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EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Financial Statements,
Required Supplementary Schedules, and
Additional Information

June 30, 2006

(With Independent Auditors' Report Thereon)

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

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KPMG LLP
Suite 2000
303 Peachtree Street, NE
Atlanta, GA 30308

Independent Auditors' Report

The Board of Trustees
Employees' Retirement System of Georgia:

We have audited the accompanying financial statements of the Employees' Retirement System of Georgia (the System), a component unit of the state of Georgia, as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the System's net assets as of June 30, 2006 and the changes in net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress, and schedules of employer contributions on pages 3 through 8 and pages 34 through 35, respectively, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information, and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the administrative expenses schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

KPMG LLP

September 22, 2006

This section provides a discussion and analysis of the financial performance of the Employees' Retirement System of Georgia (the "System") for the year ended June 30, 2006. The discussion and analysis of the System's financial performance is within the context of the accompanying basic financial statements, notes to the financial statements, required supplementary schedules, and additional information following this section.

Effective July 1, 2005, the System assumed legal responsibility for administering the 401(k), 457, and 403(b) Deferred Compensation Plans. For comparative purposes, the year ended June 30, 2005 amounts have been restated to include balances related to these plans. The System is responsible for administering a cost-sharing, multiple-employer defined benefit pension plan for various employer agencies of Georgia, along with seven other defined benefit pension plans and four defined contribution plans.

The defined benefit pension plans include:

- Employees' Retirement System (ERS)
- Public School Employees' Retirement System (PSERS)
- Legislative Retirement System (LRS)
- Georgia Judicial Retirement System (GJRS)
- Georgia Military Pension Fund (GMPF)
- State Employees' Assurance Department (SEAD)
- Superior Court Judges Retirement Fund (SCJRF)
- District Attorneys Retirement Fund (DARF)

The defined contribution retirement plans include:

- Georgia Defined Contribution Plan (GDCP)
- 401(k) Deferred Compensation Plan (401(k))
- 457 Deferred Compensation Plan (457)
- 403(b) Deferred Compensation Plan (403(b))

Financial Highlights

The following highlights are discussed in more detail later in this analysis:

- The net assets of the System increased by $359 million, or 2.3%, from $15.6 billion at June 30, 2005 to $15.9 billion at June 30, 2006. The improvement was primarily due to the increase in the fair value of investments.
- For the year ended June 30, 2006, the total additions to net assets were $1.4 billion compared to $1.5 billion for the year ended June 30, 2005. For year ended June 30, 2006, the additions consisted of employer and member contributions totaling $417 million, insurance premiums of $8 million, net investment income of $957 million, participant fees of $0.4 million, and other income of $1 million. For year ended June 30,

2005, the additions consisted of employer and member contributions totaling $385 million, insurance premiums of $8 million, net investment income of $1.1 billion, and other income of $1 million.

- Net investment income of $957 million (comprised of interest and dividend income, the change in fair value of investments, and other reduced by investment expenses) represents a $165 million decrease, compared to the net investment income of $1.1 billion for the year ended June 30, 2005. The decrease was primarily due to lower returns in the fixed income markets in 2006 compared to 2005.
- The total deductions were $1.0 billion and $923 million for years ended June 30, 2006 and 2005, respectively. For the year ended June 30, 2006, the deductions consisted of benefit payments of $966 million, refunds of $21 million, death benefits of $23 million, and administrative expenses of $15 million. For the year ended June 30, 2005, the deductions consisted of benefit payments of $872 million, refunds of $17 million, death benefits of $22 million, and administrative expenses of $12 million.
- Benefit payments paid to retirees and beneficiaries increased by $94 million, or 10.8% from $872 million in 2005 to $966 million in 2006. This increase was the result of increases in the number of retirees and beneficiaries receiving benefits across all plans and postretirement cost-of-living increases in benefits.

Overview of the Financial Statements

The basic financial statements include (1) the combined statements of net assets and changes in net assets, (2) the combining statements of net assets and changes in net assets, and (3) notes to the financial statements. The System also includes in this report additional information to supplement the financial statements.

In addition, the System presents two types of required supplementary schedules, which provide historical trend information about the plans' funding. The two types of schedules include (1) a schedule of funding progress and (2) a schedule of employer contributions.

The System prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. These statements provide information about the System's overall financial status.

Description of the Financial Statements

The *Combined Statement of Net Assets* is the statement of financial position presenting information that includes all of the System's assets and liabilities, with the balance representing the *Net Assets Held in Trust for Pension Benefits*. The investments of the System in this statement are presented at fair value. This statement is presented on page 9.

The *Combined Statement of Changes in Net Assets* reports how the System's net assets changed during the fiscal year. The additions and deductions to net assets are summarized in this statement. The additions include contributions to the retirement plans from employers and members, group life insurance premiums, participant fees, and investment income, which includes interest and dividends and the net increase in the fair value of investments. The deductions include benefit payments, life insurance death benefit payments, refunds of member contributions and interest, and administrative expenses. This statement is presented on page 10.

The *Combining Statements of Net Assets and Combining Statements of Changes in Net Assets* present the financial position and change in financial position for each of the funds administered by the System, including

(Continued)

the Pooled Investment Fund that holds and invests funds from each of the participating plans and funds. These statements begin on page 11.

Notes to the Financial Statements are presented to provide the information necessary for a full understanding of the financial statements. The notes to the financial statements begin on page 15.

There are two *Required Supplementary Schedules* included in this report. These required schedules are applicable to five of the defined benefit plans: ERS, PSERS, LRS, GJRS, and GMPF. The *Schedule of Funding Progress* presents historical trend information about the actuarially determined funded status of the plans from a long-term, ongoing plan perspective, and the progress made in accumulating sufficient assets to fund benefit payments as they become due. The *Schedule of Employer Contributions* presents historical trend information about the annual required contributions of employers and percentage of such contributions in relation to actuarially determined requirements for the years presented. The required supplementary schedules begin on page 34.

Notes to Required Supplementary Schedules are presented to provide the information necessary for a full understanding of the supplementary schedules. The notes to required supplementary schedules begin on page 36.

Additional information is presented, beginning on page 39. This section includes the *Administrative Expenses Schedule*. The *Administrative Expenses Schedule* presents the expenses incurred in the administration of these plans and funds, and the contributions from each plan and fund to provide for these expenses.

Financial Analysis of the System

A summary of the System's net assets at June 30, 2006 and 2005 is as follows:

	Net assets (in thousands) June 30 2006	2005 (Restated)	Amount change	Percentage change
Assets:				
Cash and receivables	$ 181,010	$ 130,017	$ 50,993	39.2%
Investments	15,802,360	15,480,946	321,414	2.1%
Capital assets, net	11,311	6,271	5,040	80.4%
Total assets	15,994,681	15,617,234	377,447	2.4%
Liabilities:				
Due to brokers and accounts payable	64,150	46,084	18,066	39.2%
Net assets	$ 15,930,531	$ 15,571,150	$ 359,381	2.3%

The following table presents the investment allocation at June 30, 2006 and 2005:

	2006	2005 (Restated)
Asset allocation at June 30 (in percentages):		
Equities	58.6%	56.8%
U.S. Treasuries	24.3%	23.5%
U.S. Agencies	5.8%	8.0%
Corporate and other bonds	5.2%	5.7%
Mutual Funds	5.3%	4.9%
Short-term securities	0.8%	1.1%
Asset allocation at June 30 (in thousands):		
Equities	$ 9,252,645	$ 8,786,268
U.S. Treasuries	3,843,470	3,636,764
U.S. Agencies	921,796	1,240,728
Corporate and other bonds	819,648	891,191
Mutual Funds	843,522	755,816
Short-term securities	121,279	170,179
	$ 15,802,360	$ 15,480,946

The total investment portfolio increased $321 million from 2005, which is due primarily to an increase in the fair value of investments.

The investment rate of return in fiscal year ended June 30, 2006 was 6.2%, with an 11.1% return on equities and a (1.4%) return on fixed income investments. The five-year annualized rate of return on investments at June 30, 2006 was 4.7%, with a 3.9% return on equities and a 5.4% return on fixed income investments.

