# COMPREHENSIVE ANNUAL FINANCIAL REPORT

## FISCAL YEAR ENDED JUNE 30, 2005

## PREPARED BY ERB STAFF


## EDUCATIONAL RETIREMENT BOARD

701 CAMINO DE LOS MARQUEZ
SANTA FE, NM 87505
(505) 827-8030
(866) 691-2345
www.era.state.nm.us

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# Introductory Section

## 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

Dr. Evalynne Hunemuller
*Director*



March 4, 2006

Dear Members, Retirees and Friends:

We are pleased to present the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This year marked the completion of the 48th year of the New Mexico Educational Retirement Board's, (NMERB), 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 NMERB. To the best of their 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 continues to show strong positive investment performance. Our portfolio has become more diversified which leads to lower overall volatility and contributes to maximizing returns and minimizing risks. This model is consistent with the NMERB's fundamental investment principles that focus on preserving the long-term value of the fund while producing the resources needed to meet the system's benefit obligations.

It is important to remember that the NMERB's assets are invested for the long term. Our obligation 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 whether a retirement system is financially sound is whether it can meet all of its promised benefits as they come due. The 2005 actuarial report showed that ERB's funding period had climbed far higher than the Governmental Accounting Standards Board, (GASB) recommendation of a 40-year funding period. Thanks to the contribution increase granted by the 2005 New Mexico Legislature and Governor Bill Richardson, the NMERB fund will be in compliance with the GASB standard by 2011. While investments, on average, have met or exceeded goals set by actuarial calculations, contributions to the fund had not been increased since 1992.

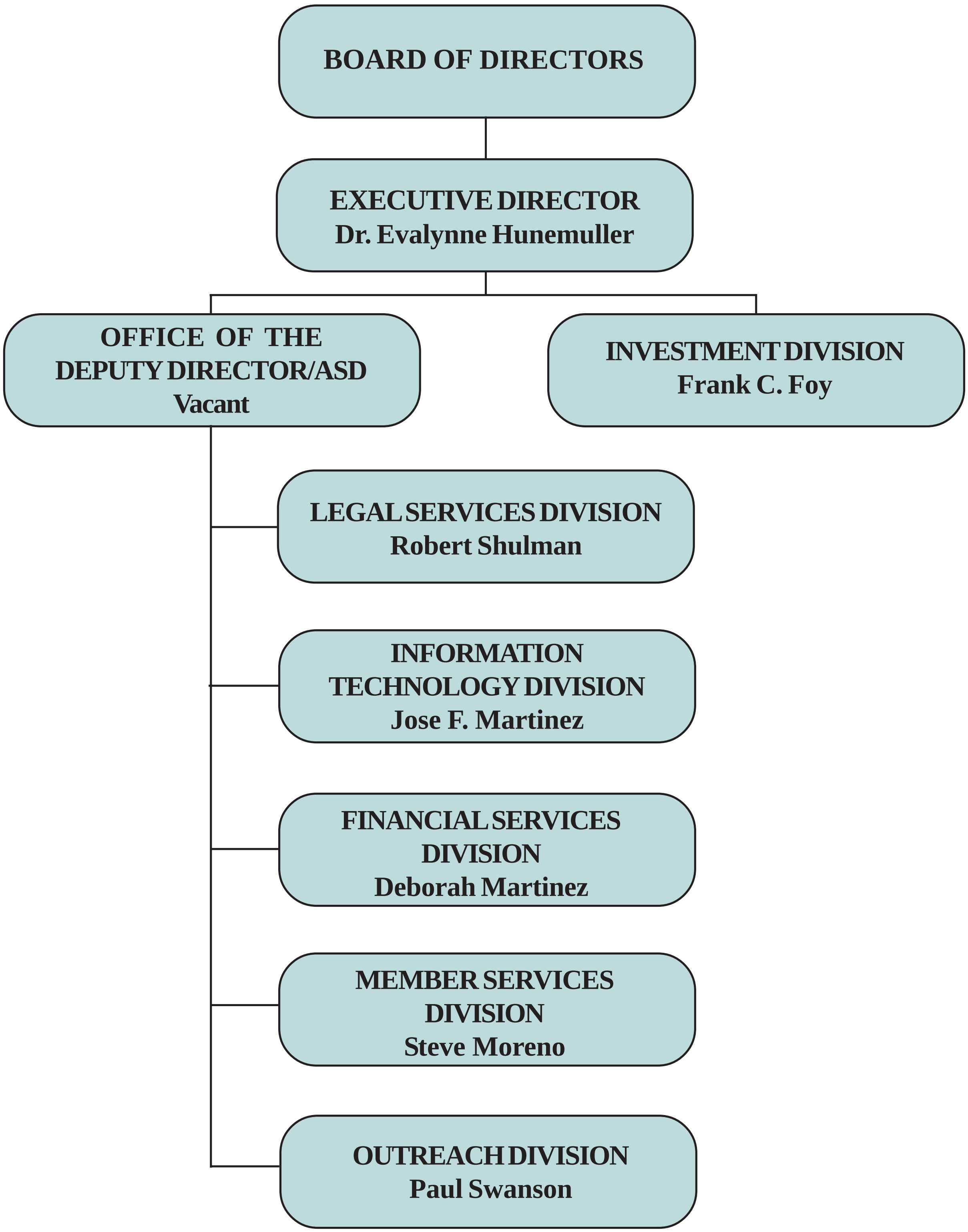
During the past year, the Board and Staff of NMERB have made decisions with an eye to the future. Our goals remain to ensure the long-term safety and security of our member's retirement and to work toward maintaining the benefits provided by the NMERB.

Sincerely,

Bruce Malott, CPA
Chairman, New Mexico Educational Retirement Board
June 30, 2005

## NM Educational Retirement Board of Trustees

# 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.

The **Outreach Division** is responsible for managing ERB's remote offices in Albuquerque and Las Cruces and presenting retirement workshops for ERB members across the state.

**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**
Dr. Evalynne Hunemuller, Executive Director
Vacant, 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**
Robert Rivera, Project Manager

**Investments**
Frank Foy, Chief Investment Officer
Rose Struck, Investment Officer
Margie Homko, Investment Officer
Selma Arnold, Financial Analyst
Leanne Larranaga, Financial Analyst

**Financial Services**
Deborah Martinez, Division Director
Pat Ortiz, Accountant and Auditor
Hongyu Liu, Accountant Specialist
Donna Vigil, Financial Specialist
Rita Sanchez, Bookkeeper
Christine 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
Anna Leyba, Customer Service Rep.

**Member Services**
Steve Moreno, Member Services, Division Director
Harold Sexton, Financial Advisor
Alice Vargas, Financial Advisor
Connie Sanchez, Financial Advisor

**Pension/Refund Section**
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.
Cordelia Anaya, 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

To the 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, 2005 and 2004, as listed in the foregoing table of contents. We also have audited Schedule 7, the schedule of revenues and expenses—budget and actual (non-GAAP basis) for the year ended June 30, 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ERB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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") that 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, 2005 or 2004, 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.

Member of
**Deloitte Touche Tohmatsu**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of ERB, as of June 30, 2005 and 2004, 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, Schedule 7, the schedule of revenues and expenses—budget and actual (non-GAAP basis) for the year ended June 30, 2005, presents fairly the revenues and expenses on the basis of accounting as described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2006, 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.

Management's Discussion and Analysis and the Required Supplementary Information of Funding Progress and of Employer Contributions are not required parts of the financial statement, 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.

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, including Statement 3 and Schedules 1 through 5, 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 nonfinancial information included in Schedule 6, and accordingly, we express no opinion on it.

Deloitte & Touche LLP

January 31, 2006

## MANAGEMENT'S 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, 2005 ("FY05"). For more detailed information of the Board's FY05 financial activities, the reader should review the financial statements, including the notes and required supplementary information.

### Financial Reporting Requirements

The financial statements include the Statements of Plan Net Assets and the Statements 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 $539.6 million or 7.8% in FY05. 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 led primarily by the REIT (Real Estate Investment Trust) Portfolio.

- Investment advisor fees and custodial fees increased $2 million or 15% in FY05. The higher fees were largely the result of having more assets under management, as evidenced by the 6.5% growth discussed below. Additionally, a relatively new asset class, High Yield Bonds, were on the books for the entire fiscal year and is being managed by an external management firm and therefore added to the investment advisor fees.

- Total cash and cash equivalents decreased $13.9 million in FY05 primarily due to the investment portfolios holding a lower balance of cash at fiscal year end. Total cash and cash equivalents equaled $111.2 million or 1.4 % of investments, which is within the Board's investment policy that limits cash holdings to 5% or less.

- Receivables increased by just over $2.7 million in FY05 or 3.3 % with the increase almost exclusively from contributions.

- Investment holdings increased $493.3 million or 6.5% primarily due to the recovery in the domestic and international equity markets.

- Capital assets, assets costing $1,000 and greater, increased by $1.5 million or 29.5%, 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 $8.75 million to implement the Integrated Retirement Information System ("IRIS") Project. Phase 1 of IRIS, scheduled for completion in the spring of 2006, will be preceded by testing in the winter of 2005. Phase 2 of IRIS, the web-enablement phase, is scheduled to be completed in fall of 2006.

- Accounts payable increased $0.3 million or 8% primarily due to an increase in the amount of investment advisor fees due at FY05 year-end.

- Refunds payable decreased $237.9 thousand or 10.8 %, which correlates with the trend of an increase in refunds paid during FY05.

- Investment purchases payable-brokers decreased $11.1 million or 57.7% 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, 2005. 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 decreased $44.8 million or 5%, indicating that a larger portion of the Board's portfolio was being lent at fiscal year end. Securities lending net income decreased $325.4 thousand or 20% 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 $15.5 million or 4% in FY05 due to an increase in active membership coupled with salary increases. Benefit payments to retirees increased $32.6 million or 7.7% 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 increased $829.7 thousand or 3.1%. The Board's total membership increased by 3,415 (3%) to 114,890 members in FY05.

- Administrative expenses increased by $2.7 million or 106% in FY05 reflecting increased professional services fees.

- The stock market recovery slowed during FY 05, with net assets increasing by $539.6 million in FY05 compared to $828.2 million in FY04.

