

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

*Management's Discussion and Analysis for the Year Ended  
June 30, 2003, Combined Financial Statements  
as of and for the Years Ended June 30, 2003 and 2002,  
Required Supplementary Schedules, and  
Additional Information as of and for the Years  
Ended June 30, 2003 and 2002,  
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 plans and funds administered by the Employees' Retirement System of Georgia (collectively, the "System"), a component unit of the state of Georgia, as of June 30, 2003 and 2002, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial status of the System as of June 30, 2003 and 2002, and the changes in financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the required supplementary schedules listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit such information, and we do not express an opinion on it.

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

*Deloitte + Touche LLP*

December 22, 2003

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2003. The discussion and analysis of the System's financial performance is within the context of the accompanying financial statements, notes to the financial statements, required supplementary schedules, and additional information following this section.

The System is responsible for administering a cost-sharing, multiple-employer defined benefit pension plan for various employer agencies of Georgia, along with six other defined benefit pension plans, a defined contribution plan, and a life insurance plan.

The defined benefit pension plans include:

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

The defined contribution retirement plan is the Georgia Defined Contribution Plan ("GDGP") and the life insurance plan is the State Employees' Assurance Department ("SEAD").

### Financial Highlights

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

- The net assets of the System increased by \$179 million, or 1.3%, from \$13.3 billion at June 30, 2002 to \$13.5 billion at June 30, 2003. The improvement was primarily due to the increase in the fair value of investments.
- For the year ended June 30, 2003, the total additions to net assets were \$907 million and the total deductions were \$728 million. The deductions consisted of benefit payments of \$684 million, refunds of \$15 million, death benefits of \$19 million and administrative expenses of \$10 million. The additions consisted of employer and member contributions totaling \$327 million, insurance premiums of \$15 million, net investment income of \$564 million and other income of \$1 million. Net investment income of \$564 million (comprised of interest and dividend income and the change in fair value of investments, reduced by investment expenses) was an improvement over the net investment loss of \$562 million for the year ended June 30, 2002. The increase was primarily due to the improved market conditions in 2003 compared to 2002.
- Benefit payments paid to retirees and beneficiaries increased by \$65 million, or 10.6% from \$619 million in 2002 to \$684 million in 2003. 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, (2) the combined statements of changes in net assets, and (3) notes to the financial statements. The System also includes in this report additional information to supplement the basic financial statements.

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

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

## 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. These statements are presented on page 7.

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, and investment income (loss), which includes interest and dividends and the net increase (decrease) 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. These statements are presented on page 8.

*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 9.

There are two *Required Supplementary Schedules* included in this report. These required schedules are applicable to the five 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, on-going 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 21.

*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 23.

Additional information is presented, beginning on page 27. There are three statements included in this section of the report. They are: (1) *Combining Statements of Net Assets*, (2) *Combining Statements of Changes in Net Assets*, and (3) *Administrative Expense Fund Statement*. The combining statements present the financial position and change in financial position for each of the plans and funds administered by the System, including the Pooled Investment Fund that holds and invests funds from each of the participating plans and

funds. The *Administrative Expense Fund Statement* 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 is as follows:

	Net Assets (in thousands)		Amount Change	Percentage Change
	2003	2002		
<b>Assets:</b>				
Cash and receivables	\$ 104,721	\$ 108,753	\$ (4,032)	(3.7)%
Investments	13,407,279	13,195,741	211,538	1.6 %
Capital assets, net	42	33	9	27.3 %
<b>Total assets</b>	<b>\$ 13,512,042</b>	<b>\$ 13,304,527</b>	<b>\$ 207,515</b>	<b>1.6 %</b>
<b>Liabilities:</b>				
Due to brokers and accounts payable	\$ 39,339	\$ 10,684	\$ 28,655	268.2 %
<b>Net assets</b>	<b>\$ 13,472,703</b>	<b>\$ 13,293,843</b>	<b>\$ 178,860</b>	<b>1.3 %</b>

The following table presents the investment allocation at June 30, 2003 and 2002:

	2003	2002
<b>Asset Allocation at June 30 (in percentages)</b>		
Equities	51.5 %	54.1 %
Fixed income	47.0 %	44.1 %
Short-term securities*	1.5 %	1.8 %
<b>Asset Allocation at June 30 (in thousands)</b>		
Equities	\$ 6,912,595	\$ 7,140,706
Fixed income	6,295,131	5,815,140
Short-term securities*	199,553	239,895
	<b>\$ 13,407,279</b>	<b>\$ 13,195,741</b>

\*Includes mortgages and real estate

The total investment portfolio increased \$212 million from the prior year, which is due primarily to an increase in the fair value of fixed income investments.