A summary of the changes in the System's net assets for the years ended June 30, 2006 and 2005 is as follows:

	Changes in net assets (in thousands)			
	2006	**2005 (Restated)**	**Amount change**	**Percentage change**
Additions:				
Employer contributions	$ 282,126	$ 254,621	$ 27,505	10.8%
Member contributions	135,276	130,441	4,835	3.7%
Participant fees	449	451	(2)	(0.4)%
Insurance premiums	7,699	8,424	(725)	(8.6)%
Net investment income	956,794	1,122,191	(165,397)	(14.7)%
Other	903	903	—	0.0%
Total additions	1,383,247	1,517,031	(133,784)	(8.8)%
Deductions:				
Benefit payments	965,626	871,780	93,846	10.8%
Refunds	20,907	17,001	3,906	23.0%
Death benefits	22,772	21,916	856	3.9%
Administrative expenses	14,561	12,270	2,291	18.7%
Total deductions	1,023,866	922,967	100,899	10.9%
Net increase in net assets	$ 359,381	$ 594,064	$ (234,683)	(39.5)%

Additions – The System accumulates resources needed to fund benefit payments through contributions and returns on invested funds. In fiscal year 2006, total contributions increased 8.4%, reflecting a contribution percentage that remained unchanged with a modest overall salary increase. Net investment income decreased by $165 million. This decrease is principally due to lower returns in the fixed income markets in 2006 as compared to 2005.

Deductions – For fiscal year 2006, total deductions increased 10.9%, primarily because of a 10.8% increase in benefit payments. This was due to an increase of approximately 7.8% in the number of retirees receiving benefit payments across all defined benefit plans and to postretirement cost-of-living increases in benefits. Refunds increased 23.0%, which was primarily due to an increase in the number of refunds processed during 2006. Administrative expenses increased 18.7% over the prior year, due primarily to increases in salaries, accounting and investment services, and computer services.

Funding Status

The schedules of funding progress and employer contributions provide information regarding how the plans are performing and funded from an actuarial perspective. The information is based upon actuarial valuations

(Continued)

conducted by certified actuaries. The funding ratio, which is presented on the schedule of funding progress, indicates the ratio of the actuarial value of assets and the actuarial accrued liabilities. The higher this ratio, the better position the System is in with regards to its funding requirements. The June 30, 2005 and 2004 actuarial valuations, the latest valuations available, indicate the actuarial value of assets and funding ratios for the five applicable defined benefit retirement plans were as follows:

	Actuarial value of plan assets (in thousands)		Funding ratio	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
ERS	$ 13,134,472	$ 12,797,389	97.2%	97.6%
PSERS	753,767	743,815	112.3%	111.5%
LRS	28,462	27,892	121.0%	126.6%
GJRS	264,924	250,313	124.3%	127.4%
GMPF	2,176	1,250	15.1%	10.1%

The System continues to be in a sound financial position, as evidenced by the funding ratios. A funding ratio over 100% indicates the plans, from an actuarial perspective, have more assets available than will be necessary to satisfy the obligations of the plans.

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Employees' Retirement System of Georgia, Two Northside 75, Suite 300, Atlanta, GA 30318.

EMPLOYEES’ RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the Employees’ Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Combined Statement of Net Assets
As of June 30, 2006
(With Comparative Totals as of June 30, 2005)

(In thousands)

ASSETS	**2006**	**2005 (Restated)**
CASH	$ 4,429	$ 12,278
RECEIVABLES:		
Employer and member contributions	35,200	31,550
Interest and dividends	82,317	74,409
Due from brokers for securities sold	58,919	11,780
Other	145	—
Total receivables	176,581	117,739
INVESTMENTS – AT FAIR VALUE:		
Short-term	121,279	170,179
U.S. Treasuries	3,843,470	3,636,764
U.S. Agencies	921,796	1,240,728
Corporate and other bonds	819,648	891,191
Common stocks	9,252,645	8,786,268
Mutual funds	843,522	755,816
Total investments	15,802,360	15,480,946
CAPITAL ASSETS, NET	11,311	6,271
Total assets	15,994,681	15,617,234
LIABILITIES		
Accounts payable and other	17,437	20,311
Due to brokers for securities purchased	46,713	25,773
Total liabilities	64,150	46,084
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 15,930,531	$ 15,571,150

(A schedule of funding progress is presented on page 34.)

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Combined Statement of Changes in Net Assets
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

(In thousands)

	2006	2005 (Restated)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS – BEGINNING OF YEAR	$ 15,571,150	$ 14,977,086
ADDITIONS:		
Contributions:		
Employer	282,126	254,621
Member	135,276	130,441
Participant fees	449	451
Insurance premiums	7,699	8,424
Administrative expense allotment	903	903
Investment income:		
Net increase in fair value of investments	535,488	736,262
Interest and dividends	435,713	401,861
Other	731	1,331
Total investment income	971,932	1,139,454
Less investment expenses	(15,138)	(17,263)
Net investment income	956,794	1,122,191
Total additions	1,383,247	1,517,031
DEDUCTIONS:		
Benefit payments	965,626	871,780
Refunds of member contributions and interest	20,907	17,001
Death benefits	22,772	21,916
Administrative expenses	14,561	12,270
Total deductions	1,023,866	922,967
Net increase	359,381	594,064
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS – END OF YEAR	$ 15,930,531	$ 15,571,150

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the Employees' Retirement System of Georgia)

(A Component Unit of the State of Georgia)

Combining Statement of Net Assets

June 30, 2006

(In thousands)

			Defined Contribution Plans					
Assets	**Defined Benefit Plans**	**Pooled Investment Fund**	**Georgia Defined Contribution Plan**	**401(k) Plan**	**457 Plan**	**403(b) Plan**	**Eliminations**	**Total 2006**
Cash	$ 3,160	$ 1	$ 76	$ 603	$ 583	$ 6	$ —	$ 4,429
Receivables:								
Employer and member contributions	31,618	—	1,220	1,568	794	—	—	35,200
Interest and dividends	—	82,281	36	—	—	—	—	82,317
Due from brokers for securities sold	—	58,913	6	—	—	—	—	58,919
Other	—	—	27	118	—	—	—	145
Unremitted insurance premiums	1,110	—	—	—	—	—	(1,110)	—
Total receivables	32,728	141,194	1,289	1,686	794	—	(1,110)	176,581
Investments – at fair value:								
Short-term	—	107,924	13,355	—	—	—	—	121,279
U.S. Treasuries	—	3,833,569	9,901	—	—	—	—	3,843,470
U.S. Agencies	—	921,796	—	—	—	—	—	921,796
Corporate and other bonds	—	819,648	—	—	—	—	—	819,648
Common stocks	—	9,252,645	—	—	—	—	—	9,252,645
Mutual funds	—	—	—	270,847	572,212	463	—	843,522
Equity in pooled investment fund	14,982,185	—	45,809	—	—	—	(15,027,994)	—
Total investments	14,982,185	14,935,582	69,065	270,847	572,212	463	(15,027,994)	15,802,360
Capital assets, net	11,311	—	—	—	—	—	—	11,311
Total assets	15,029,384	15,076,777	70,430	273,136	573,589	469	(15,029,104)	15,994,681
Liabilities								
Accounts payable and other	14,931	2,070	—	253	183	—	—	17,437
Due to brokers for securities purchased	—	46,713	—	—	—	—	—	46,713
Insurance premiums payable	1,110	—	—	—	—	—	(1,110)	—
Total liabilities	16,041	48,783	—	253	183	—	(1,110)	64,150
Net assets held in trust for pension benefits	$ 15,013,343	$ 15,027,994	$ 70,430	$ 272,883	$ 573,406	$ 469	$ (15,027,994)	$ 15,930,531

(A schedule of funding progress is presented on page 34.)