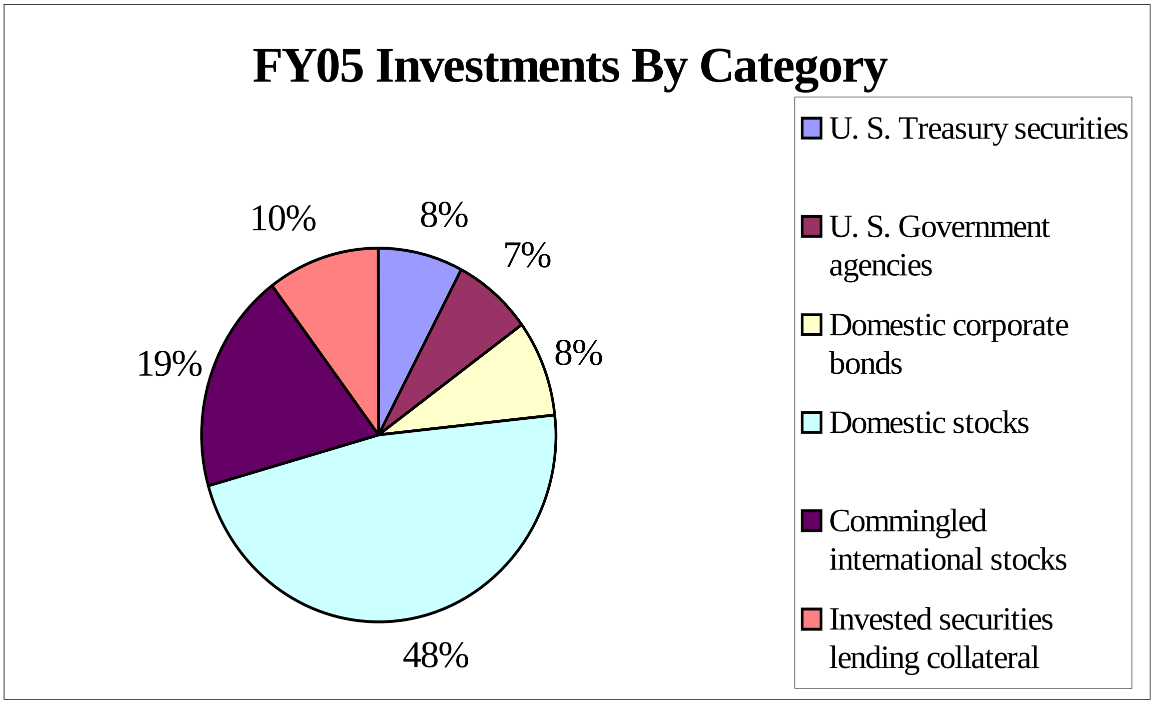
## Condensed Financial Information

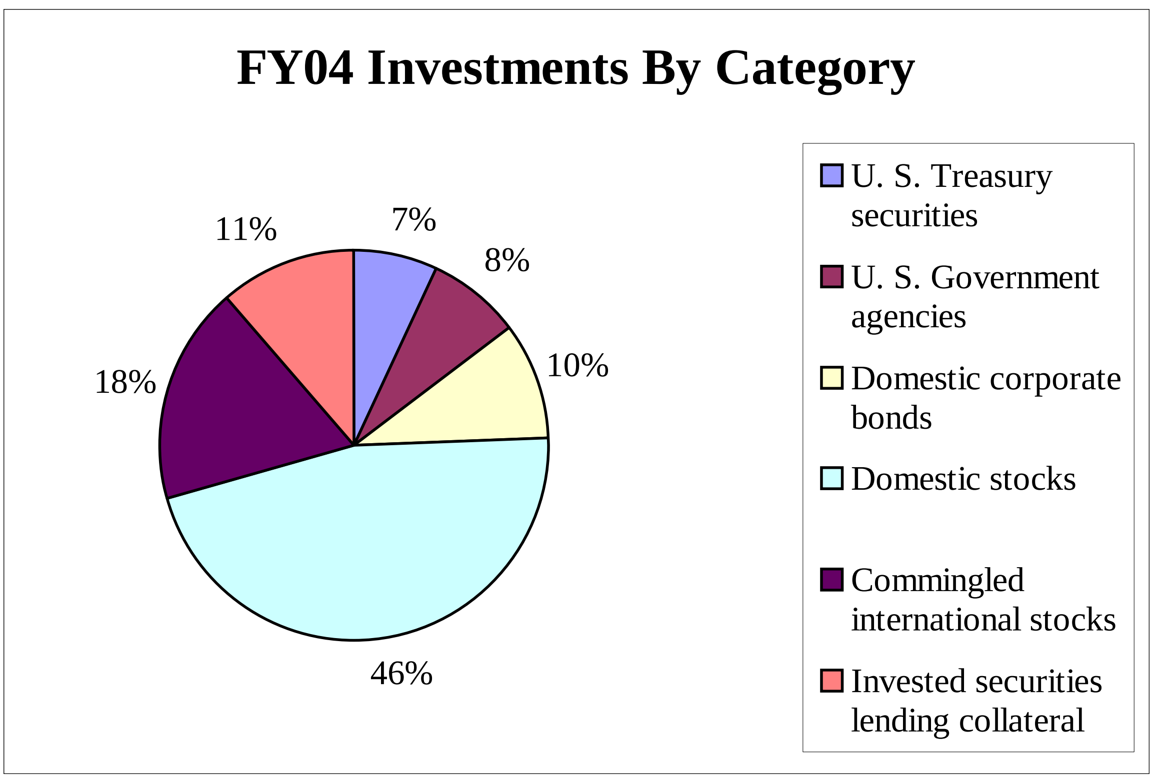
### Statements of Plan Net Assets

| | FY05 | FY04 |
|---|---|---|
| Cash and short-term investments | $ 111,155,579 | $ 125,067,216 |
| Receivables | 84,592,176 | 81,885,008 |
| Investments, at fair value | 8,086,187,732 | 7,592,927,380 |
| Capital assets (net of accum. depr.) | 6,600,613 | 5,094,285 |
| Total assets | $8,288,536,100 | $7,804,973,889 |
| Current liabilities | $ 837,256,172 | $ 893,301,002 |
| Long-term liabilities (comp. absences) | 141,642 | 127,767 |
| Total liabilities | $ 837,397,814 | $ 893,428,769 |
| Net assets held in trust for pension benefits | $7,451,138,286 | $6,911,545,120 |

### Statements of Changes in Plan Net Assets

| | FY05 | FY04 |
|---|---|---|
| Contributions | $ 366,971,744 | $ 351,443,580 |
| Investment income less investment expenses | 169,319,168 | 129,714,794 |
| Net appreciation in the fair value of investments | 486,788,294 | 794,213,571 |
| Other income | 4,032,754 | 4,200,818 |
| Total additions | $1,027,111,960 | $1,279,572,763 |
| Benefit payments | $ 454,983,452 | $ 422,418,366 |
| Refunds | 27,214,675 | 26,385,013 |
| Administrative expenses | 5,320,667 | 2,583,048 |
| Total deductions | $ 487,518,794 | $ 451,386,427 |
| Increase in net assets | $ 539,593,166 | $ 828,186,336 |
| Net assets held in trust for pension benefits | | |
| Beginning of the year | $6,911,545,120 | $6,083,358,784 |
| End of the year | $7,451,138,286 | $6,911,545,120 |


FY05 Investments By Category
U. S. Treasury securities
U. S. Government agencies
Domestic corporate bonds
Domestic stocks
Commingled international stocks
Invested securities lending collateral
10%
8%
7%
8%
19%
48%


FY04 Investments By Category
U. S. Treasury securities
U. S. Government agencies
Domestic corporate bonds
Domestic stocks
Commingled international stocks
Invested securities lending collateral
11%
7%
8%
10%
18%
46%

**Budgetary Highlights**

There were no significant budgetary variations during the fiscal year ended June 30, 2005. The Board had savings over budgeted amounts totaling $5.8 million in the four expense categories (non-GAAP budgetary basis) during the 2005 fiscal year.

**Capital Assets**

The Net Investment in Capital Assets at June 30, 2005 and 2004, is as follows:

| Description | Cost | Accumulated Depreciation | Book Value |
|---|---|---|---|
| **2005:** | | | |
| Land | $ 248,172 | — | 248,172 |
| Capital assets in progress | 4,665,048 | — | 4,665,048 |
| Depreciable Land Improvements | 1,875 | ( 1,500) | 375 |
| Building & Building Improvements | 2,079,182 | (751,213) | 1,327,969 |
| Furniture & Equipment | 1,306,205 | (947,156 | 359,049 |
| Total | $8,300,482 | (1,699,869) | 6,600,613 |
| **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 |

**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, 2005. If you have questions regarding this financial report or need additional information, please contact Debbie Martinez, Chief Financial Officer, at P.O. Box 26129, Santa Fe, NM 87502.

# STATEMENT OF PLAN NET ASSETS
## JUNE 30, 2005 AND 2004

| | 2005 | 2004 |
|---|---|---|
| **Assets** | | |
| Cash and short-term investments | $ 111,155,579 | $ 125,067,216 |
| Receivables | | |
| Contributions | 48,074,249 | 44,905,427 |
| Investment sales proceeds-brokers | 11,614,106 | 10,281,258 |
| Interest and dividends | 24,930,349 | 26,692,162 |
| Other | 472 | 6,161 |
| Total receivables | 84,592,176 | 81,885,008 |
| Investments, at fair value | | |
| U. S. Treasury securities | 617,732,732 | 518,020,368 |
| U. S. Government agency securities | 587,125,052 | 595,268,285 |
| Domestic corporate bonds | 686,748,201 | 740,380,071 |
| Domestic stocks | 3,815,512,041 | 3,495,689,676 |
| Commingled international stocks | 1,556,996,425 | 1,376,704,172 |
| Invested securities lending collateral | 822,073,281 | 866,864,808 |
| Total investments | 8,086,187,732 | 7,592,927,380 |
| Capital assets, at cost, net of accumulated depreciation of $1,551,680 and $1,615,838 respectively | 1,935,565 | 1,146,512 |
| Capital assets in progress | 4,665,048 | 3,947,773 |
| Total capital assets | 6,600,613 | 5,094,285 |
| Total assets | $ 8,288,536,100 | $ 7,804,973,889 |
| **Liabilities** | | |
| Accounts payable | 4,592,510 | 4,255,759 |
| Accrued payroll and employee benefits | 102,562 | 81,174 |
| Accrued compensated absences | 141,642 | 127,767 |
| Due to other state agencies | 179,975 | 502,342 |
| Refunds payable | 1,960,150 | 2,198,038 |
| Investment purchases payable-brokers | 8,131,044 | 9,226,642 |
| Funds held for others | 216,650 | 172,239 |
| Securities lending collateral | 822,073,281 | 866,864,808 |
| Total liabilities | 837,397,814 | 893,428,769 |
| **Net assets held in trust for pension benefits** | **$ 7,451,138,286** | **$ 6,911,545,120** |

*See notes to financial statements.*

# Statement of Changes in Plan Net Assets
## For the Years Ended June 30, 2005 and 2004

| | 2005 | 2004 |
|---|---|---|
| **Additions** | | |
| **Contributions** | | |
| Employer | $ 197,872,532 | $ 189,324,788 |
| Member | 169,099,212 | 162,118,792 |
| Total contributions | 366,971,744 | 351,443,580 |
| | | |
| **Investment income** | | |
| **From investing activities** | | |
| Net appreciation in fair value of investments investments | 486,788,294 | 794,213,571 |
| Interest income | 102,484,971 | 83,351,928 |
| Dividend income | 81,064,967 | 58,246,628 |
| Total investing activity gain | 670,338,232 | 935,812,127 |
| Investing activity expenses: | | |
| Investment advisor fees | (15,170,802) | (12,901,948) |
| Custody fees | (324,454) | (571,675) |
| Total investing activity expenses | (15,495,256) | (13,473,623) |
| Net gain from investing activities | 654,842,976 | 922,338,504 |
| | | |
| **From securities lending activities** | | |
| Securities lending income | 20,022,084 | 9,194,886 |
| Securities lending expenses: | | |
| Borrower rebates | (18,445,831) | (7,207,810) |
| Agent fees | (311,767) | (397,215) |
| Total securities lending expenses | (18,757,598) | (7,605,025) |
| Net income from securities lending activities | 1,264,486 | 1,589,861 |
| Total net investment gain | 656,107,462 | 923,928,365 |
| | | |
| **Miscellaneous Income** | | |
| Penalties | 4,152 | 684 |
| Interest on restoration of service | 4,028,602 | 4,200,134 |
| Other | 4,032,754 | 4,200,818 |
| **Total additions** | 1,027,111,960 | 1,279,572,763 |
| | | |
| **Deductions** | | |
| Refunds to terminated members | 23,444,332 | 21,859,555 |
| Interest on refunds | 3,770,343 | 4,525,458 |
| Administrative expenses | 5,320,667 | 2,583,048 |
| Age and service benefit payments | 449,036,895 | 416,862,335 |
| Disability benefit payments | 5,946,557 | 5,556,031 |
| **Total deductions** | 487,518,794 | 451,386,427 |
| | | |
| Net increase | 539,593,166 | 828,186,336 |
| Net assets held in trust for pension benefits | | |
| Beginning of the year | 6,911,545,120 | 6,083,358,784 |
| End of the year | $7,451,138,286 | $6,911,545,120 |

*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, and technical-vocational institutions.

Contributing employers to the Plan include the following:

| | |
|---|---|
| • Public Schools | 89 |
| • Universities and Colleges | 15 |
| • Charter Schools | 40 |
| • Special Schools | 6 |
| • State Agencies | 14 |
| | 164 |

### B. Reporting Entity

The Board is an agency of the State. The Plan administered by the Board is considered part of the State 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, 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 25% of a full-time equivalency, are required to be members of the Plan.

Faculty and professionals initially employed after July 1, 1991, with 1 out of the 16 institutions of higher education or one of the eight community colleges after July 1, 1999, may elect to participate in the Plan or an Alternate Retirement Plan (ARP) administered by ERB. The election must be made within 90 days of employment and is irrevocable.

The Board serves 164 employers in the State and has an active and inactive membership of 114,890 in 2005 and 111,475 in 2004.

Status and number of all participants on June 30, 2005 and 2004, consisted of the following:

| | 2005 | 2004 |
|---|---|---|
| (1) Retirees and beneficiaries of deceased retirees currently receiving benefits | 26,100 | 24,947 |
| (2) Inactive members | 25,428 | 23,627 |
| (3) Current active members | 63,362 | 62,901 |

### 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 15.2% of the average salary of the last five years for each year of contributory employment needed plus 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 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. Details of Options B and C follow:

*Option B:* The normal monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member with the provision that upon death, the same benefit is paid to the beneficiary for his or her lifetime. 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 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 1, 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 4%, nor be less than 2% unless the change in CPI is less than 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 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 who can prove retirement because of a disability may

qualify for a COLA beginning July 1 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 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times years of service projected to age 60.

*Form of Payment:* The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are 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 at a rate set by the Board. 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 economic resource measurement focus and the modified accrual basis of accounting. This is a change from prior years with fiscal year 2005 being the transition year. The General Appropriation Act establishes the modified accrual basis of accounting for governmental funds as the budgetary basis for the State of New Mexico. Prior year encumbrances will not exist in future fiscal years for single year appropriations. Employer and member contributions are recognized as revenue in the period in which the member's services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

### B. 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.

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 31, 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 1, the Budget Appropriation Request is submitted to the Department of Finance and Administration (DFA) and the 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 1, 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. <u>Investments</u>**

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 a broker for those securities not priced in the two other sources.

There are certain market risks, credit risks, foreign exchange currency risks or events that may subject the Plan's investment portfolio to economic changes occurring in certain industries, sectors or 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. <u>Capital Assets</u>**

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 DFA, 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.