The investment rate of return in fiscal year ended June 30, 2003 was 4.5%, with a (2.3%) return on equities and a 12.8% return on fixed income investments. The five-year annualized rate of return on investments at June 30, 2003 was 2.3%, with a (2.1%) return on equities, and an 8.1% return on fixed income investments.

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

	<u>Changes in Net Assets (in thousands)</u>		<u>Amount Change</u>	<u>Percentage Change</u>
	<u>2003</u>	<u>2002</u>		
<b>Additions:</b>				
Employer contributions	\$ 252,852	\$ 247,101	\$ 5,751	2.3 %
Member's contributions	74,550	75,704	(1,154)	(1.5)%
Insurance premiums	14,847	14,364	483	3.4 %
Net investment income (loss)	563,690	(562,199)	1,125,889	200.3 %
Other	909	940	(31)	(0.3)%
<b>Total additions</b>	<b>906,848</b>	<b>(224,090)</b>	<b>1,130,938</b>	<b>504.7 %</b>
<b>Deductions:</b>				
Benefit payments	684,118	618,682	65,436	10.6 %
Refunds	14,993	13,704	1,289	9.4 %
Death benefits	18,924	18,227	697	3.8 %
Administrative expenses	9,953	9,446	507	5.4 %
<b>Total deductions</b>	<b>727,988</b>	<b>660,059</b>	<b>67,929</b>	<b>10.3 %</b>
<b>Net increase (decrease) in net assets</b>	<b>\$ 178,860</b>	<b>\$ (884,149)</b>	<b>\$ 1,063,009</b>	<b>120.2 %</b>

**Additions**—The System accumulates resources needed to fund benefit payments through contributions and returns on invested funds. Total contributions increased 1.4%, reflecting a contribution percentage that remained unchanged with a modest increase in overall salary growth. The net investment income increased by over \$1 billion. This increase is principally due to the improved market conditions in 2003 as compared to 2002.

**Deductions**—Deductions increased 10.3%, primarily because of a 10.6% increase in benefit payments. This is due to an increase of approximately 3.7% in the number of retirees receiving benefit payments across all defined benefit plans and to postretirement cost-of-living increases in benefits. Refunds of member contributions increased by 9.4%, which was primarily due to a 19% increase in refunds paid from the Georgia Defined Contribution Plan. Administrative expenses increased by approximately \$.5 million, an increase of 5.4% over the prior year due primarily to an increase in management staffing.

## 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 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, 2002 and June 30, 2001 actuarial valuations, the latest valuations available, indicate the actuarial value of assets and funding ratios for the five defined benefit retirement plans were as follows:

	Actuarial Value of Plan Assets (in thousands)		Funding Ratio	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
ERS	\$12,124,414	\$11,750,624	101.1%	101.7%
PSERS	727,529	708,391	115.4%	115.5%
LRS	26,637	26,034	122.3%	120.5%
GJRS	228,417	219,288	130.4%	140.5%
GMPF	-	N/A	0.0%	N/A

The System continues to be in a strong financial position as evidenced by the funding ratios, and it remains financially sound. 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.