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the Employees' Retirement System of Georgia)

(A Component Unit of the State of Georgia)

Defined Benefit Plans - Combining Statement of Net Assets

June 30, 2006

(In thousands)

	Defined Benefit Plans								
Assets	**Employees' Retirement System**	**Public School Employees' Retirement System**	**Legislative Retirement System**	**Georgia Judicial Retirement System**	**State Employees' Assurance Department**	**Georgia Military Pension Fund**	**Superior Court Judges Retirement Fund**	**District Attorneys Retirement Fund**	**Defined Benefit Plans Total**
Cash	$ 3,075	$ 2	$ 40	$ 15	$ 6	$ 2	$ 19	$ 1	$ 3,160
Receivables:									
Employer and member contributions	31,183	—	—	434	—	—	1	—	31,618
Interest and dividends	—	—	—	—	—	—	—	—	—
Due from brokers for securities sold	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Unremitted insurance premiums	—	—	—	—	1,110	—	—	—	1,110
Total receivables	31,183	—	—	434	1,110	—	1	—	32,728
Investments – at fair value:									
Short-term	—	—	—	—	—	—	—	—	—
U.S. Treasuries	—	—	—	—	—	—	—	—	—
U.S. Agencies	—	—	—	—	—	—	—	—	—
Corporate and other bonds	—	—	—	—	—	—	—	—	—
Common stocks	—	—	—	—	—	—	—	—	—
Mutual funds	—	—	—	—	—	—	—	—	—
Equity in pooled investment fund	13,003,559	744,226	28,281	268,929	932,829	3,051	1,310	—	14,982,185
Total investments	13,003,559	744,226	28,281	268,929	932,829	3,051	1,310	—	14,982,185
Capital assets, net	11,311	—	—	—	—	—	—	—	11,311
Total assets	13,049,128	744,228	28,321	269,378	933,945	3,053	1,330	1	15,029,384
Liabilities									
Accounts payable and other	14,194	539	19	148	—	—	30	1	14,931
Due to brokers for securities purchased	—	—	—	—	—	—	—	—	—
Insurance premiums payable	1,073	—	14	23	—	—	—	—	1,110
Total liabilities	15,267	539	33	171	—	—	30	1	16,041
Net assets held in trust for pension benefits	$ 13,033,861	$ 743,689	$ 28,288	$ 269,207	$ 933,945	$ 3,053	$ 1,300	$ —	$ 15,013,343

(A schedule of funding progress is presented on page 34.)

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the Employees' Retirement System of Georgia)

(A Component Unit of the State of Georgia)

Combining Statement of Changes in Net Assets

Year ended June 30, 2006

(In thousands)

			Defined Contribution Plans					
	Defined Benefit Plans	**Pooled Investment Fund**	**Georgia Defined Contribution Plan**	**401(k) Plan**	**457 Plan**	**403(b) Plan**	**Eliminations**	**Total 2006**
Net assets held in trust for pension benefits – beginning of year	$ 14,745,806	$ 14,762,805	$ 65,778	$ 221,678	$ 537,622	$ 266	$ (14,762,805)	$ 15,571,150
Additions:								
Contributions:								
Employer	266,748	—	—	15,378	—	—	—	282,126
Member	56,902	—	14,677	34,557	28,967	173	—	135,276
Participant fees	—	—	—	252	197	—	—	449
Insurance premiums	7,699	—	—	—	—	—	—	7,699
Administrative expense allotment	903	—	—	—	—	—	—	903
Investment income:								
Net increase (decrease) in fair value of investments	—	496,405	(11)	15,144	23,933	17	—	535,488
Interest and dividends	206	412,200	865	4,795	17,634	13	—	435,713
Other	—	—	—	202	529	—	—	731
Less investment expenses	(1,540)	(13,145)	(2)	(252)	(199)	—	—	(15,138)
Allocation of investment earnings	892,811	—	2,649	—	—	—	(895,460)	—
Net investment income	891,477	895,460	3,501	19,889	41,897	30	(895,460)	956,794
Total additions	1,223,729	895,460	18,178	70,076	71,061	203	(895,460)	1,383,247
Deductions:								
Benefit payments	914,005	—	—	17,566	34,055	—	—	965,626
Refunds of member contributions and interest	7,691	—	13,216	—	—	—	—	20,907
Death benefits	22,772	—	—	—	—	—	—	22,772
Administrative expenses	11,724	—	310	1,305	1,222	—	—	14,561
Total deductions	956,192	—	13,526	18,871	35,277	—	—	1,023,866
Transfers to systems from pooled investment fund	—	(630,271)	—	—	—	—	630,271	—
Net increase in net assets	267,537	265,189	4,652	51,205	35,784	203	(265,189)	359,381
Net assets held in trust for pension benefits – end of year	$ 15,013,343	$ 15,027,994	$ 70,430	$ 272,883	$ 573,406	$ 469	$ (15,027,994)	$ 15,930,531

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the Employees' Retirement System of Georgia)

(A Component Unit of the State of Georgia)

Defined Benefit Plans - Combining Statement of Changes in Net Assets

Year ended June 30, 2006

(In thousands)

	Defined Benefit Plans								
	Employees' Retirement System	**Public School Employees' Retirement System**	**Legislative Retirement System**	**Georgia Judicial Retirement System**	**State Employees' Assurance Department**	**Georgia Military Pension Fund**	**Superior Court Judges Retirement Fund**	**District Attorneys Retirement Fund**	**Defined Benefit Plans Total**
Net assets held in trust for pension benefits – beginning of year	$ 12,825,126	$ 737,930	$ 27,835	$ 256,919	$ 894,601	$ 2,181	$ 1,214	$ —	$ 14,745,806
Additions:									
Contributions:									
Employer	258,482	3,638	54	1,683	—	891	1,910	90	266,748
Member	50,963	1,380	324	4,221	—	—	14	—	56,902
Participant fees	—	—	—	—	—	—	—	—	—
Insurance premiums	—	—	—	—	7,699	—	—	—	7,699
Administrative expense allotment	—	588	110	175	—	—	30	—	903
Investment income:									
Net increase (decrease) in fair value of investments	—	—	—	—	—	—	—	—	—
Interest and dividends	206	—	—	—	—	—	—	—	206
Other	—	—	—	—	—	—	—	—	—
Less investment expenses	(1,540)	—	—	—	—	—	—	—	(1,540)
Allocation of investment earnings	776,058	44,561	1,684	15,665	54,642	131	70	—	892,811
Net investment income	774,724	44,561	1,684	15,665	54,642	131	70	—	891,477
Total additions	1,084,169	50,167	2,172	21,744	62,341	1,022	2,024	90	1,223,729
Deductions:									
Benefit payments	857,860	43,504	1,591	8,902	—	150	1,908	90	914,005
Refunds of member contributions and interest	6,978	316	18	379	—	—	—	—	7,691
Death benefits	—	—	—	—	22,772	—	—	—	22,772
Administrative expenses	10,596	588	110	175	225	—	30	—	11,724
Total deductions	875,434	44,408	1,719	9,456	22,997	150	1,938	90	956,192
Transfers to systems from pooled investment fund	—	—	—	—	—	—	—	—	—
Net increase in net assets	208,735	5,759	453	12,288	39,344	872	86	—	267,537
Net assets held in trust for pension benefits – end of year	$ 13,033,861	$ 743,689	$ 28,288	$ 269,207	$ 933,945	$ 3,053	$ 1,300	$ —	$ 15,013,343

See accompanying notes to financial statements.

(1) General

The accompanying basic financial statements of the Employees' Retirement System of Georgia, including all plans and funds administered by the Employees' Retirement System of Georgia (collectively, the System), is comprised of the Employees' Retirement System of Georgia (ERS), Public School Employees' Retirement System (PSERS), Legislative Retirement System (LRS), Georgia Judicial Retirement System (GJRS), Georgia Military Pension Fund (GMPF), State Employees' Assurance Department (SEAD), Superior Court Judges Retirement Fund (SCJRF), District Attorneys Retirement Fund (DARF), Georgia Defined Contribution Plan (GDCP), 401(k) Deferred Compensation Plan (401(k) Plan), 457 Deferred Compensation Plan (457 Plan), and 403(b) Deferred Compensation Plan (403(b) Plan). All significant accounts and transactions among the various systems, departments, and funds have been eliminated.