**G. New Accounting Pronouncement**

In March 2003, the Governmental Accounting Standards Board ("GASB") issued Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB 40 amends GASB 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements* by expanding the disclosure requirements for credit risk, interest rate risk and foreign currency risk.

### 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 the Short Term Investment Fund (STIF) at Northern Trust Company. Each internal and external invest-ment 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 $111,121,340 and $121,964,434 for 2005 and 2004 respectively, are considered cash equivalents and are reported as part of the cash balance in the Statement of Plan Net Assets.

**A. Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Board will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board does not have a deposit policy for custodial credit risk.

As of June 30, 2005, balances of cash that were exposed to custodial credit risk were zero. All cash is invested in the Northern Trust Short Term Investment Fund (a mutual fund consisting of 100% U.S. Treasury Securities).

### 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, U.S. 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

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

## A. Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Board's Investment policy limits holding of securities by counterparties to those involved with securities lending. In the event of the failure of the counterparty to deliver back the borrowed securities, the Board will sell the collateral securities and offset any gains or losses with the counterparty.

Investments of the Board as of June 30, 2005 and 2004, were as follows:

| Investment Description | 2005 | 2004 |
|---|---|---|
| Investments: | | |
| (Held by Board's agent in Board's name) | | |
| U.S. Government agency securities (not on securities loan) | $ 591,414,576 | $ 498,232,848 |
| Domestic corporate bonds (not on securities loan) | 632,832,767 | 662,459,493 |
| Domestic stocks (not on securities loan) | 3,689,527,254 | 3,334,753,410 |
| Total | 4,913,774,597 | 4,495,445,751 |
| Investments – commingled international stocks | 1,556,996,425 | 1,376,704,172 |
| Investments held by broker/dealers under securities loans with cash collateral: | | |
| U.S. government and agencies securities | 613,443,208 | 615,055,805 |
| Domestic corporate bonds | 53,915,434 | 77,920,578 |
| Domestic stocks | 125,984,787 | 160,936,266 |
| Securities lending cash collateral investments | 822,073,281 | 866,864,808 |
| Total | $ 8,086,187,732 | $ 7,592,927,380 |

**B. Foreign Currency Risk**

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. Foreign currency risk is managed through investment in commingled international funds, which assume the burden of this risk. The Board's investment exposure to foreign currency risk as of June 30, 2005, was de minimis.

**C. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policies of the Board require that non-cash interest paying securities in the high yield bond portfolios may not exceed 5% of the market value of the portfolio and that investments in cash may represent no more than 5% of each individual fund. Credit risk is managed through diversification and by operating within defined parameters versus a benchmark index.

Excluding those securities issued by or explicitly guaranteed by the U.S. government, which are not considered to have credit risk, the Board's credit quality distribution for securities with credit risk exposure as of June 30, 2005 is summarized below. The securities were rated and categorized according to Standard & Poor's rating standards.

Summary of Investment by Rating - Credit Risk

| Rating | Fair Market Value |
|---|---|
| AAA | 609,589,795 |
| AA | 105,985,291 |
| A | 130,432,211 |
| BBB | 123,042,585 |
| BB | 107,113,762 |
| B | 157,885,937 |
| CCC | 23,625,973 |
| D | 1,060,000 |
| NR | 5,089,687 |
| | $1,263,825,241 |

The Board earns failed interest on monies held at the custodial agent bank overnight when a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date. When this occurs, the Board's money is invested overnight in a Short Term Investment Fund.

**D. Concentration Risk**

Concentration risk is identified by amount and issuer of the investment in any one issuer that represent 2% or more of plan net assets. The Board's Investment policies stipulate that investments in the securities of any one corporation may not exceed 2% of the market value of the total fund. As of June 30, 2005, the Board was not exposed to any concentration risk.

**E. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board does not have a policy for interest rate risk management. However, interest rate risk is managed through duration, by operating within defined risk parameters versus a benchmark index. As of June 30, 2005, the Board's exposure to interest rate risk is summarized as:

| Investment Type | Duration |
|---|---|
| U.S. Treasury Securities | 5.99 |
| U.S. Government Agency Obligations | 4.74 |
| Corporate Obligations | 5.03 |
| Corporate Asset and Mortgage Backed Securities | 3.67 |
| Short-Term Investment | 0.00 |
| Overall | 4.70 |

**F. Derivative Investing**

Derivatives are generally defined as contracts or securities whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. In accordance with investment policy and fiduciary principles, the Plan invests in mortgage-backed securities, including certain agency Collateralized Mortgage Obligations (“CMO”). The board invests in CMOs, which are based on cash flows from interest payments on underlying mortgages; therefore, they are sensitive to pre-payments by mortgagees that may result from a decline in interest rates. 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 $155 million and $195.6 million in CMO securities at June 30, 2005 and 2004, respectively.

**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 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 Plan 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.

At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amount the borrowers owe the Board. The contract with the Board’s agent require it to indemnify the Board fully if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Board for income distributions by the securities’ issuers while the securities are on loan. The Board has not experienced any losses due to credit or market risk on securities lending activities since the implementation of this program.

The Board is permitted to loan securities under 1) open loans which are generally overnight loans, and 2) term loans with specified expected termination dates. Cash collateral is invested in traditional money market instruments. The policy is to match the maturities of investments made with the cash collateral to the maturities of the loan agreements. The System cannot pledge or sell collateral securities received unless the borrower defaults and, therefore, the System does not establish an asset and a corresponding liability in the balance sheet for the collateral value of securities received. There were no significant violations of legal or contractual provisions, and no borrower or lending agent default losses.

The board received net securities lending income totaling $1,264,486 for the fiscal year ended June 30, 2005. The collateral information as of June 30, 2005 is summarized below:

| Securities Lent | Underlying Securities | Cash Collateral Received/ Securities Collateral Value* | Cash Collateral Investment Value* |
|---|---|---|---|
| **2005** | | | |
| Lent for cash collateral: | | | |
| U. S. Government & Agency Securities | $613,443,208 | $623,588,595 | $ |
| U. S. Equities | 125,984,787 | 131,251,200 | |
| U. S. Corporate Obligations with variable rates | 53,915,433 | 55,045,800 | 283,142,924 |
| Asset-backed Securities with variable rates | | | 39,935,176 |
| Repurchase Agreements | | | 498,995,181 |
| Convertible and Global Bonds | 11,908,365 | 12,107,610 | |
| | $805,251,793 | $821,993,205 | $822,073,281 |
| **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 |

* 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 2006.

Depreciation expense for 2004 was $204,183 and $219,057 for 2005 and 2004, respectively.

Capital asset activity for the year ended June 30, 2005 and 2004 is as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| **2005:** | | | | |
| Land | $ 248,172 | $ | $ | $ 248,172 |
| Capital assets in progress | 3,947,773 | 712,275 | | 4,665,048 |
| Depreciable Land Improvements | 1,875 | | | 1,875 |
| Building & Building Improvements | 1,176,723 | 902,459 | | 2,079,182 |
| Furniture & Equipment | 1,271,422 | 90,777 | 55,994 | 1,306,205 |
| Total | 6,645,965 | 1,710,511 | 55,994 | 8,300,482 |
| **Accumulated depreciation** | | | | |
| Depreciable Land Improvements | 1,312 | 188 | | 1,500 |
| Building & Building Improvements | 693,746 | 57,467 | | 751,213 |
| Furniture & Equipment | 856,622 | 146,528 | 55,994 | 947,156 |
| Total | 1,551,680 | 204,183 | 55,994 | 1,699,869 |
| Capital Assets, Net | $ 5,094,285 | $ 1,506,328 | $ | $ 6,600,613 |

| | 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 |

### 7. Due to Individual School Districts

This account represents the amount due to various participating public employers for overremittances of employer contributions during the fiscal years ended June 30, 2005 and 2004. Overremittances 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 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, 2005 and 2004.

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

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

The following table provides a summary of the change in accrued compensated absences for the fiscal year ended June 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Balances payable at beginning of the fiscal year | $ 127,767 | $ 133,915 |
| Additions | 132,099 | 123,870 |
| Deletions | (118,224) | (130,018) |
| Balances payable at the end of the fiscal year | $ 141,642 | $ 127,767 |
| Amount due within one year | $ 137,393 | $ 124,049 |

Funds used to liquidate this liability will come from the Plan.

### 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 30 days written notice to the lessor. The following table summarizes, as of June 30, 2005, the Board's future minimum lease payments:

| Fiscal Year Ending June 30 | Future Minimum Lease Payments |
|---|---|
| 2006 | $ 50,145 |
| 2005 | 47,992 |
| 2008 | 46,116 |
| Total | $ 144,253 |

Lease expense was $53,241 and $31,102 for the fiscal years ended June 30, 2005 and 2004, respectively.

**10. Retirement Plans**

Employees of the Board who do not possess a teaching or administrative certificate have the option of participating in the 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 (the PERA plan) through the Public Employees Retirement Act (PERA) of the State.

*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 (COLAs) for all certified teachers and other employees of State public schools, higher education institutions, junior colleges, and technical-vocational institutions.

*Plan Description – PERA:* The PERA Plan is a cost-sharing, multiple-employer defined benefit plan administered by PERA. The Plan provides for retirement, disability benefits, survivor benefits and COLAs 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:* 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, 2005, 2004, and 2003 were $37,829, $43,509, and $48,760, 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 PERA 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, 2005, 2004, and 2003 were $390,696, $376,915, and $384,519, 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) (the Act) 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 copayments and out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund (the 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 ERA, PERA, 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 on the person's behalf unless that person retires before the employer's New Mexico Retiree Health Care Authority (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 $5 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 2005 was $97.60. An additional premium of $5 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 Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employers' operation or participation in the 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 Fund. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, NM 87107.

For the fiscal year ended June 30, 2005, $22,982 in employer contributions and $11,491 in employee contributions were remitted to the Retiree Health Care Authority by the Board.

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

**12. 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.

**13. 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 on page 35:

ERB expects to complete IRIS in 2006. It is anticipated that funding for IRIS will be carried over to FY 2006 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 General Fund.

| | |
|---|---|
| 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) |
| Rebudgeted in FY05 | $ 648,753 |
| Laws of 2002, Chapter 110, Section 58 (FY02-FY08) | $ 500,000 |
| Expended in FY05 | ( 858,417) |
| Encumbered in FY05 | (45,003) |
| Unencumbered balance - June 30, 2005 | $ 306,206 |

**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 |
| Laws of 2004, Second Session/Chapter 114, Section 8, Item 16 | $ 750,000 |
| Expended in 2005 | 1,553,649 |
| Unencumbered Balance - June 30, 2005 | $ 2,532,248 |

# Required Supplementary Information (Unaudited)

## Schedule of Funding Progress
### For the Fiscal Year Ended June 30, 2005

| 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) |
|---|---|---|---|---|---|---|
| 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% |
| 2005 | $7,457.5 | $10,591.8 | $3,134.3 | 70.4% | $2,209.1 | 141.9% |

**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
### FOR THE YEAR ENDED JUNE 30, 2005
### (UNAUDITED)

| Fiscal Year Ended June 30, | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2001 | $161,524,340 | 100.0% |
| 2002 | $173,863,363 | 100.0% |
| 2003 | $179,010,098 | 100.0% |
| 2004 | $203,937,432 | 92.8% |
| 2005 | $243,237,303 | 81.3% |

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
## AS OF AND FOR THE YEARS JUNE 30, 2005 AND 2004

**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:

| | 2005 | 2004 |
|---|---|---|
| Valuation date | June 30, 2005 | June 30, 2004 |
| Actuarial cost method | Entry Age Normal | Entry Age Normal |
| Amortization method | Level payment, open | Level payment, open |
| Amortization period | 40 years | Infinite |
| Asset valuation method | 5-year smoothed market | 5-year smoothed market |
| Actuarial assumptions: | | |
| Investment rate of return* | 8.00% | 8.00% |
| Projected salary increases* | 5.00% to 13.50% | 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
## FOR THE YEAR ENDED JUNE 30, 2005

| | Member Contributions | Age & Service | Disability | Employer Contributions | Unreserved (Excess Earnings) | Income Accounts | Totals |
|---|---|---|---|---|---|---|---|
| Additions: | | | | | | | |
| Employer contributions | $ | | | 197,872,532 | | | $ 197,872,532 |
| Member contributions | 169,099,212 | | | | | | 169,099,212 |
| Total contributions | 169,099,212 | | | 197,872,532 | | | 366,971,744 |
| Net appreciation in fair value of investments | | | | | | 486,788,294 | 486,788,294 |
| Interest | | | | | | 102,484,971 | 102,484,971 |
| Dividends | | | | | | 81,064,967 | 81,064,967 |
| Securities lending income, net | | | | | | 1,264,486 | 1,264,486 |
| Less investing activity expenses | | | | | | (15,495,256) | (15,495,256) |
| Total net investment gain/loss | | | | | | 656,107,462 | 656,107,462 |
| Penalties | | | | | | 4,152 | 4,152 |
| Interest on restoration of service credit | | | | | | 4,028,602 | 4,028,602 |
| Other | | | | | | | |
| Total additions | 169,099,212 | | | 197,872,532 | | 660,140,215 | 1,027,111,960 |
| Deductions: | | | | | | | |
| Refunds to terminated members with interest | 23,444,332 | | | | | 3,770,343 | 27,214,675 |
| Administrative expenses | | | | | | 5,116,484 | 5,116,484 |
| Depreciation expenses | | | | | | 204,183 | 204,183 |
| Benefit payments | | 449,036,895 | 5,946,557 | | | | 454,983,452 |
| Total deductions | 23,444,332 | 449,036,895 | 5,946,557 | | | 9,091,010 | 487,518,794 |
| Net increase/(decrease) in plan net assets | 145,654,880 | (449,036,895) | (5,946,557) | 197,872,532 | | 651,049,205 | 539,593,166 |
| Net assets transfers in/(out) | 62,791,595 | 33,710,531 | 1,523,173 | 122,128,401 | 430,895,505 | (651,049,205) | |
| Plan net assets - Beginning of year | 1,219,875,299 | 3,123,051,202 | 28,668,483 | 582,325,937 | 1,957,624,199 | | 6,911,545,120 |
| Plan net assets - End of year | $ 1,428,321,774 | 2,707,724,838 | 24,245,099 | 902,326,870 | 2,388,519,704 | | $ 7,451,138,286 |