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

**COMBINED STATEMENTS OF NET ASSETS**  
**JUNE 30, 2003 AND 2002**  
(In Thousands)

	2003	2002
<b>ASSETS</b>		
CASH	\$ 4,707	\$ 5,044
RECEIVABLES:		
Employer and member contributions	26,467	28,600
Interest and dividends	45,397	75,109
Due from brokers for securities sold	<u>28,150</u>	<u>-</u>
Total receivables	<u>100,014</u>	<u>103,709</u>
INVESTMENTS—At fair value:		
Short-term	195,254	235,569
Obligations of the U.S. Government and its agencies, corporate, and other bonds	6,295,131	5,815,140
Common stocks	6,912,595	7,140,706
Mortgage loans and real estate	<u>4,299</u>	<u>4,326</u>
Total investments	<u>13,407,279</u>	<u>13,195,741</u>
CAPITAL ASSETS—Net	<u>42</u>	<u>33</u>
Total assets	<u>13,512,042</u>	<u>13,304,527</u>
<b>LIABILITIES</b>		
Accounts payable and other	12,187	10,684
Due to brokers for securities purchased	<u>27,152</u>	<u>-</u>
Total liabilities	<u>39,339</u>	<u>10,684</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 21.)	<u>\$ 13,472,703</u>	<u>\$ 13,293,843</u>

See notes to combined financial statements.

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

**COMBINED STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**  
(In Thousands)

	2003	2002
NET ASSETS HELD IN TRUST FOR PENSION		
BENEFITS—Beginning of year	\$ 13,293,843	\$ 14,177,992
ADDITIONS:		
Contributions:		
Employer	252,852	247,101
Member	74,550	75,704
Insurance premiums	14,847	14,364
Administrative expense allotment	909	940
Investment income (loss):		
Net increase (decrease) in fair value of investments	236,390	(991,765)
Interest and dividends	339,805	441,176
Total investment income (loss)	576,195	(550,589)
Less investment expenses	12,505	11,610
Net investment income (loss)	563,690	(562,199)
Total additions	906,848	(224,090)
DEDUCTIONS:		
Benefit payments	684,118	618,682
Refunds of member contributions and interest	14,993	13,704
Death benefits	18,924	18,227
Administrative expenses	9,953	9,446
Total deductions	727,988	660,059
NET INCREASE (DECREASE)	178,860	(884,149)
NET ASSETS HELD IN TRUST FOR PENSION		
BENEFITS—End of year	<u>\$ 13,472,703</u>	<u>\$ 13,293,843</u>

See notes to combined financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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**1. GENERAL**

The accompanying combined financial statements of 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 Systems ("PSERS"), Legislative Retirement System ("LRS"), Georgia Judicial Retirement System ("GJRS"), Georgia Military Pension Fund ("GMPF"), Superior Court Judges Retirement Fund ("SCJRF"), District Attorneys Retirement Fund ("DARF"), Georgia Defined Contribution Plan ("GDCP"), 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 of Governmental Accounting Standards ("SGAS") 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. 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 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, 2003, participation in ERS is as follows:

Retirees and beneficiaries currently receiving benefits	28,562
Terminated employees entitled to benefits but not yet receiving benefits	56,525
Active plan members	<u>74,947</u>
 Total	 <u>160,034</u>
 Employers	 <u>516</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.

Employer contributions required for fiscal year 2003 and 2002 were based on the June 30, 2001 and 2000 actuarial valuations, respectively, as follows:

	Old Plan	New Plan
Employer:		
Normal	6.24 %	6.24 %
Employer paid for member	-	4.75 %
Accrued liability	<u>(0.58)%</u>	<u>(0.58)%</u>
Total	<u>5.66 %</u>	<u>10.41 %</u>

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 13 years based upon the actuarial valuation at June 30, 2002, on the assumption that the total payroll of active members will increase by 3.5% 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 162 and 132 members eligible to participate in this portion of ERS as of June 30, 2003 and 2002, respectively. Employer contributions of \$1,308,000 and \$2,802,000 and benefit payments of \$1,907,000 and \$2,509,000 under the SRBP are included in the combined statements of changes in net assets for the years ended June 30, 2003 and 2002, respectively. Cash of \$42,000 and \$542,000 under the SRBP is included in the combined statements of net assets for the years ended June 30, 2003 and 2002, respectively. Employer receivables of \$96,000 under the SRBP are included in the combined statement of net assets for the year ended June 30, 2002.

