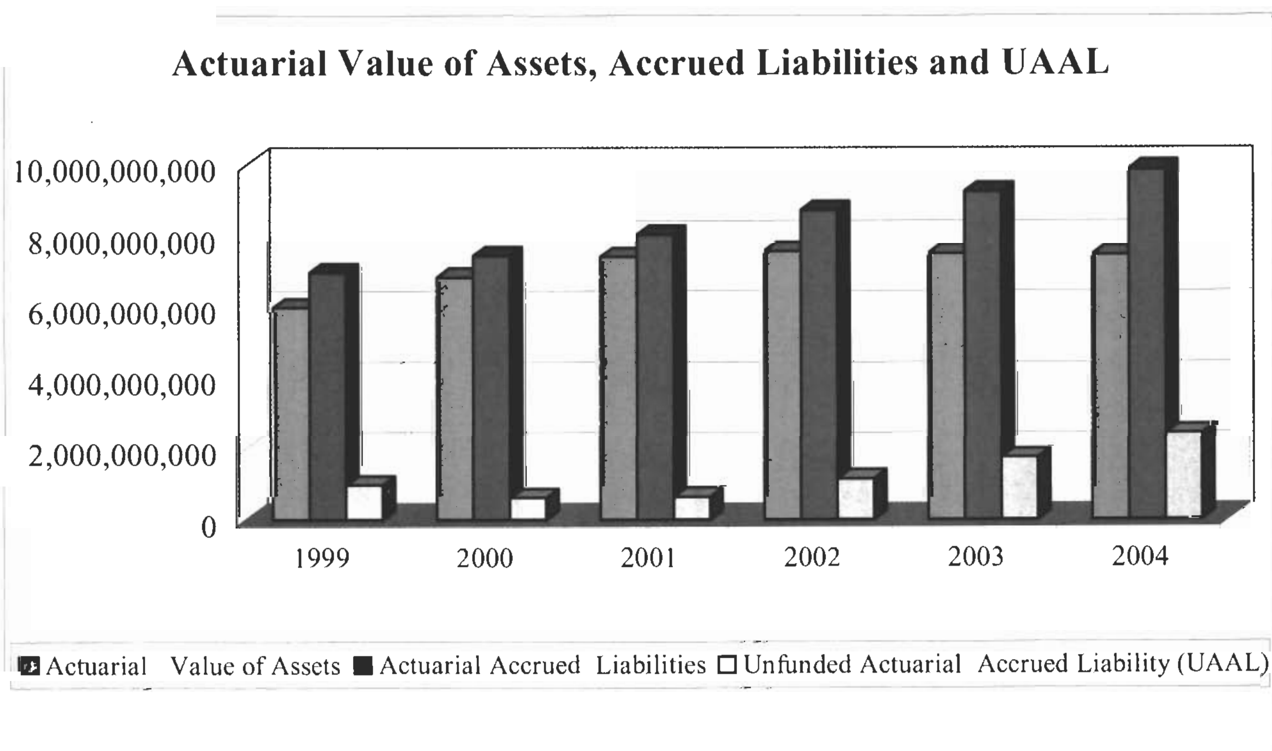
SCHEDULE OF REVENUES BY SOURCE

Year Ended June 30	Member Contributions	Employer Contributions	Investment Income (Loss)	Other	Total
1999	130,644,557	145,521,527	686,772,191	2,849,376	965,787,651
2000	139,179,503	153,260,317	853,377,794	3,484,423	1,149,302,037
2001	150,068,398	161,524,340	(807,706,751)	3,689,430	(492,424,583)
2002	151,378,455	173,863,363	(582,712,628)	3,450,064	(254,020,746)
2003	154,427,006	179,010,098	160,929,270	4,344,038	498,710,412
2004	162,118,792	189,324,788	923,928,365	4,200,818	1,279,572,763



SCHEDULE OF ACTUARIAL VALUE OF ASSETS, ACCRUED LIABILITIES AND UAAL

Year Ended June 30	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liability (UAAL)
1999	5,988,547,319	6,971,667,593	983,120,274
2000	6,835,842,591	7,460,619,599	624,777,008
2001	7,418,311,093	8,070,335,294	652,024,201
2002	7,595,590,780	8,747,971,400	1,152,380,620
2003	7,518,163,450	9,266,626,972	1,748,463,522
2004	7,487,979,776	9,927,058,567	2,439,078,791



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