# Schedule of Adjustments to Budgetary Basis
## For the Year Ended June 30, 2005

| | |
|---|---|
| Revenue GAAP Basis | $ 1,027,111,960 |
| Net (appreciation) in investment value | (486,788,294) |
| Investment advisor and custody fees | 15,495,255 |
| Current-year revenue not needed for budgeted expenses | (534,062,314) |
| Revenue (non-GAAP) budgetary basis | $ 21,756,607 |

| | |
|---|---|
| Expenses GAAP basis - Administrative* | $ 5,308,540 |
| Prior-year encumbrances paid in current year | (9,511,488) |
| Current-year encumbrances to be paid in subsequent year | 45,003 |
| Prior-year accounts payable paid in current year | 4,118,295 |
| Current-year accounts payable to be paid in subsequent year | (4,000) |
| Capital outlay including capital assets in progress | 1,379,934 |
| Depreciation expense | (204,183) |
| Investment advisor and custody fees | 15,495,255 |
| Decrease in accrued compensated absences | (13,875) |
| Reimbursement of prior-year administrative expenses | 1,448 |
| Prior-year adjustments | 330,651 |
| Expenses (non-GAAP) budgetary basis | $ 16,945,580 |

*Reflects budgeted expenses only

# Reconciliation Between Budget Document and S-8 Form
## For the Year Ended June 30, 2005

| | Actual Budgetary Basis | Actual S-8 Form | Difference Favorable (Unfavorable) |
|---|---|---|---|
| REVENUES - Other state funds | $ 21,756,607 | $ 15,602,100 | $ 6,154,507 |
| EXPENSES: | | | |
| Personal services and employee benefits | 2,826,151 | 2,431,600 | 394,551 |
| Contractual services | 12,463,355 | 12,405,900 | 57,455 |
| Other costs | 1,656,074 | 764,600 | 891,474 |
| TOTAL EXPENSES | $ 16,945,580 | $ 15,602,100 | $ 1,343,480 |

## SCHEDULE OF CASH AND CASH EQUIVALENTS
## AS OF JUNE 30, 2005 AND 2004

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

| | 2005 | 2004 |
|---|---|---|
| Balance shown by State Treasurer | $ 68,104,606 | $ 61,273,773 |
| Outstanding warrants | (38,393,704) | (34,875,117) |
| DFA balance at June 30 | 29,710,902 | 26,398,656 |
| Adjustments to DFA balance: | | |
| Transaction not reflected at DFA | | |
| DFA deposited twice, correct August 2005 | (57) | |
| Petty cash | 50 | 50 |
| Other cash balances: | | |
| Northern Trust Short-Term Investment Fund (STIF) | 81,431,340 | 98,664,434 |
| Qualified Excess Benefit Arrangement (QEBA) Trust | | |
| Checking Account at Wells Fargo Bank (135-2107933) | 13,344 | 4,076 |
| Balance per financial statements | $ 111,155,579 | $ 125,067,216 |
| Repurchase agreements included in the balance | | |
| considered to be cash equivalents: | | |
| Overnight investment - State Treasurer | $ 29,690,000 | $ 23,300,000 |
| Overnight investment - Northern Trust (STIF) | 81,431,340 | 98,664,434 |
| Total repurchase agreements | $ 111,121,340 | $ 121,964,434 |
| Pledged collateral for Wells Fargo demand deposit account: | | |
| Total amount on deposit at June 30, 2005 | $ 13,344 | $ 4,076 |
| Less: FDIC coverage | (13,344) | (4,076) |
| 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, 2005

| | 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 | $ 369,042,445 | $ (347,285,838) | | | $ 21,756,607 | | $ 21,756,607 |
| EXPENSES: | | | | | | | |
| Personal services and employee benefits | 2,826,151 | | | | 2,826,151 | | 2,826,151 |
| Contractual services | 12,463,355 | | | | 12,463,355 | | 12,463,355 |
| Other costs | 1,611,071 | | 45,376 | (373) | 1,656,074 | | 1,656,074 |
| Refunds | 27,523,057 | (27,523,057) | | | | | |
| Annuity payments | 454,937,560 | (454,937,560) | | | | | |
| TOTAL EXPENSES | $ 499,361,194 | $ (482,460,617) | $ 45,376 | $ (373) | $ 16,945,580 | | $ 16,945,580 |

# YEAR-END ENCUMBRANCE ANALYSIS
## AS OF JUNE 30, 2005

| Administrative Encumbrances | Outstanding Encumbrances Per DFA | Adjustments to DFA | Encumbrances Reversed for Accounts Payable | Balance |
|---|---|---|---|---|
| Personal services & employee benefits | $ | | | $ |
| Contractual services | 45,376 | (373) | | 45,003 |
| Other costs | | | | |
| Operating transfers | | | | |
| Total administrative encumbrances | $ 45,376 | (373) | | $ 45,003 |

# Accountability in Government Act - Performance Measures
## As of June 30, 2005
## (Unaudited)

| Type | Description | Target | Actual |
|---|---|---|---|
| Quality | Percentage of member retirements computed accurately | 99.5% | 99.5% |
| Output | Number of benefit estimates and purchase of service requests computed annually | 6,000 | 6,380 |
| Outcome | Average number of working days to respond to requests for benefits estimates and purchase of services requests | 20 | 24 |
| Output | Number of member workshops conducted | 25 | 29 |
| Outcome | Percentage of member satisfaction with seminars and training events | 95% | 95% |
| Outcome | Average number of working days to process refund requests | 17 | 15 |
| Output | Total net assets held in trust for pension benefits. | | $7.451 billion |
| Outcome | Five-year ave. rate of return on investments | 8% | 1.34% |
| Output | Percentage completion of new pension system (IRIS) | 100% | 75% |

# STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP BASIS)
## FOR THE YEAR ENDED JUNE 30, 2005

| | Original Budget | Final Budget | Actual Budgetary Basis | Variance - Final Budget Favorable (Unfavorable) |
|---|---|---|---|---|
| REVENUES: | | | | |
| Other state funds | $ 21,138,607 | $ 21,756,607 | $ 21,756,607 | $ |
| Rebudgeted cash balance | | 996,253 | 996,253 | |
| TOTAL BUDGETED REVENUE | $ 21,138,607 | $ 22,752,860 | $ 22,752,860 | $ |
| EXPENSES: | | | | |
| Personal services and employee benefits | $ 3,221,999 | $ 3,261,999 | $ 2,826,151 | $ 435,848 |
| Contractual services | 17,104,508 | 17,442,508 | 12,463,355 | 4,979,153 |
| Other costs | 812,100 | 2,048,353 | 1,656,074 | 392,279 |
| TOTAL EXPENSES | $ 21,138,607 | $ 22,752,860 | $ 16,945,580 | $ 5,807,280 |

# Investments Section

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

Dr. Evalynne Hunemuller
*Director*



March 8, 2006

Members and Retirees of NM ERB:

The stock market continued to produce positive returns during FY2005, although at a more moderate pace than in FY2004. The prior year's return of 15% represented a rebound from the negative 2000-2002 period. This year's 9.9% return, although quite strong, reflected a more "normal" market driven by the outlook for economic growth and corporate earnings. Despite those negative return years, ERB's ten-year rate of return was 8.0%, in line with its actuarial rate, the-long term target necessary to meet future retiree benefits. The one-year return was also well above 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 7.7%. While the one, three, and ten-year returns are ahead of the Fund's objectives, the five-year intermediate term return of 1.3% shows the negative effects of the prolonged market downturn. Fund assets increased by $540 million, bringing the total on June 30, 2005, to $7.4 billion. These returns were prepared in accordance with the guidelines of the AIMR Performance Presentation Standard.

ERB's one-year total Fund return of 9.9% was 30 basis points (0.3%) below its policy target return of 10.2%. 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. Early in the year, certain Fund managers were placed on a "watch list" for closer monitoring, as their performance was disappointing. As the year progressed, however, their performance improved, a result attributed to a more rational quality-driven market. This improvement is evidenced by the fact that the Fund beat its policy return by 22 basis points in the final quarter of the year.

During the fiscal year, the Board maintained the asset allocation adopted in July of 2003. Next year, several changes are anticipated, as recently passed legislation will allow the Fund to more broadly diversify its assets.

Investment returns for the past two fiscal years were quite strong, as the stock market rebounded from low levels. With more moderate economic growth, rising interest rates, and high energy prices, 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 C. Foy
Chief Investment Officer

# 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. A portfolio of REITS (real estate investment trusts) provides exposure to real estate through an equity vehicle.

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 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, 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 | Actual 6/30/05 |
|---|---|---|---|---|
| **EQUITIES** | | | | |
| Domestic Equities | 46% | 41% | 51% | 46.2% |
| International Equities | 20% | 17% | 23% | 21.0% |
| **Total Equities** | **66%** | 61% | 71% | **67.2%** |
| **REAL ESTATE/REITS** | **5%** | 3% | 8% | **6.0%** |
| **FIXED INCOME** | | | | |
| High Yield Bonds | 5% | 3% | 8% | 4.0% |
| Investment Grade Bonds | 20% | 17% | 23% | 18.8% |
| TIPS | 4% | 2% | 6% | 4.0% |
| **Total Fixed Income** | **29%** | 24% | 34% | **26.0%** |

## 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

There were no significant changes made to asset allocation during the year, as the investment staff finished implementing the new allocation plan adopted in FY2004. A new "Watch List" policy was developed to provide a form of probation for poorly performing managers. The policy entails closer monitoring, more frequent meetings, and a one-year period for those managers to improve or face termination. As of June 30, 2005, four equity managers were on the "Watch List".

## III. Economic Overview

The two main factors affecting the economy for the entire year were interest rates and energy prices. In June 2004, the Federal Reserve initiated a program to raise interest rates in quarter-percent increments. Over the course of the year, rates were raised nine times. Despite the increase in rates, the housing market remained very strong, which in turn, buoyed consumer confidence. Overall, the economy grew at a moderate pace of 3.6%. Oil prices, driven by both increased demand from China and the political turmoil in the Mideast, climbed throughout the year. While inflation generally remained well controlled, there was evidence near year end that energy prices were beginning to have an impact on general pricing levels as well as on consumer decision making.

The stock market, represented by the Standard & Poor's 500, had a positive but modest return of 6.3%, well down from the 19% return of FY2004. The economic uncertainty, however, caused some extreme quarter-by-quarter volatility in returns. While bonds normally decline during periods of rising interest rates, the fixed income markets remained surprisingly robust. The best performing areas of the market were domestic small cap and international stocks.

## IV. ERB Portfolio Performance

The domestic equity portfolio gained 6.9%, underperforming its target return of 7.3%. Several of the Fund's active managers had difficulty achieving their benchmark returns during the first half of the year, but showed considerable improvement during the last two quarters. The turnaround in performance was largely attributed to the shift in the stock market from a low quality, speculative environment to one based on fundamental valuations. The latter, more rational market is much more favorable to the high quality, research-based portfolios run by ERB's managers. International stocks once again outpaced the domestic stock market, although ERB's managers lagged their benchmark. ERB's international stock composite gained 14.4% vs. the benchmark 16.1%. The strongest performing portfolio was Emerging Markets, managed by Alliance Capital, which gained 35%.

The internally managed fixed income portfolio gained 6.9% for the year, outpacing its benchmark return of 6.8%. The high yield portfolio in its first full year returned 8.7%, below its benchmark of 10.2%. Despite this underperformance, the diversification to high yield bonds clearly benefited ERB by enhancing the return on the fixed income portion of the Fund. The newly added TIPS and REIT portfolios are passively managed and, as intended, performed in line with their indices, earning 9.2% and 34.0%, respectively. The Fund as a whole earned 9.9% vs. its policy benchmark of 10.2%.