- 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 additional trustees.

**Membership**—As of June 30, 2003, participation in PSERS is as follows:

Retirees and beneficiaries currently receiving benefits	12,078
Terminated employees entitled to benefits but not yet receiving benefits	40,988
Active plan members	<u>51,175</u>
Total	<u>104,241</u>
Employers	<u>182</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 ten years of service.

Upon retirement, the member will receive a monthly benefit of \$12.50 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 years ended June 30, 2003 and 2002 were \$105.67 and \$320.97 per active member, respectively, and were based on the June 30, 2002 and 2001 actuarial valuations, respectively.

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 20 years based upon the actuarial valuation at June 30, 2002.

- 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, 2003, participation in LRS is as follows:

Retirees and beneficiaries currently receiving benefits	206
Terminated employees entitled to benefits but not yet receiving benefits	155
Active plan members	<u>216</u>
Total	<u>577</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 \$32 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 years ended June 30, 2003 and 2002 based on the June 30, 2001 and 2000 actuarial valuations, respectively.

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, the Superior Court Judges Retirement System, and the District Attorneys Retirement System (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 additional 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, 2003, participation in GJRS is as follows:

Retirees and beneficiaries currently receiving benefits	148
Terminated employees entitled to benefits but not yet receiving benefits	38
Active plan members	<u>473</u>
Total	<u>659</u>
Employers	<u>5</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.

There were no employer contributions required for the year ended June 30, 2003 based on the June 30, 2001 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 contributions, the member forfeits all rights to retirement benefits.

The employer contributions are projected to liquidate the actuarial accrued funding excess within ten years based upon the actuarial valuation at July 1, 2002 assuming that the amount of accrued liability payment increases 3.5% each year.

- e. The GMPF is a defined benefit pension fund 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 GMPF is administered by the ERS Board of Trustees.

**Membership**—As of June 30, 2003, GMPF had 17 retirees and beneficiaries 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.

- f. 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, 2003, participation in SCJRF is as follows:

Retirees and beneficiaries currently receiving benefits	31
Terminated employees entitled to benefits but not yet receiving benefits	4
Active plan members	<u>2</u>
 Total	 <u>37</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.

- g. 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, 2003, DARF had eight 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.

- h. 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, 2003, participation in GDCP is as follows:

Terminated employees entitled to benefits but not yet receiving benefits	76,236
Active plan members	<u>32,840</u>
 Total	 <u>109,076</u>
 Employers	 <u>305</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.

**Contribution**—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.

- i. 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

**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.

**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.

**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 \$437,000 and \$341,000 in rental expense for the years ended June 30, 2003 and 2002, 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.

**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 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 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 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**—SGAS 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, 2003 and 2002 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 \$195,254,000 and \$235,569,000 at June 30, 2003 and 2002, 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 \$100 million in any one name.

(b) *Long-Term:*

Fixed income investments are authorized in the following instruments:

- Obligations unconditionally guaranteed by agencies of the U.S. Government and 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 \$139,706,000 and \$132,075,000 at June 30, 2003 and 2002, 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 \$6,155,425,000 and \$5,683,065,000 at June 30, 2003 and 2002, 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 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 of \$6,912,595,000 and \$7,140,706,000 at June 30, 2003 and 2002, respectively.

Substantially all of the investments of ERS, PSERS, LRS, SCJRF, GJRS, GMPF, SEAD, and certain investments of GDCP are pooled into one common investment fund. Investments of approximately

\$12,048,000 and \$15,231,000 at June 30, 2003 and 2002, respectively, 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 market value of each plan's equity in the pooled common investment fund at June 30, 2003 and 2002 were as follows (dollars in thousands):

