

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

*Combined Financial Statements  
as of and for the Years Ended  
June 30, 2001 and 2000,  
Required Supplementary Schedules and  
Additional Information as of and for the Years  
Ended June 30, 2001 and 2000,  
and Independent Auditors' Report*

# EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Employees' Retirement System of Georgia:

We have audited the accompanying combined statements of net assets of the Employees' Retirement System of Georgia, including all funds and systems administered by the Employees' Retirement System of Georgia (collectively the "System"), as of June 30, 2001 and 2000, and the related combined statements of changes in net assets for the years then ended. These combined financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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.

In our opinion, such combined financial statements present fairly, in all material respects, the combined net assets of the System as of June 30, 2001 and 2000, and the combined changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The required supplementary schedules and additional information listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. These required supplementary schedules and additional information are the responsibility of the System's management. Such information has been subjected to the auditing procedures applied in our audits of the basic combined financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the basic combined financial statements taken as a whole.

*Deloitte + Touche LLP*

March 15, 2002

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
**(Including All Funds and Systems Administered**  
**by the Employees' Retirement System of Georgia)**

**COMBINED STATEMENTS OF NET ASSETS**  
**JUNE 30, 2001 AND 2000**  
**(In Thousands)**

	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>		
CASH	\$ 1,546	\$ 1,332
RECEIVABLES:		
Employee and employer contributions	36,986	35,950
Interest and dividends	<u>93,956</u>	<u>103,135</u>
Total receivables	130,942	139,085
INVESTMENTS - at fair value:		
Short-term	214,837	131,785
Obligations of the U.S. Government and its agencies, corporate, and other bonds	5,822,463	5,623,800
Common stocks	8,014,283	9,375,961
Mortgage loans and real estate	<u>4,351</u>	<u>4,373</u>
Total investments	<u>14,055,934</u>	<u>15,135,919</u>
Total assets	14,188,422	15,276,336
<b>LIABILITIES</b>		
Accounts payable and other	<u>10,430</u>	<u>8,866</u>
Total liabilities	<u>10,430</u>	<u>8,866</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 16.)	<u>\$ 14,177,992</u>	<u>\$ 15,267,470</u>

See notes to combined financial statements.

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
**(Including All Funds and Systems Administered**  
**by the Employees' Retirement System of Georgia)**

**COMBINED STATEMENTS OF CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2001 AND 2000**  
**(In Thousands)**

	<u>2001</u>	<u>2000</u>
NET ASSETS HELD IN TRUST FOR PENSION		
BENEFITS - Beginning of year	\$ 15,267,470	\$ 14,422,057
ADDITIONS:		
Contributions:		
Employer	335,988	323,325
Employee	72,448	70,474
Insurance premiums	13,813	17,413
Administrative expense allotment	940	737
Investment (loss) income:		
Net (depreciation) appreciation in fair value of investments	(1,379,000)	494,234
Interest and dividends	479,631	487,727
Total investment (loss) income	(899,369)	981,961
Less investment expenses	11,286	12,044
Net investment (loss) income	(910,655)	969,917
Total additions	(487,466)	1,381,866
DEDUCTIONS:		
Retirement payments	560,572	496,830
Refunds of employee contributions and interest	14,998	15,474
Death benefits	18,017	15,921
Administrative expenses	8,425	8,228
Total deductions	602,012	536,453
NET (DECREASE) INCREASE	(1,089,478)	845,413
NET ASSETS HELD IN TRUST FOR PENSION		
BENEFITS - End of year	<u>\$ 14,177,992</u>	<u>\$ 15,267,470</u>

See notes to combined financial statements.