## INVESTMENT RATES OF RETURN

### Fiscal Year Ended 6/30/05

| Asset Class<br>*Benchmark* | 1 year<br>2005 | 3 year<br>2003-05 | 5 year<br>2001-05 |
|---|---|---|---|
| Domestic Equity<br>*Wilshire 5000* | 6.91%<br>*8.21%* | 9.73%<br>*9.94%* | -2.67%<br>*-1.28%* |
| International Equity<br>*MSCI ACWI ex US* | 14.44%<br>*16.95%* | 12.12%<br>*14.08%* | -0.39%<br>*0.76%* |
| Real Estate Inv. Trusts<br>*Wilshire REIT* | 34.04%<br>*34.14%* | N/A | N/A |
| Fixed Income<br>*Target Index** | 7.51%<br>*7.74%* | 6.00%<br>*6.14%* | 7.62%<br>*7.79%* |
| TOTAL FUND<br>*POLICY INDEX*** | 9.86%<br>*10.16%* | 9.23%<br>*9.51%* | 1.34%<br>*2.53%* |

* 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, 2005

| Type of Investment | Market Value (000s) | Percent of Total Fund |
|---|---|---|
| **Domestic Equity** | | |
| Large Cap | 2,961,572 | 40.00% |
| Small Cap | 456,463 | 6.16% |
| Total Domestic Equity | 3,418,035 | 46.16% |
| **International Equity** | 1,556,996 | 21.03% |
| **Fixed Income** | | |
| High Yield | 292,607 | 3.95% |
| TIPS | 299,344 | 4.04% |
| Core Fixed Income | 1,357,953 | 18.34% |
| Total Fixed Income | 1,949,904 | 26.34% |
| **Real Estate Investment Trusts** | 441,586 | 5.96% |
| **Cash** | 37,672 | .51% |
| **FUND TOTAL** | 7,404.193 | 100.00% |

# List of Largest Assets Held
## June 30, 2005

### Ten Largest Stock Holdings

| Company | Shares | Market Value |
|---|---|---|
| Microsoft | 3,501,980 | 86,989,183 |
| Exxon Mobil | 1,277,286 | 73,405,626 |
| Citigroup | 1,450,962 | 67,077,973 |
| General Electric | 1,815,787 | 62,917,019 |
| Bank of America | 12,231,287 | 56,159,000 |
| Walmart Stores | 1,132,982 | 54,609,732 |
| Cisco Systems | 2,289,676 | 43,755,708 |
| Pfizer | 1,551,059 | 42,778,207 |
| Intel | 1,605,911 | 41,850,040 |
| Pepsico | 768,330 | 41,436,036 |

### Ten Largest Bond Holdings

| Bond | Par Value | Market Value |
|---|---|---|
| US Treas 4.0% 4/15/10 | 60,000,000 | 60,656,400 |
| US Treas 6.5% 2/15/10 | 50,000,000 | 55,799,000 |
| FHR 4.5% 10/15/31 | 50,000,000 | 48,815,300 |
| Federal Natl Mtg Assn MBS 5.5% 7/01/23 | 36,442,206 | 37,200,751 |
| US Treas 9.25% 2/15/16 | 25,000,000 | 36,220,750 |
| FNR 3.5% 1/25/33 | 37,678,380 | 36,080,892 |
| US Treas 5.75% 8/15/10 | 30,000,000 | 30,106,500 |
| US Treas 4.0% 2/15/10 | 30,000,000 | 30,106,500 |
| US Treas 90% 11/15/18 | 20,000,000 | 28,340,600 |
| FH Arm 4.621% 4/1/35 | 29,781,701 | 29,878,790 |

A complete list of portfolio holdings is available upon request.

# SCHEDULE OF INVESTMENT FEES AND COMMISSIONS
## FOR YEAR ENDED JUNE 30, 2005

| | Investment Fees | Commissions |
|---|---|---|
| Domestic Fixed Income | 1,411,976 | N/A |
| Domestic Equities | 7,200,113 | 1,929,180 |
| International Equities | 6,909,873 | *N/A |
| Short Term Investment (NTR) | 49,908 | N/A |
| Total | 15,571,870 | 1,929,180 |
| Custodian Fees | 274,545 | N/A |
| Consultant Fees | 312,298 | N/A |
| **Grand Total** | **$16,158,713** | **$1,929,180** |

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

# Actuarial Section

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

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January 16, 2006

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, 2005**

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, 2005.

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, 2005, 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. Since the prior actuarial valuation, Senate Bill 181 was signed into legislation and will increase the employer contribution rate by 75 basis points (0.75%) each of the next seven years, and increase member contribution rates by 7.50 basis points (0.075%) for each of the next four years. Therefore, as of July 1 2005, the current employer contribution rate is 9.40% and the current member contribution rate is 7.675%. The member rate will reach its ultimate level of 7.90% in FY 2009, and the employer rate will reach its ultimate level of 13.90% in FY 2012. 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 maximum period allowed under GASB No. 25 (30 years after a transition period expires at the end of FY 2006). (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, 2005, ERB has an infinite funding period. Therefore, if the employer contribution rate (9.40% as of July 1, 2005) and member contribution rate (7.675% as of July 1, 2005) were to 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 12.50%. (Last year the 40-year funding rate was 10.67%.) 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. As mentioned above, under current law, the employer and member rates will increase to 13.90% and 7.90%, respectively. However, GASB 25 does not permit the consideration of contribution rates not yet in effect, so an infinite funding period must be reported. Our projections indicate that these increased contributions will result in the unfunded liability being fully amortized within about 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, 2004 was 75.4%, while it is now 70.4%. Five years ago the ratio stood at 91.6%, and ten years ago the ratio was 70.1%. However, if the ratio were calculated using the market value rather than the actuarial value of assets, it would be 70.3% as of June 30, 2005, up from 69.6% as of June 30, 2004. During the last fiscal year, the UAAL increased from $2,439.1 million to $3,134.3 million. Projections indicate that, as the higher contribution rates are phased in, the UAAL will increase to over $4 billion.

**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 loss from FY 2002, 40% of the loss from FY 2003, 60% of the gain from FY 2004, and 80% of the gain in FY 2005 are not yet reflected in the actuarial measurements.

Since the actuarial value of assets and the market value of assets are nearly equal as of June 30, 2005, we do not expect the actuarial investment losses from FY 2001, FY 2002, and FY 2003 to cause the funded ratio to decrease further. In other words, the impact of the losses from these three years has now been recognized or offset by the gains from FY 2004 and FY 2005.

**Benefit Provisions**

The actuarial valuation reflects the benefit and contribution provisions set forth in the relevant New Mexico statutes. There were no material benefit changes made to these provisions since the previous actuarial valuation. The changes to the contribution provisions made by SB 181 are described above. 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 2004 actuarial valuation, and the Board adopted all of our recommendations as follows:

- Increase productivity component of salary growth rate from 1.50% to 2.00%
- Incorporate methodology to address three-tier licensure system
- Adopt new profile for new entrants.

We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB. The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in GASB 25.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations are intended to provide information for rational decision making.

**Member and Financial Data**

Member data for retired, active, and inactive participants was supplied as of June 30, 2005, 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 | 2005 | 2004 |
|---|---|---|
| **Membership** | | |
| • Number of | | |
| - Active members | 63,362 | 62,901 |
| - Retirees and beneficiaries | 26,100 | 24,947 |
| - Inactive, vested | 6,340 | 5,955 |
| - Inactive, nonvested | 19,088 | 17,672 |
| - Total | 114,890 | 111,475 |
| • Payroll | $2,209.1 million | $2,142.4 million |
| **Statutory contribution rates** | | |
| • Employer | 9.40% | 8.65% |
| • Member | 7.675% | 7.60% |
| **Assets** | | |
| • Market value | $7.451.1 million | $6,911.5 million |
| • Actuarial value | $7,457.5 million | $7,488.0 million |
| • Return on market value | 9.6% | 15.3% |
| • Return on actuarial value | 1.1% | 0.8% |
| • Employer contributions | $197.9 million | $189.3 million |
| • External cash flow % | -1.6% | -1.4% |
| • Ratio of actuarial to market value | 100.1% | 108.3% |
| **Actuarial Information** | | |
| • Normal cost % | 13.56% | 12.92% |
| • Unfunded actuarial accrued liability (UAAL) | $3,134.3 million | $2,439.1 million |
| • Funded ratio | 70.4% | 75.4% |
| • Funding period (years) | Infinite | Infinite |
| • GASB Annual Required Contribution | 12.50% | 10.67% |
| **Gains/(losses)** | | |
| • Asset experience | $(513.8) million | $(534.7) million |
| • Liability experience | 146.0 million | 97.7 million |
| • Benefit changes | N/A | N/A |
| • Assumption/method changes | (212.7) million | -- |
| • Total | $(580.5) million | $(632.4) 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 $12,863.1 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 $10,591.8 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 13.56% 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 7.675%, leaving 5.885% to be funded by the employers. I.e., the current year's employer normal cost is 5.885% 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 $3,134.3 million, as shown in line 8 on Table 1.
- Since the statutory employer contribution rate is 9.40%, and the employer normal cost rate is 5.885%, the difference of 3.515% 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 $195.1 million for imputed interest and decreased by $80.4 million because of payments made. This means that the UAAL was expected to increase $114.7 million before recognizing plan experience. The UAAL as of June 30, 2004 was $2,439.1 million, and the expected UAAL at June 30, 2005, recognizing actual contributions made, was $2,553.8 million.

The plan experienced a liability gain of $146.0 million. This gain represents 1.5% of the total actuarial accrued liability.

There was an actuarial loss on investments of $513.8 million. The investment loss resulted from the fact that the return on the actuarial value of assets, 1.1%, was less than the 8.00% assumed investment return rate. This loss was the result of recognizing an additional 20% of the losses from FY2001, FY 2002 and FY 2003, as well as recognizing only 20% of the investment gains from FY 2004 and FY 2005. The market rate of return in FY 2005 was 9.6%.

There were no material benefit changes adopted since last actuarial valuation. As a result of the most recent experience analysis completed, there were changes made to the actuarial assumptions and methods. Because of the changes in actuarial assumptions and the increase in member contributions resulting from SB 181, many of the following tables show 06/30/2005 results before the application of the assumption change and SB 181 in addition to results as of 06/30/2004 and 06/30/2005. The adoption of new assumptions resulted in a $212.7 million increase in UAAL.

As a result of all the experience, the UAAL increased from $2,439.1 million to $3,134.3 million, and the funding period remained 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, 75.4% as of 2004, and 70.4% as of 2005.

Table 6b shows a nine-year comparison of the employer contributions actually received with the GASB 25 ARC. Note that this shows that 81.3% of the ARC was contributed during FY 2005, since the 8.65% employer contribution rate is less than the 40-year contribution calculated in last year's valuation (10.67%). For FY 2006, the financial reports prepared for ERB will show that only approximately 75% of the ARC was contributed. This is because the 9.40% statutory rate is less than the calculated 40-year contribution rate of 12.50%.

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, June 30, 2003 and June 30, 2005.

**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. The last review of these assumptions occurred following the 2004 actuarial valuation, and the Board adopted all of our recommendations as follows:

- Increase productivity component of salary growth rate from 1.50% to 2.00%
- Incorporate methodology to address three tier licensure system
- Adopt new profile for new entrants.

We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB. 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.

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 73% of the assets are now held in equities, compared to 71% last year and 68% 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 currently 100% of the market value. Over any short time period, a disparity between actuarial value and market value may appear, but in the long-run, we would expect the actuarial value and the market value to continue to track each other fairly closely.

Table 11a shows that the investment return rate for FY 2005 on market value was 9.6%, while it was 1.1% 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, 1.6% 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 0.7% since last year, from 62,901 to 63,362. 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 2005-2006 school year.