	2003		2002	
	Market Value	Units	Market Value	Units
Employees' Retirement System	\$ 11,679,683	6,737,963	\$ 11,534,275	6,949,866
Public School Employees' Retirement System	695,093	400,996	697,942	420,538
Legislative Retirement System	25,613	14,776	25,507	15,369
Georgia Judicial Retirement System	220,496	127,203	213,359	128,557
State Employees' Assurance Department	779,032	449,421	752,895	453,650
Georgia Military Pension Fund	541	312		
Superior Court Judges Retirement Fund	869	501	930	560
Georgia Defined Contribution Plan	36,514	21,065	26,874	16,193
	<u>\$ 13,437,841</u>	<u>7,752,237</u>	<u>\$ 13,251,782</u>	<u>7,984,733</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 \$6,220,148,000 and \$5,675,299,000 at fair value at June 30, 2003 and 2002, respectively. The collateral value was equal to 104.2% and 104.9% of the loaned securities' value at June 30, 2003 and 2002, 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 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 SGAS 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, 2002. The valuation indicated that the employee contribution rate of .50% and .25% and the employer contribution rate of .25% of members' salaries for old plan members and new plan members, respectively, as of June 30, 2002 were appropriate. 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, 2003 and 2002 and for the years then ended:

	Balance at June 30, 2002	Additions	Disposals	Balance at June 30, 2003
Capital assets:				
Equipment	\$ 41,597	\$ 21,089	\$ -	\$ 62,686
Vehicles	<u>20,551</u>	<u>-</u>	<u>-</u>	<u>20,551</u>
	<u>62,148</u>	<u>21,089</u>	<u>-</u>	<u>83,237</u>
Accumulated depreciation for:				
Equipment	(18,639)	(9,367)	-	(28,006)
Vehicles	<u>(10,276)</u>	<u>(2,935)</u>	<u>-</u>	<u>(13,211)</u>
	<u>(28,915)</u>	<u>(12,302)</u>	<u>-</u>	<u>(41,217)</u>
Capital assets, net	<u>\$ 33,233</u>	<u>\$ 8,787</u>	<u>\$ -</u>	<u>\$ 42,020</u>
	Balance at June 30, 2001	Additions	Disposals	Balance at June 30, 2002
Capital assets:				
Equipment	\$ -	\$ 41,597	\$ -	\$ 41,597
Vehicles	<u>-</u>	<u>20,551</u>	<u>-</u>	<u>20,551</u>
	<u>-</u>	<u>62,148</u>	<u>-</u>	<u>62,148</u>
Accumulated depreciation for:				
Equipment	-	(18,639)	-	(18,639)
Vehicles	<u>-</u>	<u>(10,276)</u>	<u>-</u>	<u>(10,276)</u>
	<u>-</u>	<u>(28,915)</u>	<u>-</u>	<u>(28,915)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 33,233</u>	<u>\$ -</u>	<u>\$ 33,233</u>

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)**

**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)	Excess as Percentage of Covered Payroll [(b-a)/c]
Employees' Retirement System	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)%
	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)%
Public School Employees' Retirement System <sup>1</sup>	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
	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
Legislative Retirement System	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)%
	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)%
Georgia Judicial Retirement System	6/30/1998	160,171	117,771	(42,400)	136.0%	26,226	(161.7)%
	6/30/1999	183,249	129,233	(54,016)	141.8%	29,594	(182.5)%
	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)%
Georgia Military Pension Fund	6/30/2002	-	8,322	8,322	0.0%	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 SGAS 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.

See notes to required supplementary schedules.

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
(Including All Plans and Funds 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	1998	286,794	100%
	1999	304,461	100%
	2000	302,332	100%
	2001	315,505	100%
	2002	233,229	100%
Public School Employees' Retirement System	1998	13,638	107%
	1999	10,839	158%
	2000	9,789	184%
	2001	12,874	132%
	2002	11,623	100%
Legislative Retirement System	1998	164	126%
	1999	84	108%
	2000	22	436%
	2001	-	N/A
	2002	-	N/A
Georgia Judicial Retirement System	1999	694	100%
	2000	834	100%
	2001	1,741	11%
	2002	-	N/A

This data was provided by the System's actuary.