In evaluating how to define the System for financial reporting purposes, the management of the System has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39. Based on these criteria, the System has not included any other entities in its reporting entity.

Effective July 1, 2005, the System assumed legal responsibility for administering the 401(k), 457, and 403(b) Deferred Compensation Plans from the Georgia Merit System of Personnel Administration. For comparative purposes, the fiscal year ended June 30, 2005 amounts have been restated to include these plans as follows (in thousands):

	As Previously Reported	Adjustment	As Restated
Net Assets	$14,811,584	$759,567	$15,571,150
Change in Net Assets	$ 520,808	$ 73,257	$ 594,064

Although the System is a component unit of the State of Georgia's financial reporting entity, it is accountable for its own fiscal matters and presentation of its separate financial statements. The Boards of Trustees, comprised of active and retired members and ex-officio state employees, are ultimately responsible for the administration of the System.

(2) Authorizing Legislation and Plan Descriptions

Each plan and fund, including benefit and contribution provisions, was established and can be amended by state law. The following summarizes authorizing legislation and the plan description of each retirement fund:

(a) ERS is a cost-sharing multiple employer defined benefit pension plan established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by a Board of Trustees and has the powers and privileges of a corporation.

Membership

As of June 30, 2006, participation in ERS is as follows:

Retirees and beneficiaries currently receiving benefits	32,685
Terminated employees entitled to benefits but not yet receiving benefits	66,019
Active plan members	77,196
Total	175,900
Employers	545

Benefits

The benefit structure of ERS was significantly modified on July 1, 1982. Unless the employee elects otherwise, an employee who currently maintains membership with ERS based upon state employment that started prior to July 1, 1982 is an "old plan" member subject to the plan provisions in effect prior to July 1, 1982. All other members are "new plan" members, subject to the modified plan provisions.

Under both the old and new plans, a member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60 or 30 years of creditable service regardless of age. Additionally, there are some provisions allowing for early retirement after 25 years of creditable service for members under age 60.

Retirement benefits paid to members are based upon the monthly average of the member's highest 24 consecutive calendar months, multiplied by the number of years of creditable service, multiplied by the applicable benefit factor. Annually, postretirement cost-of-living adjustments are also made to members' benefits. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension, at reduced rates, to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

Contributions and Vesting

Member contributions under the old plan are 4% of annual compensation, up to $4,200 plus 6% of annual compensation in excess of $4,200. Under the old plan, the state pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these state contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan are 1.25% of annual compensation. The state is required to contribute at a specified percentage of active member payroll, determined annually by actuarial valuation. The state contributions are not at any time refundable to the member or his/her beneficiary.

Employer contributions required for fiscal year 2006 were based on the June 30, 2003 actuarial valuation as follows:

	Old plan	New plan
Employer:		
Normal	5.94%	10.69%
Employer paid for member	4.75	—
Accrued liability	(0.28)	(0.28)
Total	10.41%	10.41%

Members become vested after ten years of membership service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

The employer contributions are projected to liquidate the unfunded actuarial accrued liability within 6 years, based upon the actuarial valuation at June 30, 2005, on the assumption that the total payroll of active members will increase by 3.75% each year.

On November 20, 1997, the ERS Board of Trustees created the Supplemental Retirement Benefit Plan of ERS (SRBP). SRBP was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC §415) as a portion of ERS. The purpose of the SRBP is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC §415.

Beginning January 1, 1998, all members and retired former members in ERS are eligible to participate in this plan whenever their benefits under ERS exceed the limitation on benefits imposed by IRC §415.

There were 224 members eligible to participate in this portion of ERS for the year ended June 30, 2006. Employer contributions of $1,400,000 and benefit payments of $1,302,000 under the SRBP are included in the combined statements of changes in net assets for the year ended June 30, 2006. Cash of $104,000 under the SRBP is included in the combined statements of net assets as of June 30, 2006.

(Continued)

(b) PSERS is a cost-sharing multiple employer defined benefit pension plan established by the Georgia General Assembly in 1969 for the purpose of providing retirement allowances for public school employees who are not eligible for membership in the Teachers Retirement System of Georgia. The ERS Board of Trustees, plus two additional trustees, administers PSERS.

Membership

As of June 30, 2006, participation in PSERS is as follows:

Retirees and beneficiaries currently receiving benefits	12,786
Terminated employees entitled to benefits but not yet receiving benefits	45,026
Active plan members	61,649
Total	119,461
Employers	183

Benefits

A member may retire and elect to receive normal monthly retirement benefits after completion of ten years of creditable service and attainment of age 65. A member may choose to receive reduced benefits after age 60 and upon completion of ten years of service.

Upon retirement, the member will receive a monthly benefit of $13.50, multiplied by the number of years of creditable service. Death, disability, and spousal benefits are also available through PSERS. Additionally, PSERS makes periodic cost-of-living adjustments to the monthly benefits.

Contributions and Vesting

Members contribute $4 per month for nine months each fiscal year. The State of Georgia, although not the employer of PSERS members, is required by statute to make employer contributions actuarially determined and approved and certified by the PSERS Board of Trustees.

Employer contributions required for the year ended June 30, 2006 was $23.35 per active member and were based on the June 30, 2003 actuarial valuation.

Members become vested after ten years of creditable service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contribution, the member forfeits all rights to retirement benefits.

The employer contributions are projected to liquidate the actuarial accrued funding excess within 30 years, based upon the actuarial valuation at June 30, 2005.

(Continued)

(c) LRS is a cost-sharing multiple employer defined benefit plan established by the Georgia General Assembly in 1979 for the purpose of providing retirement allowances for all members of the Georgia General Assembly. LRS is administered by the ERS Board of Trustees.

Membership

As of June 30, 2006, participation in LRS is as follows:

Retirees and beneficiaries currently receiving benefits	216
Terminated employees entitled to benefits but not yet receiving benefits	149
Active plan members	223
Total	588
Employers	1

Benefits

A member's normal retirement is after eight years of creditable service and attainment of age 65, or eight years of membership service (four legislative terms) and attainment of age 62. A member may retire early and elect to receive a monthly retirement benefit after completion of eight years of membership service and attainment of age 60; however, the retirement benefit is reduced by 5% for each year the member is under age 62.

Upon retirement, the member will receive a monthly service retirement allowance of $36, multiplied by the number of years of creditable service, reduced by age reduction factors, if applicable. Death, disability, and spousal benefits are also available through the plan.

Contributions and Vesting

Member contributions are 8.5% of annual salary. The state pays member contributions in excess of 4.75% of annual compensation. Employer contributions are actuarially determined and approved and certified by the ERS Board of Trustees.

There were no employer contributions required for the year ended June 30, 2006 based on the June 30, 2003 actuarial valuation.

Members become vested after eight years of creditable service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member.

However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

(d) The GJRS is a system created to serve the members and beneficiaries of the Trial Judges and Solicitors, the Superior Court Judges, and the District Attorneys (collectively, the Predecessor Retirement Systems). As of June 30, 1998, any person who was an active, inactive, or retired member or beneficiary of the Predecessor Retirement Systems was transferred to GJRS in the same status effective July 1, 1998. All assets of the Predecessor Retirement Systems were transferred to GJRS as of July 1, 1998. The ERS Board of Trustees and three additional trustees administer GJRS.

GJRS is a cost-sharing multiple employer defined benefit pension plan established by the Georgia General Assembly for the purpose of providing retirement allowances for trial judges and solicitors of certain courts in Georgia, and their survivors and other beneficiaries, superior court judges of the state of Georgia, and district attorneys of the state of Georgia.

Membership

As of June 30, 2006, participation in GJRS is as follows:

Retirees and beneficiaries currently receiving benefits	164
Terminated employees entitled to benefits but not yet receiving benefits	4
Active plan members	598
Total	766
Employers	4

Benefits

The normal retirement for GJRS is age 60, with 16 years of creditable service; however, a member may retire at age 60 with a minimum of 10 years of creditable service.