Total payroll increased 3.1% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2004-05 member pay). However, this figure is increased by one year's pay increase to determine the member's rate of pay at July 1, 2005. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 2.4% since last year. Average pay for members active in both this valuation and the last year's valuation increased 4.7%. 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

| | | June 30, 2005 (1) | June 30, 2004 (2) |
|---|---|---|---|
| 1. | Payroll | | |
| | a. Supplied by System (annualized) | $ 2,209,133,721 | $ 2,142,449,003 |
| | b. Adjusted for one-year's pay increase | 2,376,431,552 | 2,272,843,401 |
| 2. | Actuarial present value of future pay | $ 16,750,029,512 | $ 15,138,981,263 |
| 3. | Normal cost rate (payable monthly) | | |
| | a. Total normal cost rate | 13.560% | 12.920% |
| | b. Less: member contribution rate | (7.675%) | (7.600%) |
| | c. Employer normal cost rate | 5.885% | 5.320% |
| 4. | Employer normal cost (Item 3c * Item 1b) | $ 139,852,997 | $ 120,915,269 |
| 5. | Actuarial accrued liability for active members | | |
| | a. Actuarial present value of future benefits | $ 7,717,527,250 | $ 7,121,535,646 |
| | b. Less: actuarial present value of future normal costs (Item 3a * Item 2) | (2,271,304,002) | (1,955,956,379) |
| | c. Actuarial accrued liability | $ 5,446,223,248 | $ 5,165,579,267 |
| 6. | Total actuarial accrued liability for: | | |
| | a. Retirees and beneficiaries | $ 4,875,273,149 | $ 4,523,337,929 |
| | b. Inactive members | 270,312,092 | 238,141,371 |
| | c. Active members (Item 5c) | 5,446,223,248 | 5,165,579,267 |
| | d. Total | $ 10,591,808,489 | $ 9,927,058,567 |
| 7. | Actuarial value of assets | $ 7,457,545,398 | $ 7,487,979,776 |
| 8. | Unfunded actuarial accrued liability (UAAL) (Item 6d - Item 7) | $ 3,134,263,091 | $ 2,439,078,791 |
| 9. | Amortization payment | | |
| | a. Employer contribution rate | 9.400% | 8.650% |
| | b. Less: Employer normal cost rate (Item 3c) | (5.885%) | (5.320%) |
| | c. Amortization rate | 3.515% | 3.330% |
| | d. Amortization contribution ( Item 9c * Item 1b) | $ 83,531,569 | $ 75,685,685 |
| | e. Expected ARP contribution | 3,747,968 | 3,572,483 |
| | d. Total | $ 87,279,537 | $ 79,258,168 |
| 10. | Funding period based on current 9.4% employer contribution requirement, with payments increasing at assumed payroll growth rate | Infinite | Infinite |

Table 1

# Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

| **Basis** (1) | **June 30, 2005** (2) | **June 30, 2004** (3) |
|---|---|---|
| 1. UAAL at prior valuation | $ 2,439.1 | $ 1,748.5 |
| 2. Increases/(decreases) due to: | | |
| a. Interest on UAAL | 195.1 | 139.9 |
| b. Amortization payments[1] | (80.4) | (81.7) |
| c. Liability experience | (146.0) | 97.7 |
| d. Asset experience | 513.8 | 534.7 |
| e. Changes in actuarial assumptions and methods | 212.7 | -- |
| f. Benefit change | N/A | N/A |
| g. Total | $ 695.2 | $ 690.6 |
| 3. Current UAAL (1+2g) | $ 3,134.3 | $ 2,439.1 |

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, 2005<br>(1) | June 30, 2004<br>(2) |
|---|---|---|---|
| 1. | Active members | | |
| | a. Service retirement benefits | $ 6,949,078,178 | $ 6,411,154,258 |
| | b. Refunds and deferred termination benefits | 612,168,774 | 565,759,362 |
| | c. Survivor benefits | 70,984,748 | 65,938,957 |
| | d. Disability retirement benefits | 85,295,550 | 78,683,069 |
| | e. Total | $ 7,717,527,250 | $ 7,121,535,646 |
| 2. | Retired members | | |
| | a. Service retirement | $ 4,606,173,471 | $ 4,269,279,686 |
| | b. Disability retirement | 52,687,793 | 49,771,460 |
| | c. Beneficiaries | 216,411,885 | 204,286,783 |
| | d. Total | $ 4,875,273,149 | $ 4,523,337,929 |
| 3. | Inactive members | | |
| | a. Vested terminations | $ 211,315,650 | $ 185,665,710 |
| | b. Nonvested terminations | 58,996,442 | 52,475,661 |
| | c. Total | $ 270,312,092 | $ 238,141,371 |
| 4. | Total actuarial present value of future benefits | $ 12,863,112,491 | $ 11,883,014,946 |

Table 3

## Analysis of Normal Cost

| | | June 30, 2005<br>(1) | June 30, 2004<br>(2) |
|---|---|---|---|
| 1. | Gross normal cost rate (payable monthly) | | |
| | a. Service retirement benefits | 9.500% | 8.940% |
| | b. Refunds and deferred termination benefits | 3.770% | 3.710% |
| | c. Disability retirement benefits | 0.170% | 0.160% |
| | d. Survivor benefits | 0.120% | 0.110% |
| | e. Total | 13.560% | 12.920% |
| 2. | Less: member contribution rate | (7.675%) | (7.600%) |
| 3. | Employer normal cost rate | 5.885% | 5.320% |

Table 4

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

| | June 30, 2005 (1) | June 30, 2004 (2) |
|---|---|---|
| 1. Long term GASB 25 funding period (years) | 40 | 40 |
| 2. Amortization contribution percentage | | |
| a. Amortization payment | $ 160,884,416 | $ 125,233,671 |
| b. Less: expected payment for ARP members | 3,747,968 | 3,572,483 |
| c. Net (a-b) | $ 157,136,448 | $ 121,661,189 |
| d. Expected payroll | 2,376,431,552 | 2,272,843,401 |
| e. Amortization contribution percentage (c/d) | 6.61% | 5.35% |
| 3. GASB 25 Annual Required Contribution | | |
| a. Employer normal cost rate | 5.89% | 5.32% |
| b. Amortization percentage | 6.61% | 5.35% |
| c. Total | 12.50% | 10.67% |
| d. Statutory rate | 9.40% | 8.65% |
| e. ARC ( max of (c,d) ) | 12.50% | 10.67% |

Table 5a

## ACTUAL CONTRIBUTIONS AS PERCENTAGE OF GASB 25 ARC
## FOR YEAR ENDING 06/30/2005

| | | |
|---|---|---|
| 1. | Actual contributions | |
| | a. On behalf of ERB members | $ 194,260,033 |
| | b. On behalf of ARP members | 3,612,499 |
| | c. Total | $ 197,872,532 |
| 2. | Statutory employer contribution rate | 8.65% |
| 3. | Imputed fiscal year payroll for ERB members (Item 1a / Item 2) | $ 2,245,780,728 |
| 4. | GASB 25 Annual Required Contribution | |
| | a. Required GASB 25 employer contribution for ERB members as percent of payroll | 10.67% |
| | b. Required GASB 25 employer contribution for ERB members (Item 4a * Item 3) | $ 239,624,804 |
| | c. GASB 25 ARC (Item 4b + Item 1b) | $ 243,237,303 |
| 5. | Percentage of ARC contributed (Item 1c / Item 4c) | 81.3% |

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% |
| June 30, 2005 | 7,457.5 | 10,591.8 | 3,134.3 | 70.4% | 2,209.1 | 141.9% |

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% |
| 2005 | $243,237,303 | 81.3% |

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, 2005 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level payment, open |
| Amortization period for GASB 25 ARC** | 40 years |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return* | 8.00% |
| Projected salary increases* | 5.00% to 13.50% |
| *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 9.40% 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, 2005 (1) | June 30, 2004 (2) |
|---|---|---|---|
| 1. | Active members | | |
| | a. Number | 63,362 | 62,901 |
| | b. Total payroll supplied by System (annualized) | $ 2,209,133,721 | $ 2,142,449,003 |
| | c. Average salary | $ 34,865 | $ 34,061 |
| | d. Average age | 45.6 | 45.6 |
| | e. Average service | 9.3 | 9.4 |
| 2. | Vested inactive members (excluding pending refunds) | | |
| | a. Number | 6,340 | 5,955 |
| | b. Total annual deferred benefits | $ 37,197,069 | $ 33,933,907 |
| | c. Average annual deferred benefit | $ 5,867 | $ 5,698 |
| 3. | Nonvested inactive members and vested pending refunds | | |
| | a. Number | 19,088 | 17,672 |
| | b. Employee assessments with interest due | $ 58,996,442 | $ 52,475,661 |
| | c. Average refund due | $ 3,091 | $ 2,969 |
| 4. | Service retirees | | |
| | a. Number | 23,397 | 22,363 |
| | b. Total annual benefits | $ 429,368,138 | $ 397,132,017 |
| | c. Average annual benefit | $ 18,351 | $ 17,758 |
| 5. | Disabled retirees | | |
| | a. Number | 659 | 629 |
| | b. Total annual benefits | $ 5,493,176 | $ 5,197,543 |
| | c. Average annual benefit | $ 8,336 | $ 8,263 |
| 6. | Beneficiaries | | |
| | a. Number | 2,044 | 1,955 |
| | b. Total annual benefits | $ 24,346,383 | $ 22,823,021 |
| | c. Average annual benefit | $ 11,911 | $ 11,674 |

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

Table 7a

# Historical Summary of Active Member Data

Table 7b

| Year Ending June 30, (1) | Active Members: Number (2) | Active Members: Percent Increase (3) | Covered Payroll: Amount in $ Millions (4) | Covered Payroll: Percent Increase (5) | Average Salary: $ Amount (6) | Average Salary: Percent Increase (7) | Average Age (8) | Average Service (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 |
| 2005 | 63,362 | 0.7% | 2,209 | 3.1% | 34,865 | 2.4% | 45.6 | 9.3 |

## Plan Net Assets
## (Assets at Market or Fair Value)

| Item | Valuation as of June 30, 2005 | Valuation as of June 30, 2004 |
|---|---|---|
| (1) | (2) | (3) |
| 1. Cash and cash equivalents | $ 111,153,850 | $ 125,067,216 |
| 2. Receivables: | | |
| a. Contributions | $ 48,047,249 | $ 44,905,427 |
| b. Investment income | 24,930,349 | 26,692,162 |
| c. Investment sales proceeds - brokers | 11,614,106 | 10,281,258 |
| d. Other | 472 | 6,161 |
| e. Total receivables | $ 84,592,176 | $ 81,885,008 |
| 3. Investments | | |
| a. U.S. treasury securities | $ 617,732,732 | $ 518,020,368 |
| b. U.S. government agencies | 587,125,052 | 595,268,285 |
| c. Domestic corporate bonds | 686,748,201 | 740,380,071 |
| d. Domestic equities | 3,815,512,041 | 3,495,689,676 |
| e. International equities | 1,556,996,425 | 1,376,704,172 |
| f. Total investments | $ 7,264,114,451 | $ 6,726,062,572 |
| 4. Invested securities lending collateral | $ 822,073,281 | $ 866,864,808 |
| 5. Properties : land, building, furniture and equipment (at cost, less accumulated depreciation) | $ 6,600,613 | $ 5,094,285 |
| 6. Total assets | $ 8,288,534,371 | $ 7,804,973,889 |
| 7. Liabilities | | |
| a. Accounts payable | $ 4,592,510 | $ 4,255,759 |
| b. Accrued expenses | 244,204 | 208,941 |
| c. Refunds payable | 1,960,150 | 2,198,038 |
| d. Investment purchases payable - brokers | 8,131,044 | 19,226,642 |
| e. Due to other funds | 396,625 | 674,581 |
| f. Securities lending collateral | 822,073,281 | 866,864,808 |
| g. Total liabilities | $ 837,397,814 | $ 893,428,769 |
| 8. Total market value of assets available for benefits (Item 6 - Item 7g) | $ 7,451,136,557 | $ 6,911,545,120 |

Table 8A

# Allocation of Cash and Investments

| | | June 30, 2005 | June 30, 2004 |
|---|---|---|---|
| 1. | Cash and short-term equivalents | 1.5% | 1.8% |
| 2. | U.S. treasury securities | 8.4% | 7.6% |
| 3. | U.S. government agencies | 8.0% | 8.7% |
| 4. | Domestic corporate bonds | 9.3% | 10.8% |
| 5. | Domestic equities | 51.7% | 51.0% |
| 6. | International equities | 21.1% | 20.1% |
| 7. | Total investments | 100.0% | 100.0% |

Table 8b

## Reconciliation of Plan Net Assets

| | Year Ending June 30, 2005 (1) | Year Ending June 30, 2004 (2) |
|---|---|---|
| 1. Value of assets at beginning of year | | |
| a. Value reported in prior valuation | $ 6,911,545,120 | $ 6,083,358,784 |
| b. Prior period adjustments | --- | --- |
| c. Revised value | $ 6,911,545,120 | $ 6,083,358,784 |
| 2. Revenue for the year | | |
| a. Contributions | | |
| i. Member contributions (including redeposits and service purchases) | $ 173,127,813 | $ 166,318,926 |
| ii. Employer contributions | 194,260,033 | 185,881,431 |
| iii. Employer contributions for ARP members | 3,612,499 | 3,443,357 |
| iv. Total | $ 371,000,345 | $ 355,643,714 |
| b. Income | | |
| i. Interest, dividends, and other income | $ 184,818,949 | $ 143,189,101 |
| ii. Investment expenses | (15,495,255) | (13,473,623) |
| iii. Net | $ 169,323,694 | $ 129,715,478 |
| c. Net realized and unrealized gains | $ 486,788,294 | $ 794,213,571 |
| d. Total revenue | $ 1,027,112,333 | $ 1,279,572,763 |
| 3. Expenditures for the year | | |
| a. Refunds | $ 27,216,404 | $ 26,385,013 |
| b. Benefit payments | 454,983,452 | 422,418,366 |
| c. Administrative and miscellaneous expenses | 5,321,040 | 2,583,048 |
| d. Total expenditures | $ 487,520,896 | $ 451,386,427 |
| 4. Increase in net assets (Item 2 - Item 3) | $ 539,591,437 | $ 828,186,336 |
| 5. Value of assets at end of year (Item 1 + Item 4) | $ 7,451,136,557 | $ 6,911,545,120 |

Table 9

# DETERMINATION OF EXCESS EARNINGS TO BE DEFERRED

| **Year ended:** | **June 30, 2002** (1) | **June 30, 2003** (2) | **June 30, 2004** (3) | **June 30, 2005** (4) |
|---|---|---|---|---|
| 1. MVA at beginning of year | $ 6,667,001,941 | $ 6,011,150,752 | $ 6,083,358,784 | $6,911,545,120 |
| 2. Net new investments | | | | |
| a. Contributions | $ 328,593,452 | $ 337,902,406 | $ 355,643,714 | $ 371,000,345 |
| b. Benefits and refunds paid | (396,002,905) | (424,420,211) | (448,803,379) | (482,199,856) |
| c. Subtotal | $ (67,409,453) | $ (86,517,805) | $ (93,159,665) | $ (111,199,511) |
| 3. MVA at end of year | $ 6,011,150,752 | $ 6,083,358,784 | $ 6,911,545,120 | $7,451,136,557 |
| 4. Net MVA earnings ( 3 - 1 - 2c) | $ (588,441,736) | $ 158,725,837 | $ 921,346,001 | $ 650,790,948 |
| 5. Assumed investment return rate | 8.00% | 8.00% | 8.00% | 8.00% |
| 6. Expected return | $ 530,663,777 | $ 477,431,348 | $ 482,942,316 | $ 548,475,629 |
| 7. Excess return ( 4 - 6) | $(1,119,105,513) | $ (318,705,511) | $ 438,403,685 | $ 102,315,319 |
| 8. Excess return deferral percent | 20% | 40% | 60% | 80% |
| 9. Amount deferred | $ (223,821,103) | $ (127,482,204) | $ 263,042,211 | $ 81,852,255 |

Note : MVA is market value of assets.