# **EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA (Including All Funds and Systems Administered by the Employees' Retirement System of Georgia)**

## **NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

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### **1. GENERAL**

The accompanying combined financial statements of Employees' Retirement System of Georgia, including all funds and systems 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 Systems ("PSERS"), Legislative Retirement System ("LRS"), Georgia Judicial Retirement System ("GJRS"), Superior Court Judges Retirement Fund ("SCJRF"), District Attorneys Retirement Fund ("DARF"), Georgia Defined Contribution Plan ("GDGP"), and State Employees' Assurance Department ("SEAD"). 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. The concept underlying the definition of the reporting entity is that elected officials are accountable. Based on these criteria, the System has not included any other entities in its reporting entity. The System is a component unit of the State of Georgia.

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, combined financial statements. 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 fund, including benefit and contribution provisions, was established by state law. The following summarizes authorizing legislation and the plan description of each retirement fund:

- a. ERS is a single-employer, public employee, 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, 2001, participation in ERS is as follows:

Retirees and beneficiaries currently receiving benefits	25,927
Terminated employees entitled to benefits but not yet receiving benefits	51,717
Active plan members	<u>76,647</u>
Total	<u>154,291</u>
Employers	<u>503</u>

*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 65. Additionally, there are some provisions allowing for retirement after 25 years of creditable service regardless of age.

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. 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.

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 actuarial accrued funding excess within forty years based upon the actuarial valuation at June 30, 2000.

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 256 and 248 members eligible to participate in this portion of ERS as of June 30, 2001 and 2000, respectively. Employer contributions of \$2,780,000 and \$2,279,000 and retirement payments of \$2,742,000 and \$2,335,000 under the SRBP are included in the combined statements of changes in net assets for the years ended June 30, 2001 and 2000, respectively. Cash of \$114,000 and \$79,000 and employer receivable of \$205,000 and \$202,000 under the SRBP are included in the combined statements of net assets for the years ended June 30, 2001 and 2000, respectively.

- b. PSERS is a 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. PSERS is administered by the ERS Board of Trustees plus two other trustees not on the ERS Board of Trustees.

*Membership* – As of June 30, 2001, participation in PSERS is as follows:

Retirees and beneficiaries currently receiving benefits	11,691
Terminated employees entitled to benefits but not yet receiving benefits	41,774
Active plan members	<u>40,213</u>
Total	<u>93,678</u>
Employers	<u>183</u>

*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 10 years of service.

Upon retirement, the member will receive a monthly benefit of \$10 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.

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 40 years based upon the actuarial valuation at June 30, 2000.

- c. LRS is a 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, 2001, participation in LRS is as follows:

Retirees and beneficiaries currently receiving benefits	192
Terminated employees entitled to benefits but not yet receiving benefits	97
Active plan members	<u>244</u>
 Total	 <u>533</u>
 Employers	 <u>1</u>

*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 \$28 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.

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 Retirement Fund (“TJSRF”), the Superior Court Judges Retirement System (“SCJRS”), and the District Attorneys Retirement System (“DARS”) (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. GJRS is administered by the ERS Board of Trustees and three other trustees not on the ERS Board of Trustees.

GJRS is a 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, 2001, participation in GJRS is as follows:

Retirees and beneficiaries currently receiving benefits	133
Terminated employees entitled to benefits but not yet receiving benefits	36
Active plan members	<u>448</u>
 Total	 <u>617</u>
 Employers	 <u>4</u>

*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.

Retirement benefits paid to members are computed as 66 2/3% of annual salary 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.

Members become vested after 10 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 12 years based upon the actuarial valuation at July 1, 2000.

- e. SCJRF is a 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, 2001, participation in SCJRF is as follows:

Retirees and beneficiaries currently receiving benefits	33
Active plan members	<u>2</u>
Total	<u>35</u>
Employers	<u>1</u>

*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.

- f. 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, 2001, DARF had 9 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. Additional employer contributions are not actuarially determined but are provided on an as-needed basis to fund current benefits.

- g. GDGP 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. GDGP is administered by the ERS Board of Trustees.