Annual retirement benefits paid to members are computed as 66-2/3% of state paid salary at retirement for district attorneys and superior court judges and 66-2/3% of the average over 24 consecutive months for trial judges and solicitors, plus 1% for each year of credited service over 16 years, not to exceed 24 years. Early retirement benefits paid to members are computed as the pro rata portion of the normal retirement benefit, based on service not to exceed 16 years. Death, disability, and spousal benefits are also available.

Contributions and Vesting

Members are required to contribute 7.5% of their annual salary plus an additional 2.5% of their annual salary if spousal benefit is elected. Employer contributions are actuarially determined and approved and certified by the GJRS Board of Trustees.

Employer contributions required for fiscal year 2006 were based on the June 30, 2003 actuarial valuation as follows:

Employer:	
Normal	19.70%
Accrued liability	(15.85)
Total	3.85%

Members become vested after ten years of creditable service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

The employer contributions are projected to liquidate the actuarial accrued funding excess within 20 years, based upon the actuarial valuation at June 30, 2005, assuming that the amount of accrued liability payment increases 4.00% each year.

(e) The GMPF is a single employer defined benefit pension plan established on July 1, 2002 by the Georgia General Assembly for the purpose of providing retirement allowances and other benefits for members of the Georgia National Guard (National Guard). The ERS Board of Trustees administers the GMPF.

Membership

As of June 30, 2006, GMPF had 159 retirees and beneficiaries, respectively, currently receiving benefits. Active and inactive plan member information is maintained by one employer, the Georgia Department of Defense.

Benefits

A member becomes eligible for benefits upon attainment of age 60, with 20 or more years of creditable service (including at least 15 years of service as a member of the National Guard), having served at least 10 consecutive years as a member of the National Guard immediately prior to discharge, and having received an honorable discharge from the National Guard.

The retirement allowance is payable for life in the amount of $50 per month, plus $5 per month for each year of creditable service in excess of 20 years. The maximum benefit is $100 per month.

Contributions and Vesting

Employer contributions are actuarially determined and approved and certified by the ERS Board of Trustees. There are no member contributions required.

Employer contributions required for the year ended June 30, 2006 were $89.19 per active member and were based on the June 30, 2003 actuarial valuation.

A member becomes vested after 20 years of creditable service (including at least 15 years of service as a member of the National Guard), having served at least 10 consecutive years as a member of the National Guard immediately prior to discharge, and having received an honorable discharge from the National Guard.

The employer contributions are projected to liquidate the unfunded actuarial accrued liability within 30 years, based upon the actuarial valuation at June 30, 2005.

(Continued)

(f) SEAD was created in 1953 by the Georgia General Assembly to furnish survivors' benefits for eligible members of ERS. SEAD contracts with ERS, LRS, GJRS, and SCJRF to provide group term life insurance coverage for their participants. Death benefit payments are payable to the beneficiary or estate of the insured individual.

(g) SCJRF is a single employer defined benefit pension plan established by the Georgia General Assembly in 1945 for the purpose of providing retirement benefits to the superior court judges of the state of Georgia. SCJRF is directed by its own Board of Trustees. The Boards of Trustees for ERS and SCJRF entered into a contract for ERS to administer the plan effective July 1, 1995.

Membership

As of June 30, 2006, participation in SCJRF is as follows:

Retirees and beneficiaries currently receiving benefits	27
Terminated employees entitled to benefits but not yet receiving benefits	4
Active plan members	2
Total	33
Employers	1

Benefits

The normal retirement for SCJRF is age 68, with 19 years of creditable service, with a benefit of two-thirds the salary paid to superior court judges. A member may also retire at age 65, with a minimum of 10 years of creditable service, with a benefit of one-half the salary paid to superior court judges. Death, disability, and spousal benefits are also available.

Contributions and Vesting

Member contributions are 5.0% of their salary, plus an additional 2.5% for the spousal coverage benefit, if elected. The state pays member contributions of 5.0% of the member's annual salary. Additional employer contributions are not actuarially determined, but are provided on an as-needed basis to fund current benefits.

(h) DARF is a defined benefit pension plan established by the Georgia General Assembly in 1949 for the purpose of providing retirement benefits to the district attorneys of the state of Georgia. DARF is directed by its own Board of Trustees. The Boards of Trustees for ERS and DARF entered into a contract for ERS to administer the plan effective July 1, 1995.

Membership

As of June 30, 2006, DARF had 7 retirees and beneficiaries currently receiving benefits.

Benefits

Persons appointed as district attorney emeritus shall receive an annual benefit of $15,000, or one-half of the state salary received by such person as a district attorney for the calendar year immediately prior to the person's retirement, whichever is greater.

Contributions and Vesting

Member contributions were 5.0% of their annual salary, plus an additional 2.5% for the spousal coverage benefit, if elected. The state paid member contributions of 5.0% of the member's annual salary. Employer contributions are not actuarially determined, but are provided on an as-needed basis to fund current benefits.

(i) GDCP is a defined contribution plan established by the Georgia General Assembly in July 1992 for the purpose of providing retirement allowances for state employees who are not members of a public retirement or pension system. GDCP is administered by the ERS Board of Trustees.

Membership

As of June 30, 2006, participation in GDCP is as follows:

Terminated employees entitled to benefits but not yet receiving benefits	96,424
Active plan members	34,476
Total	130,900
Employers	277

Benefits

A member may retire and elect to receive periodic payments after attainment of age 65. The payments will be based upon mortality tables and interest assumptions to be adopted by the ERS Board of Trustees. If a member has less than $3,500 credited to his/her account, the ERS Board of Trustees has the option of requiring a lump-sum distribution to the member. Upon the death of a member, a lump-sum distribution equaling the amount credited to his/her account will be paid to the member's designated beneficiary.

Contributions

Members are required to contribute 7.5% of their annual salary. There are no employer contributions. Earnings will be credited to each member's account as adopted by the ERS Board of Trustees. Upon termination of employment, the amount of the member's account is refundable upon request by the member.

(j) The 401(k) Plan was established by the State of Georgia Employees Benefit 401(k) Plan Council (the "Council") in accordance with Georgia Law 1985, page 441, as amended, Official Code of Georgia, Sections 45-18-50 through 45-18-58, and Section 401(k) of the Internal Revenue Code ("IRC"). On July 1, 1994, activity commenced when the 401(k) Plan became available to employees of the State of Georgia Community Service Boards ("CSBs"). On December 1, 1998, the 401(k) Plan became available to employees of the Georgia Lottery Corporation (the "GLC").

Effective July 1, 1998, the State of Georgia Employee's Deferred Compensation Group Trust ("Master Trust") was formed for the State of Georgia Deferred Compensation Program to serve as the funding medium for the 401(k) Plan. At that time, the 401(k) Plan began operating on an employee elective deferral basis for all state employees working at least 1,000 hours in a 12-month period. The Master Trust is also the funding medium for other State sponsored employee benefit plans. All assets of the 401(k) Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The assets of the 401(k) Plan and the State of Georgia Employees' Deferred Compensation 457 Plan are commingled in the Master Trust with the respective trusts owning units of the Master Trust.

Great-West Life & Annuity Insurance Company ("Great West") has been appointed by the council to hold, administer, and invest the assets of the Master Trust. Effective July 1, 2005, ERS became the trustee of the 401(k) Plan.

Contributions and Vesting

The 401(k) Plan requires participating CSBs and the GLC to annually contribute 7.5% of all eligible employees' base salary (limited to a maximum of $170,000 base salary for 2006). Through December 31, 2001, the 401(k) Plan allowed individual participants to defer up to the lesser of 15% of eligible gross compensation earned (increased to 100% of eligible compensation as of January 1, 2002) or up to limits prescribed by the IRC. A maximum 50% matching contribution of participant deferrals may be made by the employer, subject to appropriation by the State Legislature. No appropriations by the State Legislature were made during 2006. The aggregate of employer contributions, employee contributions, and any matching contributions cannot exceed the lesser of 25% of eligible gross compensation earned or up to limits prescribed by the IRC.