TABLE 10A

## Development of Actuarial Value of Assets

| | | | |
|---|---|---|---|
| 1. | Market value of assets as of valuation | $ | 7,451,136,557 |
| 2. | Deferred amounts for fiscal year ending June 30, | | |
| | a. 2005 | $ | 81,852,255 |
| | b. 2004 | $ | 263,042,211 |
| | c. 2003 | $ | (127,482,204) |
| | d. 2002 | $ | (223,821,103) |
| | e. Total | $ | (6,408,841) |
| 3. | Actuarial value of assets (1) - (2e) | $ | 7,457,545,398 |
| 4. | Actuarial value as percent of market value | | 100.1% |

Table 10b

# ESTIMATION OF YIELDS

| | Year Ending June 30, 2005 (1) | Year Ending June 30, 2004 (2) |
|---|---|---|
| A. Market value yield | | |
| 1. Beginning of year market assets | $ 6,911,545,120 | $ 6,083,358,784 |
| 2. Investment income (including realized and unrealized gains and losses) | $ 656,111,988 | $ 923,929,049 |
| 3. End of year market assets | $ 7,451,136,557 | $ 6,911,545,120 |
| 4. Estimated dollar weighted market value yield | 9.6% | 15.3% |
| B. Actuarial value yield | | |
| 1. Beginning of year actuarial assets | $ 7,487,979,776 | $ 7,518,163,450 |
| 2. Actuarial return | $ 80,765,133 | $ 62,975,991 |
| 3. End of year actuarial assets | $ 7,457,545,398 | $ 7,487,979,776 |
| 4. Estimated actuarial value yield | 1.1% | 0.8% |

TABLE 11A

## History of Investment Return Rates

| Year Ending June 30, (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% |
| 2005 | 9.6% | 1.1% |

Table 11b

## INVESTMENT EXPERIENCE GAIN OR LOSS

| **Item** (1) | | **June 30, 2005** (2) | **June 30, 2004** (3) |
|---|---|---|---|
| 1. | Actuarial assets, beginning of year | $ 7,487,979,776 | $ 7,518,163,450 |
| 2. | Total contributions during year | $ 371,000,345 | $ 355,643,714 |
| 3. | Benefits and refunds paid | $ (482,199,856) | $ (448,803,379) |
| 4. | Assumed net investment income at 8% | | |
| | a. Beginning of year assets | $ 599,038,382 | $ 601,453,076 |
| | b. Contributions | 14,840,014 | 14,225,749 |
| | c. Benefits and refunds paid | (19,287,994) | (17,952,135) |
| | d. Total | $ 594,590,402 | $ 597,726,690 |
| 5. | Expected actuarial assets, end of year (Sum of items 1 through 4) | $ 7,971,370,667 | $ 8,022,730,475 |
| 6. | Actual actuarial assets, end of year | $ 7,457,545,398 | $ 7,487,979,776 |
| 7. | Asset gain (loss) for year (Item 6 - Item 5) | $ (513,825,269) | $ (534,750,699) |

TABLE 12A

# Total Experience Gain or Loss

| Item<br>(1) | June 30, 2005<br>(2) | June 30, 2004<br>(3) |
|---|---|---|
| A. Calculation of total actuarial gain or loss | | |
| 1. Unfunded actuarial accrued liability (UAAL), previous year | $ 2,439,078,791 | $ 1,748,463,522 |
| 2. Normal cost for the previous year | $ 293,651,367 | $ 277,118,760 |
| 3. Less: contributions for the year | $ (371,000,345) | $ (355,643,714) |
| 4. Interest at 8 % | | |
| a. On UAAL | $ 195,126,303 | $ 139,877,082 |
| b. On normal cost | 11,746,055 | 11,084,750 |
| c. On contributions | (14,840,014) | (14,225,749) |
| d. Total | $ 192,032,344 | $ 136,736,083 |
| 5. Expected UAAL (Sum of Items 1 - 4) | $ 2,553,762,157 | $ 1,806,674,651 |
| 6. Actual UAAL | $ 3,134,263,091 | $ 2,439,078,791 |
| 7. Total gain (loss) for the year (Item 5 - Item 6) | $ (580,500,934) | $ (632,404,140) |
| B. Source of gains and losses | | |
| 8. Asset gain (loss) for the year | $ (513,825,269) | $ (534,750,699) |
| 9. Liability experience gain (loss) for the year | $ (146,015,848) | $ 97,653,441 |
| 10. Assumption change | $ (212,691,513) | --- |
| 11. Benefit change | N/A | N/A |
| 12. Total | $ (580,500,934) | $ (632,404,140) |

Table 12b

# History of Cash Flow

Table 13

| Year Ending June 30, (1) | Benefit Contributions[1] (2) | Expenditures: 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% |
| 2005 | 371.0 | (455.0) | (27.2) | (5.3) | 0.0 | (487.5) | (116.5) | 7,451.1 | -1.6% |

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).

## SOLVENCY TEST

| | June 30, 2005<br>(1) | June 30, 2004<br>(2) |
|---|---|---|
| 1. Actuarial accrued liability (AAL) | | |
| a. Active member contributions | $ 1,927,703,125 | $ 1,880,263,185 |
| b. Retirees and beneficiaries | 4,875,273,149 | 4,523,337,929 |
| c. Active and inactive members (employer financed) | 3,788,832,215 | 3,523,457,453 |
| d. Total | $10,591,808,489 | $ 9,927,058,567 |
| 2. Actuarial value of assets | $ 7,457,545,398 | $ 7,487,979,776 |
| 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) | 17% | 31% |

TABLE 14

## Historical Retired Participants' 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 |
| 2005 | 26,100 | 1,466 |

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 06/30/2005

### 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 | 489 | 498 | 203 | 67 | 41 | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 1,314 |
| | $18,296 | $20,026 | $19,246 | $18,356 | $16,776 | $19,279 | $0 | $0 | $0 | $0 | $0 | $0 | $18,960 |
| 25-29 | 563 | 990 | 758 | 635 | 425 | 547 | 8 | 0 | 0 | 0 | 0 | 0 | 3,926 |
| | $25,633 | $26,505 | $28,443 | $29,838 | $30,097 | $29,345 | $27,043 | $0 | $0 | $0 | $0 | $0 | $28,079 |
| 30-34 | 477 | 881 | 732 | 664 | 572 | 1,995 | 296 | 2 | 0 | 0 | 0 | 0 | 5,619 |
| | $28,789 | $26,836 | $27,040 | $29,342 | $30,564 | $33,860 | $33,148 | $30,424 | $0 | $0 | $0 | $0 | $30,532 |
| 35-39 | 1,325 | 1,204 | 817 | 651 | 569 | 2,134 | 1,246 | 241 | 5 | 0 | 0 | 0 | 8,192 |
| | $25,974 | $27,251 | $27,382 | $28,389 | $30,810 | $32,476 | $37,911 | $36,659 | $38,305 | $0 | $0 | $0 | $30,661 |
| 40-44 | 497 | 760 | 647 | 637 | 610 | 2,385 | 1,597 | 1,033 | 289 | 9 | 0 | 0 | 8,464 |
| | $25,404 | $26,129 | $25,750 | $26,748 | $28,359 | $31,236 | $36,322 | $41,016 | $40,913 | $36,869 | $0 | $0 | $31,960 |
| 45-49 | 430 | 756 | 610 | 585 | 553 | 2,576 | 2,014 | 1,444 | 1,098 | 383 | 10 | 0 | 10,459 |
| | $29,157 | $26,119 | $26,225 | $29,317 | $28,013 | $31,210 | $36,383 | $43,256 | $47,905 | $45,810 | $37,195 | $0 | $35,144 |
| 50-54 | 367 | 620 | 516 | 528 | 540 | 2,257 | 2,000 | 1,742 | 1,258 | 994 | 249 | 1 | 11,072 |
| | $30,600 | $30,500 | $29,742 | $30,250 | $30,859 | $33,651 | $36,771 | $42,367 | $49,669 | $53,172 | $53,225 | $56,832 | $38,843 |
| 55-59 | 255 | 481 | 387 | 392 | 388 | 1,607 | 1,495 | 1,629 | 1,110 | 760 | 422 | 51 | 8,977 |
| | $35,705 | $31,415 | $31,057 | $33,768 | $32,839 | $34,659 | $38,333 | $42,871 | $50,501 | $54,178 | $57,321 | $63,151 | $41,183 |
| 60-64 | 120 | 196 | 172 | 163 | 164 | 750 | 648 | 621 | 428 | 335 | 190 | 63 | 3,850 |
| | $44,240 | $32,682 | $31,462 | $35,333 | $35,684 | $33,474 | $37,013 | $42,507 | $48,012 | $54,827 | $67,000 | $72,677 | $41,675 |
| 65 & Over | 64 | 77 | 88 | 68 | 96 | 309 | 242 | 185 | 112 | 109 | 84 | 55 | 1,489 |
| | $27,517 | $21,618 | $26,648 | $21,963 | $29,153 | $30,481 | $29,403 | $37,476 | $48,490 | $44,070 | $58,813 | $74,745 | $35,471 |
| Total | 4,587 | 6,463 | 4,930 | 4,390 | 3,958 | 14,576 | 9,546 | 6,897 | 4,300 | 2,590 | 955 | 170 | 63,362 |
| | $27,053 | $26,978 | $27,467 | $29,338 | $30,151 | $32,539 | $36,717 | $42,148 | $48,636 | $52,153 | $58,100 | $70,395 | $34,865 |

# Statistical Section

# Participating Employers
## June 30, 2005

### 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 Mountain
Jemez Valley
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
Alma D'Arte Charter High School
Amistad Elementary
Amy Biehl High School
Anansi
Bridge Academy
Cesar Chavez Community School
Cottonwood Valley
Creative Education Preparatory Institute #1
Creative Education Preparatory Institute #2
East Mountain High School
Horizon Academy Northwest
Horizon Academy South
Horizon Academy West
Jefferson Montessori Academy
La Academia de Esperanza
La Academia de Lengua y Cultura
La Academia de Idiomas y Cultura
Lacy Simms
Learning Community
Los Puentes
Monte del Sol
Montessori of the Rio Grande
Moreno Valley
Nuestros Valores
Public Academy for Performing Arts
Red River Valley
Robert F. Kennedy
Roots and Wings
San Diego Riverside
School for Integrated Academies and Technologies
Sidney Gutierrez
South Valley Academy
Southwest Secondary Learning Center
Taos Municipal
Turquoise Trail
Twenty-First Century
Walatowa

### SPECIAL SCHOOLS

NM Military Institute
NM School for the Deaf
NM School for the Visually Handicapped
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
NM Activities Association
NM Boys School
NM Department of Corrections
NM Department of Education
NM Department of Health
NM Department of Vocational Rehabilitation
NM Educational Retirement Board
Northeast Regional Education Coop
Pecos Valley Regional Education Coop #8
Region IX Educational Coop
Regional Education Coop #7
Regional Educational Center #6
Southwest Regional Education Coop
Youth Diagnostic Center

## Growth of Retired Participants

| Year Ending June 30 | Number of Retirees | All Retirees Average Monthly Benefit |
|---|---|---|
| (1) | (2) | (3) |
| 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 |
| 2005 | 26,100 | 1,466 |