*Membership* – As of June 30, 2001, participation in GDGP is as follows:

Terminated employees entitled to benefits but not yet receiving benefits	59,075
Active plan members	<u>33,839</u>
Total	<u>92,914</u>
Employers	<u>331</u>

*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.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES AND SYSTEM ASSET MATTERS

The following is a summary of significant accounting policies of the System:

- a. *Basis of Accounting* – The System's combined 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.
- 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. *Real Estate Investments* – An office building that is included in mortgage loans and real estate is owned equally by the System and the Teachers Retirement System of Georgia. The System incurred approximately \$341,000 and \$339,000 in rental expense for the years ended June 30, 2001 and 2000, respectively, which is included in administrative expenses. The remainder of the building is leased to outside parties, and the rental revenue is included in interest and dividends.
- d. *Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of plan 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 combined statements of plan net assets.

- e. *New Accounting Pronouncement* – Effective July 1, 2001 the System adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement modifies the external financial reporting requirements for public employee retirement systems in two ways. First, it requires that management’s discussion and analysis be included as required supplementary information, and second, it provides an option to present a separate column for each defined benefit pension plan and each related postemployment health care plan the System administers in the statements of plan net assets and statements of changes in plan net assets, rather than in separate combining 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 management. 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* – GASB Statement No. 3 requires governmental entities to categorize investments as an indication of the level of custodial credit risk assumed by the System at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the System’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the System’s name. All of the securities held by the System at June 30, 2001 and 2000 are of Category 1 risk level. The System is authorized by its Board of Trustees (through statutes) 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 \$208,066,000 and \$127,203,000 at June 30, 2001 and 2000, respectively.
  - 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-1 and/or A-1 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-1 and/or A-1 by national credit rating agencies.
  - Investments in commercial paper or master notes are limited to no more than \$25 million in any one name.

(b) *Long-Term:*

Fixed income investments are authorized in the following instruments:

- 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 to provide the System with flexibility necessary to meet changing market conditions. The System held corporate bonds of \$6,139,000 and \$8,887,000 at June 30, 2001 and 2000, respectively.
- U.S. and foreign government obligations with terms up to 30 years. Quality and call requirements of corporate bonds are applicable. The System held U.S. government obligations of \$5,806,610,000 and \$5,599,525,000 at June 30, 2001 and 2000, respectively.
- 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 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 Investment Services Division (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.

Substantially all of the investments of ERS, PSERS, LRS, SCJRF, GJRS, SEAD, and certain investments of GDCP are pooled into one common investment fund. Investments of approximately \$16,484,000, held by GDCP, are not included in the investment pool. Units in the pooled investment fund are allocated to the respective funds based upon the cost of assets contributed, and additional units

are allocated to the participating funds based on the market value of the pooled investment fund at the date of contribution. Net income of the pooled investment fund is allocated monthly to the participating funds based upon the number of units outstanding during the month.

The units of the pooled investment fund at June 30, 2001 and 2000 were allocated as follows (in thousands):

	<u>2001</u>	<u>2000</u>
Employees' Retirement System	7,118	7,211
Public School Employees' Retirement Systems	433	442
Legislative Retirement System	16	16
Georgia Judicial Retirement System	130	130
State Employees' Assurance Department	459	459
Superior Court Judges Retirement Fund	1	1
Georgia Defined Contribution Plan	<u>13</u>	<u>8</u>
	<u>8,170</u>	<u>8,267</u>

## 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 U.S. 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 \$5,993,645,000 and \$5,832,633,000 at fair value at June 30, 2001 and 2000, respectively. The collateral value was equal to 104.2% and 104.1% of the loaned securities' value at June 30, 2001 and 2000, respectively. The loaned securities are classified as Category 1 investments (see Note 4) based on the custodial arrangements for the collateral securities.