Employer contributions vest according to the following schedule:

Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

For participants whose services terminated prior to January 1, 2005, the following schedule applies:

Less than 3 years	0%
3	20%
4	40%
5	60%
6	80%
7 or more	100%

Employee contributions and earnings thereon are 100% vested at all times. The 401(k) Plan also allows participants to roll over amounts from other qualified plans to their respective account in the 401(k) Plan on approval by the 401(k) Plan administrator. Such rollovers are 100% vested at the time of transfer.

Distributions

The participant may receive the value of their vested accounts upon attaining age 59.5, qualifying financial hardship, or retirement or other termination of service. Upon death of a participant, his or her beneficiary shall be entitled to the full value of his or her accounts. Distributions are made in installments or in a lump sum.

(k) The 457 Plan was established by the State Personnel Board in accordance with Georgia laws 1974, page 198 as amended, Official Code of Georgia, Sections 45-18-30 through 45-18-36, and Section 457 of the Internal Revenue Code ("IRC"). The 457 Plan is available to employees of the State of Georgia and county health departments and permits such employees to defer a portion of their annual salary until future years. Employee contributions and earnings thereon are 100% vested at all times.

Effective July 1, 1998, the State of Georgia Employee's Deferred Compensation Group Trust ("Master Trust") was formed for the State of Georgia Deferred Compensation Program to serve as the funding medium for the 457 Plan. The Master Trust is also the funding medium for other State sponsored employee benefit plans. All assets of the 457 Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The assets of the 457 Plan and the State of Georgia Employees' Deferred Compensation 401(k) Plan are commingled in the Master Trust with the respective trusts owning units of the Master Trust.

Great-West Life & Annuity Insurance Company ("Great West") has been appointed by the council to hold, administer, and invest the assets of the Master Trust. Effective July 1, 2005, ERS became trustee of the 457 Plan.

Distributions

The balance in the employee's account in the 457 Plan is not available to the employee until termination, retirement, death, or unforeseeable emergency as defined in the 457 Plan.

(l) The 403(b) Plan was established by the State of Georgia Employee Benefit Plan Council (the "Council") in accordance with Georgia Laws 1985, page 441, as amended, Official Code of Georgia, Sections 45-18-50 through 45-18-58, and Section 403(b) of the Internal Revenue Code ("IRC"). On May 22, 2002, the 403(b) Plan was adopted by the Council and became operational on July 1, 2004 for employees of the Fayette County Board of Education.

Effective July 1, 1998, the State of Georgia Employees' Deferred Compensation Group Trust ("Master Trust") was formed for the State of Georgia Deferred Compensation Program to serve as the funding medium for the state-sponsored 457 and 401(k) Plans. The Trust was amended on July 1, 2003 to also include the 403(b) Plan. All assets of the 403(b) Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The assets of the 403(b) Plan and the State of Georgia Deferred Compensation 457 and 401(k) Plans are commingled in the Master Trust with the respective trusts owning units of the Master Trust.

Great-West Life & Annuity Insurance Company ("Great-West") has been appointed to hold, administer and invest the assets of the Master Trust. Effective July 1, 2005, ERS became trustee of the 403(b) Plan.

Distributions

In accordance with the 403(b) Plan, a participant may receive the value of their account upon attaining age 59½, qualifying financial hardship, retirement or other termination of state service, or via an IRC 90-24 Transfer to another 403(b) Plan. Upon death of a participant, his or her beneficiary shall be entitled to the full value of the account. Distributions are made in installments or in a lump sum.

(3) Significant Accounting Policies and System Asset Matters

(a) Basis of Accounting

The System's basic financial statements are prepared on the accrual basis of accounting. Contributions from the employers and members are recognized as additions in the period in which the members provide services. Retirement and refund payments are recognized as deductions when due and payable.

During fiscal year 2006, the System adopted the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This pronouncement requires additional accounting and disclosure requirements when a capital asset has been impaired. The System did not experience any capital asset impairment during fiscal year 2006.

(b) Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Investment income is recognized as earned by the System. No investment in any one organization except the U.S. Government represents 5% or more of the net assets available for pension benefits. There are no investments in, loans to, or leases with parties related to the System.

(c) Capital Assets

Capital assets, including software development costs, are stated at cost less accumulated depreciation. The capitalization thresholds are $100,000 for buildings and building improvements and $5,000 for equipment and vehicles. Depreciation on capital assets is computed using the straight-line method over estimated useful lives of three to forty years. Depreciation expense is included in administrative expenses. Maintenance and repairs are charged to administrative expenses when incurred. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statements of changes in plan net assets in the period of disposal.

During the fiscal year ended June 30, 2005, the System contracted with a consulting firm for the development of a new pension administration system. The new pension administration system will be fully operational during the fiscal year ended June 30, 2007 at which time depreciation on the capitalized costs will begin.

(d) Comparative Information

The fiscal year ended June 30, 2005 amounts shown on the financial statements have been restated to reflect the activities and balances of the 401(k), 457, and 403(b) deferred compensation plans as of and for the fiscal year ended June 30, 2005 (See note 1) and are presented for comparative purposes only.

(e) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets and changes therein. Actual results could differ from those estimates. The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

(4) Investment Program

The System maintains sufficient cash to meet its immediate liquidity needs. Cash not immediately needed is invested in either short-term or long-term investment securities as directed by the Board of Trustees. All investments are held by agent custodial banks in the name of the System.

Cash

Cash balances are fully insured through the Federal Deposit Insurance Corporation, an agency of the U.S. Government. Fiduciary accounts, such as those of the System, are granted $100,000 of insurance coverage per participant in the System. Temporary cash on hand not committed for a specific purpose is invested overnight.

Investments

State statutes authorize the System to invest in a variety of short-term and long-term securities as follows:

(a) Short-Term

Short-term investments are authorized in the following instruments:

- Repurchase and reverse repurchase agreements, whereby the System and a broker exchange cash for direct obligations of the U.S. Government or in obligations unconditionally guaranteed by the agencies of the U.S. Government or U.S. corporations. The System or broker promises to repay the cash received, plus interest, at a specific date in the future in exchange for the same securities. The System held repurchase agreements of $121,279,000 at June 30, 2006.
- U.S. Treasury obligations with varying terms up to 360 days.

Other short-term securities authorized, but not currently used, are:

- Commercial paper, with a maturity of 180 days or less. Commercial paper is an unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The System considers for investment only commercial paper of the highest quality, rated P-l and/or A-l by national credit rating agencies.
- Master notes, an overnight security administered by a custodian bank and an obligation of a corporation whose commercial paper is rated P-l and/or A-l by national credit rating agencies.

Investments in commercial paper or master notes are limited to no more than $100 million in any one name.

(b) Long-Term

Fixed income investments are authorized in the following instruments:

- U.S. and foreign government obligations with terms up to 30 years. The System held U.S. Treasuries of $3,843,470,630 at June 30, 2006.
- Obligations unconditionally guaranteed by agencies of the U.S. Government with terms up to 30 years. The System held agency bonds of $921,796,510 at June 30, 2006.
- Corporate bonds with at least an “A” rating by a national rating agency and limited to no more than 5% of total System assets in any one name. Maturities of these securities vary up to a period of 40 years. The System held corporate bonds of $819,647,890 at June 30, 2006.
- Private placements are authorized under the same general restrictions applicable to corporate bonds.

Mortgage investments are authorized to the extent that they are secured by first mortgages on improved real property located in the state of Georgia having a loan-to-value ratio no higher than 75%. Mortgages, as a group, cannot exceed 10% of total assets or 1% for any one loan.

Equity securities are also authorized (in statutes) for investment as a complement to the System's fixed-income portfolio and as a long-term inflation hedge. By statute, no more than 60% of the total invested assets on a historical cost basis may be placed in equities and no more than 5% in any one corporation. Equity holdings in any one corporation may not exceed 5% of the outstanding equity of the issuing corporation. The equity portfolio is managed by the Division of Investment Services (the Division), in conjunction with independent advisors. Buy/sell decisions are based on securities meeting rating criteria established by the Board of Trustees, in-house research considering such things as yield, growth, and sales statistics, and analysis of independent market research. Equity trades are approved and executed by the Division's staff. Common stocks eligible for investment are approved by the Investment Committee of the Board of Trustees before being placed on an approved list. The System held common stocks totaling $9,252,645,000 at June 30, 2006.