## History of Contribution Rates

| Fiscal Year Beginning July 1 | Employee Rate % | Employer Rate % | Total Rate % |
|---|---|---|---|
| (1) | (2) | (3) | (4) |
| 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 |
| 2005 | 7.60 | 8.65 | 16.25 |

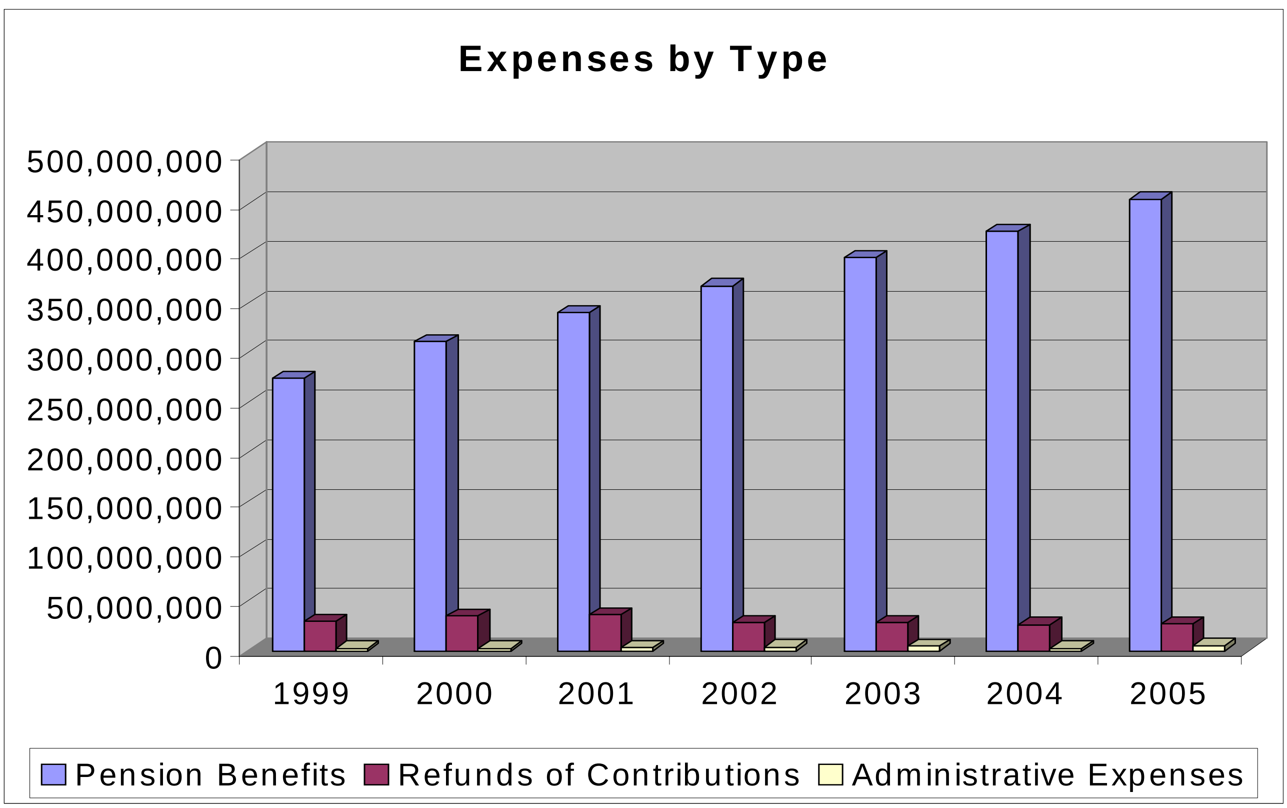
## Membership Data

| | | June 30, 2005 (1) | June 30, 2004 (2) |
|---|---|---|---|
| 1. | **Active members** | | |
| a. | Number | 63,362 | 62,901 |
| b. | Total payroll supplied by System (annualized) | $2,209,133,721 | $2,142,449,003 |
| c. | Average salary | $ 34,865 | $ 34,061 |
| d. | Average age | 45.6 | 45.6 |
| e. | Average service | 9.3 | 9.4 |
| 2. | **Vested inactive members** (excluding pending refunds) | | |
| a. | Number | 6,340 | 5,995 |
| b. | Total annual deferred benefits | $ 37,197,069 | $ 33,933,907 |
| c. | Average annual deferred benefit | $ 5,867 | $ 5,698 |
| 3. | **Nonvested inactive members and vested pending refunds** | | |
| a. | Number | 19,008 | 17,672 |
| b. | Employee assessments with interest due | $ 58,996,442 | $ 52,475,661 |
| c. | Average refund due | $ 3,091 | $ 2,969 |
| 4. | **Service retirees** | | |
| a. | Number | 23,397 | 22,363 |
| b. | Total annual benefits | $ 429,368,138 | $ 397,132,017 |
| c. | Average annual benefit | $ 18,351 | $ $17,758 |
| 5. | **Disabled retirees** | | |
| a. | Number | 659 | 629 |
| b. | Total annual benefits | $ 5,493,176 | $ 5,197,543 |
| c. | Average annual benefit | $ 8,336 | $ 8,263 |
| 6. | **Beneficiaries** | | |
| a. | Number | 2,044 | 1,955 |
| b. | Total annual benefits | $ 24,346,383 | $ 22,823,021 |
| c. | Average annual benefit | $ 11,911 | $ 11,674 |

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

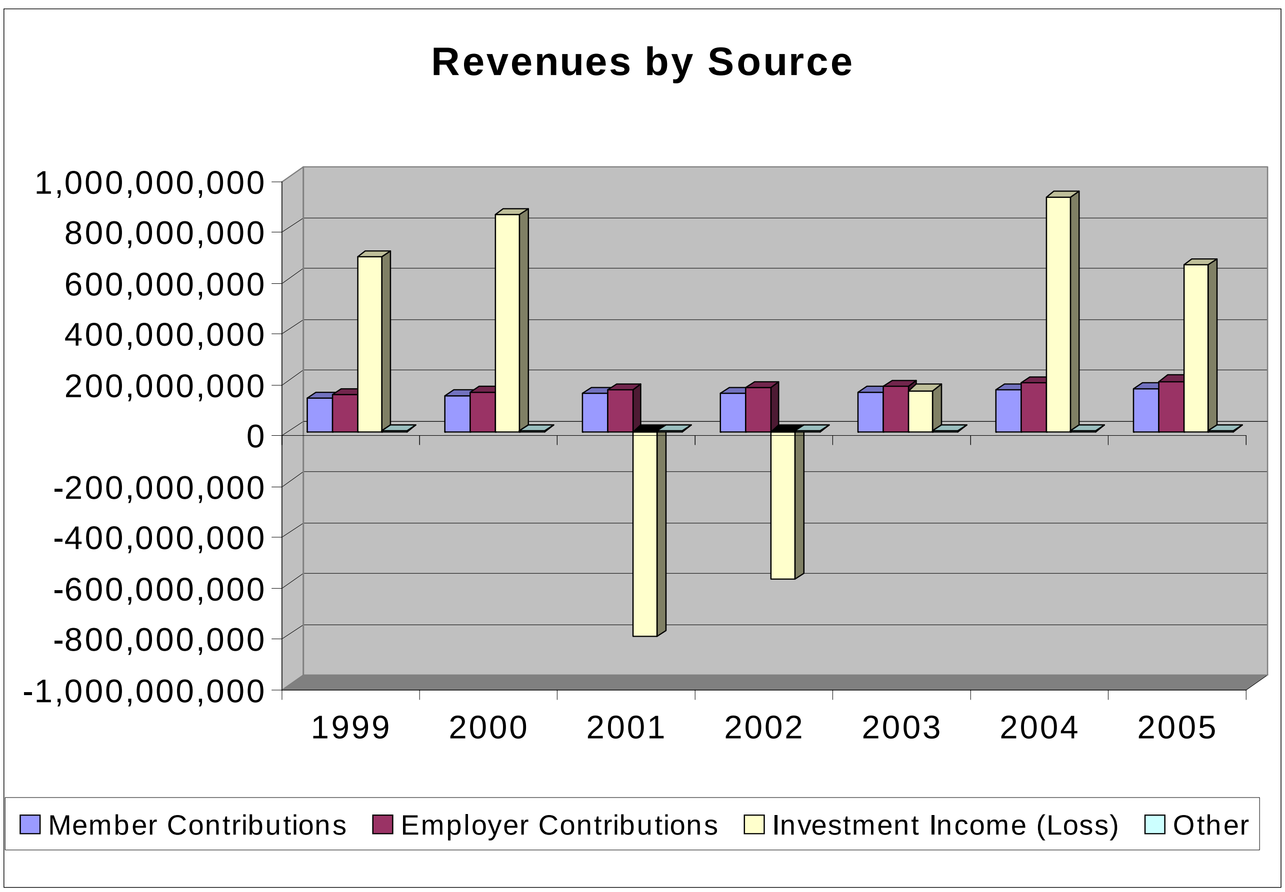
# SCHEDULE OF EXPENSES BY TYPE

| 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 |
| 2005 | 454,983,452 | 27,214,675 | 5,320,667 | 487,518,794 |



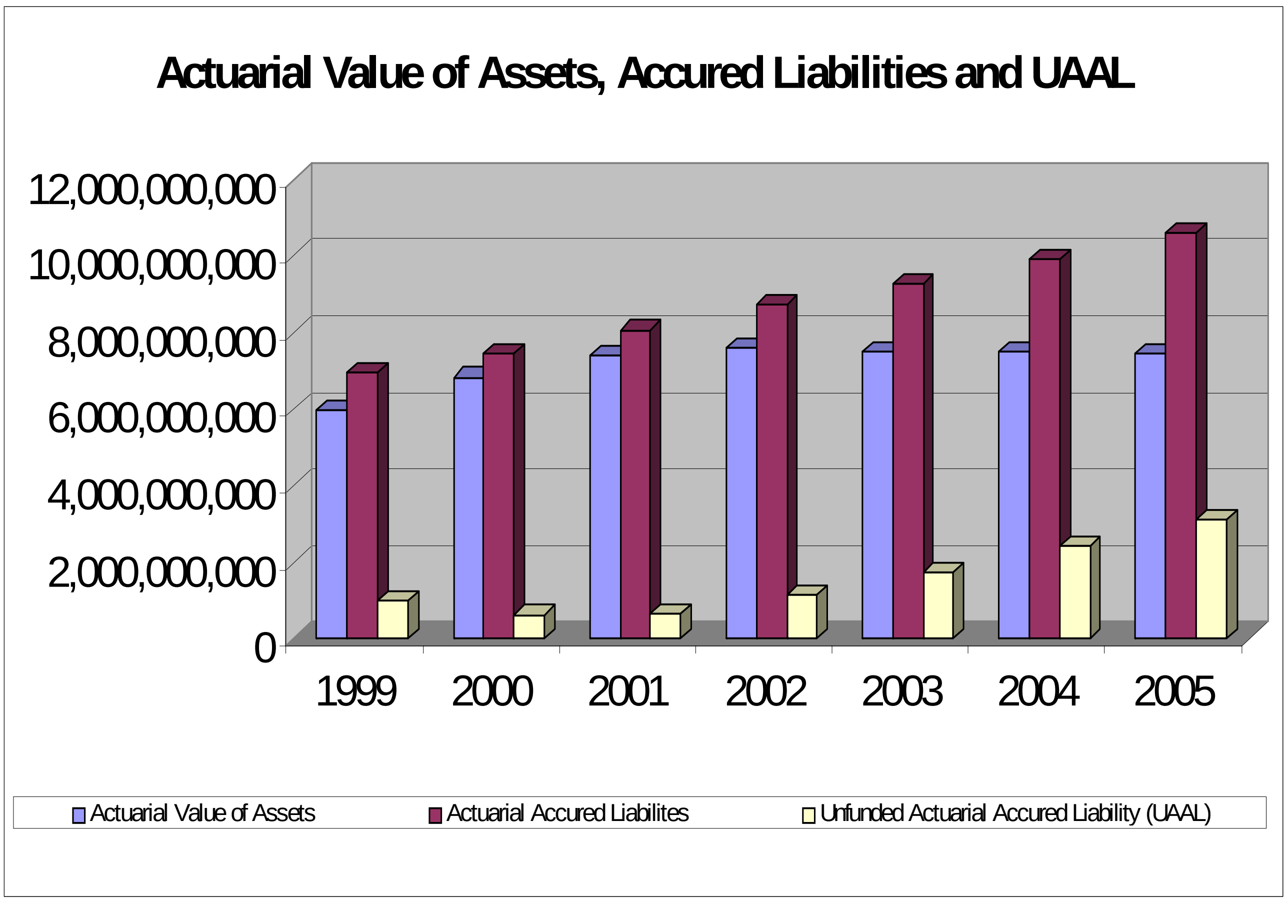
## Schedule of Revenues by Source

| 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 |
| 2005 | 169,099,212 | 197,872,532 | 656,111,614 | 4,028,602 | 1,027,111,960 |



# 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 |
| 2005 | 7,457,547,183 | 10,591,808,489 | 3,134,261,306 |



# NOTES