Loaned securities are included in the accompanying combined statements of net assets since the System maintains ownership. The related collateral securities are not recorded as assets on the System's combined Statements of Plan 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. In accordance with the criteria set forth in GASB Statement No. 28, 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, 2000. The valuation indicated that the employee contribution rate of .50% and .25% and the employer contribution rate of .25% and .25% of members' salaries for old plan members and new plan members, respectively, as of June 30, 2000 was appropriate. Old plan members were hired prior to July 1, 1982 and new plan members were hired on or after July 1, 1982.

REQUIRED SUPPLEMENTARY SCHEDULES

(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
(Including All Funds and Systems Administered  
by the Employees' Retirement System of Georgia)

**REQUIRED SUPPLEMENTARY SCHEDULES**  
(In Thousands)

Schedule of Funding Progress	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability ("AAL") - Entry Age (b)	Unfunded AAL/(Funding Excess) (b - a)	Funding Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL/(Funding Excess) as a Percentage of Covered Payroll [(b-a)/c]
Employees' Retirement System	6/30/1996	\$ 6,140,080	\$ 7,243,105	\$ 1,103,025	84.8%	\$ 1,968,714	56.0%
	6/30/1997	7,432,306	8,159,345	727,039	91.1%	1,977,928	36.8%
	6/30/1998	8,613,575	9,093,758	480,183	94.7%	2,055,966	23.4%
	6/30/1999	9,848,723	9,695,614	(153,109)	101.6%	2,152,072	(7.1)%
	6/30/2000	10,999,901	10,573,408	(426,493)	104.0%	2,304,289	(18.5)%
Public School Employees' Retirement System <sup>1</sup>	6/30/1996	377,490	401,222	23,732	94.1%	N/A	N/A
	6/30/1997	462,639	465,764	3,125	99.3%	N/A	N/A
	6/30/1998	528,770	504,779	(23,991)	104.8%	N/A	N/A
	6/30/1999	599,464	586,352	(13,112)	102.2%	N/A	N/A
	6/30/2000	667,642	615,357	(52,285)	108.5%	N/A	N/A
Legislative Retirement System <sup>2</sup>	6/30/1995	13,137	13,860	723	94.8%	2,186	33.1%
	6/30/1997	18,197	18,086	(111)	100.6%	2,340	(4.7)%
	6/30/1998	20,375	19,272	(1,103)	105.7%	2,363	(46.7)%
	6/30/1999	22,679	20,129	(2,550)	112.7%	2,411	(105.8)%
	6/30/2000	24,666	21,628	(3,038)	114.0%	2,411	(126.0)%
Georgia Judicial Retirement System	7/1/1998	160,171	117,771	(42,400)	136.0%	26,226	(161.7)%
	7/1/1999	183,249	129,233	(54,016)	141.8%	29,594	(182.5)%
	7/1/2000	204,136	138,427	(65,709)	147.5%	34,856	(188.5)%

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

<sup>1</sup>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.

<sup>2</sup>Actuarial valuations were performed biennially, prior to 7/1/98.

See notes to required supplementary schedules.

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
**(Including All Funds and Systems Administered**  
**by the Employees' Retirement System of Georgia)**

**REQUIRED SUPPLEMENTARY SCHEDULES**  
**(In Thousands)**

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**Schedule of Employer Contributions**

	<u>Year Ended June 30,</u>	<u>State Annual Required Contribution</u>	<u>Percentage Contributed</u>
Employees' Retirement System	1996	\$ 271,342	100%
	1997	282,249	100%
	1998	286,794	100%
	1999	304,461	100%
	2000	302,332	100%
Public School Employees' Retirement System	1996	12,750	100%
	1997	13,645	100%
	1998	13,638	107%
	1999	10,839	158%
	2000	9,789	184%
Legislative Retirement System	1996	164	100%
	1997	159	100%
	1998	164	126%
	1999	84	108%
	2000	22	436%
Georgia Judicial Retirement System	1999	694	100%
	2000	834	100%

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

See notes to required supplementary schedules.