Substantially all of the investments of ERS, PSERS, LRS, SCJRF, GJRS, GMPF, and SEAD, and certain investments of GDCP are pooled into one common investment fund. Investments of approximately $23,256,000 at June 30, 2006 held by GDCP, are not included in the common investment fund. Units in the pooled common investment fund are allocated to the respective plans, based upon the cost of assets contributed, and additional units are allocated to the participating plans, based on the market value of the pooled common investment fund at the date of contribution. Net income of the pooled common investment fund is allocated monthly to the participating plans, based upon the number of units outstanding during the month.

The units and fair value of each plan's equity in the pooled common investment fund at June 30, 2006 were as follows (dollars in thousands):

	2006	
	Fair value	Units
Employees' Retirement System	$ 13,003,559	5,979,500
Public School Employees' Retirement System	744,226	342,222
Legislative Retirement System	28,281	13,004
Georgia Judicial Retirement System	268,929	123,663
State Employees' Assurance Department	932,829	428,948
Georgia Military Pension Fund	3,051	1,403
Superior Court Judges Retirement Fund	1,310	603
Georgia Defined Contribution Plan	45,809	21,065
	$ 15,027,994	6,910,408

The State of Georgia Employee's Deferred Compensation Group Trust ("Master Trust") invests in various mutual funds as selected by participants. Each participant is allowed to select and invest contributions into pre-approved mutual funds. Mutual funds are reported at the fair value of participant balances.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Employees' Retirement System. State law limits investments to investment grade securities.

It is the System's investment policy to require that the bond portfolio be of high quality and chosen with respect to maturity ranges, coupon levels, refunding characteristics and marketability. The System's policy is to require that new purchases of bonds be restricted to high grade bonds rated no lower than "A" by any nationally recognized statistical rating organization. The System's investment in U.S. Agencies was 16.5% of the total fixed income portfolio and was rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The System's investment in corporate bonds was 14.7% of the total fixed income portfolio which consisted of 8.4% rated AAA/Aaa and 6.3% rated AA/Aa.

The investment policy requires that repurchase agreements be limited to the purchase of U.S. Treasury or Agency obligations or corporate bonds rated no lower than "A" by any nationally recognized statistical rating organization with a market value in excess of funds advanced. As of June 30, 2006, the System held repurchase agreements of $121,279,000.

Mutual fund investments of the deferred compensation plans are not considered to have credit risk and do not require disclosure of credit risk rating.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. State statutes and the System's investment policy limit investments to no more than 5% of total System net assets in any one corporation. On June 30, 2006, the System did not have debt or equity investments in any one organization, other than those issued by the U. S. Government, which represented greater than 5% of plan net assets.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration method. This method is widely used in the management of fixed income portfolios and quantifies to a much greater degree the sensitivity to interest rate changes when analyzing a bond portfolio with call options, prepayment provisions, and any other cash flows. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows and is best utilized to gauge the effect of a change in interest rates on the fair value of a portfolio. It is believed that the reporting of effective duration found in the table below quantifies to the fullest extent possible the interest rate risk of the System's fixed income assets.

Fixed income and repurchase agreements security type		Market value June 30, 2006	Percent of all fixed income assets and repurchase agreements	Effective duration (years)
U.S. Treasuries	$	3,843,470,630	67.4%	5.3
U.S. Agencies		921,796,510	16.1%	4.2
Corporate Bonds		819,647,890	14.4%	5.1
Repurchase Agreements		121,279,000	2.1%	0.0
Total	$	5,706,194,030	100.0%	5.0

Mutual fund investments of the deferred compensation plans are not considered to have interest rate risk and do not require disclosure of interest rate risk.

(5) Investments Lending Program

State statutes and Board of Trustees policies permit the System to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. The System is presently involved in a securities lending program with major brokerage firms. The System lends equity and fixed income securities for varying terms and receives a fee based on the loaned securities' value. During a loan, the System continues to receive dividends and interest as the owner of the loaned securities. The brokerage firms pledge collateral securities consisting of U.S. Government and agency securities, mortgage-backed securities issued by a U.S. Government agency, and corporate bonds. The collateral value must be equal to at least 102% to 110% of the loaned securities' value, depending on the type of collateral security.

Securities loaned totaled $5,576,854,000 at fair value at June 30, 2006. The collateral value was equal to 104.5% of the loaned securities' value at June 30, 2006. The System's lending collateral was held in the System's name by the tri-party custodian.

Loaned securities are included in the accompanying statements of net assets since the System maintains ownership. The related collateral securities are not recorded as assets on the System's statements of net assets, and a corresponding liability is not recorded, since the System is deemed not to have the ability to pledge or trade the collateral securities. The System is deemed not to have the ability to pledge or sell the collateral securities, since the System's lending contracts do not address whether the lender can pledge or sell the collateral securities without a borrower default, the System has not previously demonstrated that ability, and there are no indications of the System's ability to pledge or sell the collateral securities.

(6) SEAD Actuarial Valuation

According to the SEAD policy terms covering the lives of members, insurance coverage is provided on a monthly, renewable term basis, and no return premiums or cash value are earned. The net assets represent the excess accumulation of investment income and premiums over benefit payments and expenses and is held as a reserve for payment of death benefits under existing policies.

The most current actuarial valuation of SEAD is as of June 30, 2005. The valuation indicated that the employee contribution rates of 0.50% and 0.25% of members' salaries for old plan members and new plan members, respectively, were appropriate as of June 30, 2005. There were no employer contributions required for the year ended June 30, 2006. Old plan members were hired prior to July 1, 1982, and new plan members were hired on or after July 1, 1982.

(7) Capital Assets

The following is a summary of capital assets and depreciation information as of June 30, 2006 and for the year then ended:

	Balance at June 30, 2005	Additions	Disposals	Balance at June 30, 2006
Capital assets:				
Land	$ 944,225	$ —	$ —	$ 944,225
Building	2,800,000	—	—	2,800,000
Equipment	698,606	116,877	(41,597)	773,886
Vehicles	20,551	—	—	20,551
Software under development	2,036,877	5,151,304	—	7,188,181
	6,500,259	5,268,181	(41,597)	11,726,843
Accumulated depreciation for:				
Building	(70,000)	(70,000)	—	(140,000)
Equipment	(139,943)	(156,877)	41,597	(255,223)
Vehicles	(19,082)	(1,467)	—	(20,549)
Software under development	—	—	—	—
	(229,025)	(228,344)	41,597	(415,772)
Capital assets, net	$ 6,271,234	$ 5,039,837	$ —	$ 11,311,071

During fiscal year 2006, the System did not experience any capital asset impairment loss with respect to the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*

(8) Commitments and Contingencies

The System is subject to legal actions in the ordinary course of its business. In the opinion of management, the System has adequate legal defenses and insurance coverage with respect to such actions and their final outcome will not have a material adverse effect upon the financial status of the System.