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA  
(Including All Funds and Systems Administered  
by the Employees' Retirement System of Georgia)**

**NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES**

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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. The July 1, 2000 actuarial valuation for GJRS included the assumption of a 12 year remaining amortization period of the funding excess, which represents a reduction of 5 years from the previous valuation. Additional information as of the latest actuarial valuation follows:

Employees' Retirement System	Valuation date	6/30/00
	Actuarial cost method	Entry age
	Amortization method	Level percent of pay, open
	Remaining amortization period of the Funding Excess	40 years
	Asset valuation method	5-year smoothed market
	Actuarial assumptions:	
	Investment rate of return <sup>1</sup>	7%
	Projected salary increases <sup>1</sup>	5.20-9.00%
	Postretirement cost-of-living adjustment	None

Public School Employees' Retirement System	Valuation date	6/30/00
	Actuarial cost method	Entry age
	Amortization method	Level dollar open
	Remaining amortization period of the Funding Excess	40 years
	Asset valuation method	5-year smoothed market
	Actuarial assumptions:	
	Investment rate of return <sup>1</sup>	7%
	Projected salary increases	N/A
	Postretirement cost-of-living adjustment	3% annually

<sup>1</sup>Includes inflation rate of 3.50%

(Continued)

## EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

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

### NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

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Legislative Retirement System	Valuation date	6/30/00	
	Actuarial cost method	Unit credit	
	Amortization method	Level dollar, open	
	Remaining amortization period of the Funding Excess	N/A	
	Asset valuation method	5-year smoothed market	
	Actuarial assumptions:		
	Investment rate of return <sup>1</sup>	7%	
	Projected salary increases	N/A	
	Postretirement cost-of-living adjustment	3% annually	
	Georgia Judicial Retirement System	Valuation date	7/1/00
		Actuarial cost method	Entry age
Amortization method		Level percent of pay, open	
Remaining amortization period of the Funding Excess		12 years	
Asset valuation method		5-year smoothed market	
Actuarial assumptions:			
Investment rate of return <sup>1</sup>		7%	
Projected salary increases <sup>1</sup>		5.50%	
Postretirement cost-of-living adjustment		None	

<sup>1</sup>Includes inflation rate of 3.50%

(Concluded)

ADDITIONAL INFORMATION

(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
(Including All Funds and Systems Administered  
by the Employees' Retirement System of Georgia)

COMBINING STATEMENTS OF NET ASSETS  
JUNE 30, 2001 WITH COMPARATIVE TOTALS FOR 2000  
(In Thousands)

ASSETS	Pension Trust Funds										Total All Systems 2000
	Employees' Retirement System	Public School Employees' Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	State Employees' Assurance Department	Superior Court Judges and District Attorneys' Retirement Funds	Pooled Investment Fund	Georgia Defined Contribution Plan	Eliminations	2001	
CASH	\$ 868	\$ 127	\$ 117	\$ 156	\$ 29	\$ 59	\$ 190	\$ -	\$ -	\$ 1,546	\$ 1,332
RECEIVABLES:											
Employee and employer contributions	35,508	8	37	294			1,139			36,986	35,950
Interest and dividends							\$ 93,825	131		93,956	103,135
Uncommitted insurance premiums	3,167								\$ (3,167)		
Total receivables	38,675	8	37	294			93,825	1,270	(3,167)	130,942	139,085
INVESTMENTS - at fair value:											
Short-term											
Obligations of the U.S. Government and its agencies, corporate, and other bonds							208,067	6,770		214,837	131,785
Common stocks	3,744						5,812,749	9,714		5,822,463	5,623,800
Mortgage loans and real estate							8,014,283			8,014,283	9,375,961
Equity in pooled investment fund							607			4,351	4,373
Total investments	12,313,916	748,852	27,669	224,826	793,808	1,725	14,035,706	22,479	(14,129,531)	14,055,934	15,135,919
Total assets	12,353,459	748,987	27,823	225,276	793,837	1,784	14,129,531	40,423	(14,132,698)	14,188,422	15,276,336
LIABILITIES											
Accounts payable and other	9,834	416	16	103		45				10,430	8,866
Insurance premiums payable			30		3,137				(3,167)		
Total liabilities	9,834	416	46	103	3,137	45			(3,167)	10,430	8,866
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 16.)	\$12,343,625	\$748,571	\$27,777	\$225,173	\$790,700	\$1,739	\$14,129,531	\$40,407	\$(14,129,531)	\$14,177,992	\$15,267,470

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
(Including All Funds and Systems Administered  
by the Employees' Retirement System of Georgia)

Superior Court Judges and District Attorneys Retirement Funds

**COMBINING STATEMENTS OF NET ASSETS**  
**JUNE 30, 2001 WITH COMPARATIVE TOTALS FOR 2000**  
(In Thousands)

	Pension Trust Funds			Total	
	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund		2001	2000
<b>ASSETS</b>					
CASH	\$ 56	\$ 3		\$ 59	\$ 102
<b>RECEIVABLES:</b>					
Employee and employer contributions	1	(1)		-	1
Total receivables	1	(1)		-	1
<b>INVESTMENTS - at fair value:</b>					
Equity in pooled investment fund	1,725			1,725	1,835
Total assets	1,782	2		1,784	1,938
<b>LIABILITIES</b>					
<b>ACCOUNTS PAYABLE AND OTHER</b>					
Total liabilities	43	2		45	42
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	43	2		45	42
	\$ 1,739	\$ -		\$ 1,739	\$ 1,896

(A schedule of funding progress is presented on page 16.)

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
(Including All Funds and Systems Administered  
by the Employees' Retirement System of Georgia)

COMBINING STATEMENTS OF CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2001 WITH COMPARATIVE TOTALS FOR 2000  
(In Thousands)

	Pension Trust Funds										Eliminations	Total All Systems	
	Superior Court											2001	2000
	Employees' Retirement System	Public School Employees' Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	Slate Employees' Assurance Department	Judges and District Attorneys Retirement Funds	Pooled Investment Fund	Georgia Defined Contribution Plan					
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS - Beginning of year	\$ 13,301,163	\$ 813,296	\$ 29,525	\$ 239,644	\$ 846,072	\$ 1,896	\$ 15,215,115	\$ 35,874	\$ (15,215,115)	\$ 15,267,470	\$ 14,422,057		
ADDITIONS:													
Contributions:													
Employer	315,505	17,030	97	1,269	2,087					335,988	323,325		
Employee	55,887	1,227	250	3,347	12			11,725		72,448	70,474		
Insurance premiums					13,813					13,813	17,413		
Administrative expense allotment		625	110	175	30					940	737		
Investment (loss) income:													
Net (depreciation) appreciation in fair value of investments										(1,379,000)	494,234		
Interest and dividends	86			3	16			336		479,631	487,727		
Less investment expenses	(546)							1,088		(11,286)	(12,044)		
Allocation of investment earnings	(795,223)	(49,236)	(981)	(13,886)	(50,559)	(111)		(1,241)		911,637	-		
Net investment (loss) income	(795,683)	(49,236)	(981)	(13,883)	(50,543)	(111)		182		(910,655)	969,917		
Total additions	(424,291)	(30,354)	(524)	(9,092)	(37,130)	2,018		11,907		(487,466)	1,381,866		
DEDUCTIONS:													
Retirement payments	518,734	33,464	1,079	5,150	2,145					560,572	496,830		
Refunds of employee contributions and interest	7,563	282	35	54				7,064		14,998	15,474		
Death benefits						30				18,017	15,921		
Administrative expenses	6,950	625	110	175	225			310		8,425	8,228		
Total deductions	533,247	34,371	1,224	5,379	18,242	2,175		7,374		602,012	536,453		
TRANSFERS TO SYSTEMS FROM POOLED INVESTMENT FUND													
NET (DECREASE) INCREASE	(97,538)	(64,725)	(1,748)	(14,471)	(55,372)	(157)		4,533		(1,089,478)	845,413		
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS - End of Year	\$ 12,343,625	\$ 748,571	\$ 27,777	\$ 225,173	\$ 790,700	\$ 1,739	\$ 14,129,531	\$ 40,407	\$ (14,129,531)	\$ 14,177,992	\$ 15,267,470		