REQUIRED SUPPLEMENTARY SCHEDULES

(See Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the Employees' Retirement System of Georgia)

(A Component Unit of the State of Georgia)

Required Supplementary Schedules (Unaudited)

Schedules of Funding Progress

(In thousands)

	Actuarial valuation date	Actuarial value of plan assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL/(funding excess) (b-a)	Funding ratio (a/b)	Annual covered payroll (c)	Excess as percentage of covered payroll [(b-a)/c]
Employees' Retirement System	6/30/2000	$ 10,999,901	$ 10,573,408	$ (426,493)	104.0%	$ 2,304,289	(18.5)%
	6/30/2001	11,750,624	11,557,255	(193,369)	101.7%	2,397,169	(8.1)%
	6/30/2002	12,124,414	11,994,850	(129,564)	101.1%	2,408,306	(5.4)%
	6/30/2003	12,428,736	12,370,563	(58,173)	100.5%	2,489,490	(2.3)%
	6/30/2004	12,797,389	13,106,648	309,259	97.6%	2,445,619	12.6%
	6/30/2005	13,134,472	13,512,773	378,301	97.2%	2,514,430	15.0%
Public School Employees' Retirement System [1]	6/30/2000	667,642	615,357	(52,285)	108.5%	N/A	N/A
	6/30/2001	708,391	613,347	(95,044)	115.5%	N/A	N/A
	6/30/2002	727,529	630,295	(97,234)	115.4%	N/A	N/A
	6/30/2003	734,879	664,207	(70,672)	110.6%	N/A	N/A
	6/30/2004	743,815	666,883	(76,932)	111.5%	N/A	N/A
	6/30/2005	753,767	671,040	(82,727)	112.3%	N/A	N/A
Legislative Retirement System	6/30/2000	24,666	21,628	(3,038)	114.0%	2,411	(126.0)%
	6/30/2001	26,034	21,610	(4,424)	120.5%	3,567	(124.0)%
	6/30/2002	26,637	21,779	(4,858)	122.3%	3,413	(142.3)%
	6/30/2003	27,157	21,898	(5,259)	124.0%	3,434	(153.1)%
	6/30/2004	27,892	22,023	(5,869)	126.6%	3,402	(172.5)%
	6/30/2005	28,462	23,531	(4,931)	121.0%	3,586	(137.5)%
Georgia Judicial Retirement System	6/30/2000	204,136	138,427	(65,709)	147.5%	34,856	(188.5)%
	6/30/2001	219,288	156,083	(63,205)	140.5%	37,688	(167.7)%
	6/30/2002	228,417	175,154	(53,263)	130.4%	38,630	(137.9)%
	6/30/2003	237,683	185,825	(51,858)	127.9%	38,867	(133.4)%
	6/30/2004	250,313	196,502	(53,811)	127.4%	40,908	(131.5)%
	6/30/2005	264,924	213,060	(51,864)	124.3%	42,916	(120.9)%
Georgia Military Pension Fund [2]	6/30/2002	—	8,322	8,322	—	N/A	N/A
	6/30/2003	609	11,098	10,489	5.5%	N/A	N/A
	6/30/2004	1,250	12,343	11,093	10.1%	N/A	N/A
	6/30/2005	2,176	14,454	12,278	15.1%	N/A	N/A

This data, except for annual covered payroll, was provided by the System's actuary.

Information is shown only for the years available in accordance with the parameters of GASB No. 25. Additional years will be added as data become available.

[1] No statistics regarding covered payroll are available. Contributions are not based upon members' salaries, but are simply $4.00 per member per month for nine months each fiscal year.

[2] No statistics regarding covered payroll are available. Active and inactive plan member information is maintained by the Georgia Department of Defense.

See accompanying notes to required supplementary schedules.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Required Supplementary Schedules (Unaudited)
Schedules of Employer Contributions

(In thousands)

	Year ended June 30	State annual required contribution	Percentage contributed
Employees' Retirement System	2000	$ 302,332	100%
	2001	315,505	100%
	2002	233,229	100%
	2003	246,172	100%
	2004	245,388	100%
	2005	243,074	100%
Public School Employees' Retirement System	2000	9,789	184%
	2001	12,874	132%
	2002	11,623	100%
	2003	4,121	86%
	2004	833	100%
	2005	833	100%
Legislative Retirement System	2000	22	436%
	2001	—	N/A
	2002	—	N/A
	2003	—	N/A
	2004	—	N/A
	2005	—	N/A
Georgia Judicial Retirement System	2000	834	100%
	2001	1,741	11%
	2002	—	N/A
	2003	—	N/A
	2004	1,558	100%
	2005	1,594	100%
Georgia Military Pension Fund	2003	591	100%
	2004	617	100%
	2005	891	100%

This data was provided by the System's actuary.

Information is shown only for the years available in accordance with the parameters of GASB No. 25. Additional years will be added as data become available.

See accompanying notes to required supplementary schedules.

(1) Schedule of Funding Progress

The actuarial value of assets recognizes a portion of the difference between the fair value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return. The amount recognized each year is 20% of the difference between fair value and expected actuarial value.

(2) Schedule of Employer Contributions

The required employer contributions and percent of those contributions actually made are presented in the schedule.

(3) Actuarial Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information from the actuarial valuations for the most recent two-year period is as follows:

Employees' Retirement System:		
Valuation date	June 30, 2005	June 30, 2004
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent of pay, open	Level percent of pay, open
Remaining amortization period of the Funding Excess	6 years	12 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return[1]	7.50%	7.50%
Projected salary increases[1]	5.45-9.25%	5.45-9.25%
Postretirement cost-of-living adjustment	None	None
Public School Employees' Retirement System:		
Valuation date	June 30, 2005	June 30, 2004
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period of the Funding Excess	30 years	25 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return[1]	7.50%	7.50%
Projected salary increases	N/A	N/A
Postretirement cost-of-living adjustment	3% annually	3% annually

Legislative Retirement System:		
Valuation date	June 30, 2005	June 30, 2004
Actuarial cost method	Entry Age	Unit credit
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period of the Funding Excess	N/A	N/A
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return[1]	7.50%	7.50%
Projected salary increases	N/A	N/A
Postretirement cost-of-living adjustment	3% annually	3% annually
Georgia Judicial Retirement System:		
Valuation date	June 30, 2005	June 30, 2004
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent of pay, open	Level percent of pay, open
Remaining amortization period of the Funding Excess	20 years	11 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return[1]	7.50%	7.50%
Projected salary increases[1]	6.00%	6.00%
Postretirement cost-of-living adjustment	None	None
Georgia Military Pension Fund:		
Valuation date	June 30, 2005	June 30, 2004
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period of the unfunded actuarial accrued liability	30 years	30 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return[1]	7.50%	7.50%
Projected salary increases	N/A	N/A
Postretirement cost-of-living adjustment	None	None

[1]Includes inflation rate of 4.00% in 2004 and 3.75% in 2005.

ADDITIONAL INFORMATION

(See Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Administrative Expenses Schedule
Contributions and Expenses
For the Year Ended June 30, 2006
(With Comparative Totals For the Year Ended June 30, 2005)

(In thousands)

	2006	2005 (Restated)
Contributions:		
Employees' Retirement System	$ 10,596	$ 9,587
Public School Employees' Retirement System	588	588
Legislative Retirement System	110	110
Georgia Judicial Retirement System	175	175
State Employees' Assurance Department	225	225
Georgia Defined Contribution Plan	310	310
401(k) Plan	1,305	647
457 Plan	1,222	598
Superior Court Judges Retirement Fund	30	30
Total contributions	14,561	12,270
Expenses:		
Personal services:		
Salaries and wages	4,235	3,791
Retirement contributions	441	367
FICA	304	262
Health insurance	607	499
Miscellaneous	23	22
	5,610	4,941
Communications:		
Postage	221	204
Publications and printing	92	72
Telecommunications	76	78
Travel	24	10
	413	364
Professional services:		
Accounting and investment services	3,697	2,971
Computer services	1,387	732
Contracts	1,294	1,333
Actuarial services	420	334
Medical services	193	233
Professional fees	186	68
Legal services	37	24
	7,214	5,695

(Continued)

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the Employees' Retirement System of Georgia)

(A Component Unit of the State of Georgia)

Administrative Expenses Schedule

Contributions and Expenses

For the Year Ended June 30, 2006

(With Comparative Totals For the Year Ended June 30, 2005)

(In thousands)

	2006	2005 (Restated)
Expenses, Continued:		
Management fees:		
Building maintenance	$ 568	$ 561
Other services and charges:		
Temporary services	283	292
Supplies and materials	121	154
Repairs and maintenance	61	57
Courier services	13	13
Depreciation	228	156
Miscellaneous	50	34
Office equipment	—	3
	756	709
Total expenses	14,561	12,270
Net income	—	—
Balance:		
Beginning of year	—	—
End of year	$ —	$ —

See accompanying independent auditors' report.