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
(Including All Funds and Systems Administered  
by the Employees' Retirement System of Georgia)

**Superior Court Judges and District Attorneys Retirement Funds**

**COMBINING STATEMENTS OF CHANGES IN NET ASSETS**  
**JUNE 30, 2000 WITH COMPARATIVE TOTALS FOR 1999**  
(In Thousands)

	Pension Trust Funds		Total
	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS - Beginning of year	\$ 1,896		\$ 1,896
ADDITIONS:			
Contributions:			
Employer	1,946	\$ 141	2,087
Employee	12		12
Administrative expense allotment	30		30
Investment (loss) income:			
Interest and dividends			2
Less investment expenses			(1)
Allocation of investment earnings	(111)		(111)
Net investment (loss) income	(111)		(111)
Total additions	1,877	141	2,018
DEDUCTIONS:			
Retirement payments	2,004	141	2,145
Administrative expenses	30		30
Total deductions	2,034	141	2,175
NET INCREASE (DECREASE)	(157)		(157)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS - End of year	\$ 1,739	\$ -	\$ 1,739

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
**(Including All Funds and Systems Administered**  
**by the Employees' Retirement System of Georgia**

**Administrative Expense Fund**

**CONTRIBUTIONS AND EXPENSES**  
**YEARS ENDED JUNE 30, 2001 AND 2000**  
**(In Thousands)**

	<u>2001</u>	<u>2000</u>
<b>Contributions:</b>		
Employees' Retirement System	\$ 6,950	\$ 7,099
Public School Employees' Retirement System	625	575
Legislative Retirement System	110	68
Georgia Judicial Retirement System	175	94
State Employees' Assurance Department	225	147
Georgia Defined Contribution Plan	310	245
Superior Court Judges Retirement Fund	30	-
	<u>8,425</u>	<u>8,228</u>
<b>Expenses:</b>		
<b>Personal services:</b>		
Salaries and wages	1,805	1,952
Retirement contributions	310	292
FICA	125	138
Health insurance	236	257
Miscellaneous	43	43
	<u>2,519</u>	<u>2,682</u>
<b>Communications:</b>		
Postage	101	130
Publications and printing	40	35
Telecommunications	78	79
Travel	17	29
	<u>236</u>	<u>273</u>
<b>Professional services:</b>		
Accounting and investment services	1,474	1,340
Computer services	1,879	2,878
Consulting services	826	-
Actuarial services	155	127
Medical services	192	141
Professional fees	61	47
Legal services	37	24
	<u>4,624</u>	<u>4,557</u>

(Continued)

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
**(Including All Funds and Systems Administered**  
**by the Employees' Retirement System of Georgia)**

**Administrative Expense Fund**

**CONTRIBUTIONS AND EXPENSES**  
**YEARS ENDED JUNE 30, 2001 AND 2000**  
**(In Thousands)**

	<u>2001</u>	<u>2000</u>
Rentals:		
Office space	\$ 341	\$ 339
Office equipment	1	1
	<u>342</u>	<u>340</u>
Other services and charges:		
Equipment	4	12
Temporary services	218	62
Supplies and materials	29	22
Repairs and maintenance	441	260
Courier services	5	5
Board member expenses	5	5
Miscellaneous	2	10
	<u>704</u>	<u>376</u>
Total expenses	<u>8,425</u>	<u>8,228</u>
Net Income	-	-
Balance:		
Beginning of year	<u>-</u>	<u>-</u>
End of year	<u>\$ -</u>	<u>\$ -</u>

(Concluded)