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



**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA  
(Including All Plans and Funds 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. Additional information from the actuarial valuations for the most recent two-year period is as follows:

Employees' Retirement System:

Valuation date	June 30, 2002	June 30, 2001
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	13 years	20 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return <sup>1</sup>	7%	7%
Projected salary increases <sup>1</sup>	5.20-9.00%	5.20-9.00%
Postretirement cost-of-living adjustment	None	None

Public School Employees'  
Retirement System:

Valuation date	June 30, 2002	June 30, 2001
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period of the Funding Excess	20 years	40 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return <sup>1</sup>	7%	7%
Projected salary increases	N/A	N/A
Postretirement cost-of-living adjustment	3% annually	3% annually

## EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

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

### NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

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#### Legislative Retirement System:

Valuation date	June 30, 2002	June 30, 2001
Actuarial cost method	Unit credit	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 <sup>1</sup>	7%	7%
Projected salary increases	N/A	N/A
Postretirement cost-of-living adjustment	3% annually	3% annually

#### Georgia Judicial Retirement System:

Valuation date	July 1, 2002	July 1, 2001
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	10 years	10 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return <sup>1</sup>	7%	7%
Projected salary increases <sup>1</sup>	5.50%	5.50%
Postretirement cost-of-living adjustment	None	None

## EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

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

### NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

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#### Georgia Military Pension Fund:

Valuation date	June 30, 2002
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Remaining amortization period of the unfunded actuarial accrued liability	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>	N/A
Postretirement cost-of-living adjustment	None

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

ADDITIONAL INFORMATION

(See Independent Auditors' Report)

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

COMBINING STATEMENTS OF NET ASSETS  
JUNE 30, 2003 WITH COMPARATIVE TOTALS FOR 2002  
(In Thousands)

ASSETS	Plans and Funds										Eliminations	Total
	Public School Employees' Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	State Employees' Assurance Department	Georgia Military Pension Fund	Superior Court Judges and District Attorneys Retirement Funds	Pooled Investment Fund	Georgia Defined Contribution Plan				
CASH	\$ 4,101	\$ 87	\$ 61	\$ 54	\$ 4	\$ 85	\$ 195	\$ 120	\$ 4,707	\$ 5,044		
RECEIVABLES:												
Employer and member contributions	25,137	8	293			1	1,028		26,467	28,600		
Interest and dividends							\$ 45,356	41	45,397	75,109		
Due from brokers for securities sold							28,150		28,150			
Unremitted insurance premiums					3,795						\$ (3,795)	
Total receivables	25,137	8	293	3,795	3,795	1	73,506	1,069	100,014	103,709		
INVESTMENTS - at fair value:												
Short-term												
Obligations of the U.S. Government and its agencies, corporate, and other bonds							188,292	6,962	195,254	235,569		
Common stocks							6,290,045	5,086	6,295,131	5,815,140		
Mortgage loans and real estate	3,744						6,912,595		6,912,595	7,140,706		
Equity in pooled investment fund	11,679,683	695,093	25,613	220,497	779,032	869	555	36,513	(13,437,841)	4,326		
Total investments	11,683,427	695,093	25,613	220,497	779,032	869	13,391,487	48,561	13,407,279	13,195,741		
CAPITAL ASSETS, net	42								42	33		
Total assets	11,712,707	695,188	25,674	220,844	782,831	626	13,464,993	49,750	13,512,042	13,304,527		
LIABILITIES												
Accounts payable and other	11,480	479	18	125	40	42		3	12,187	10,684		
Due to brokers for securities purchases							27,152		27,152			
Insurance premiums payable	3,620		41									
Total liabilities	15,100	479	59	259	40	42	27,152	3	39,339	10,684		
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 11,697,607	\$ 694,709	\$ 25,615	\$ 220,585	\$ 782,791	\$ 626	\$ 13,437,841	\$ 49,747	\$ 13,472,703	\$ 13,293,843		

(A schedule of funding progress is presented on page 21.)

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

Superior Court Judges and District Attorneys Retirement Funds

**COMBINING STATEMENTS OF NET ASSETS**  
**JUNE 30, 2003 WITH COMPARATIVE TOTALS FOR 2002**  
(In Thousands)

ASSETS	Pension Trust Funds			Total
	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund	2003	
CASH	\$ 194	\$ 1	\$ 195	\$ 90
RECEIVABLES:				
Employer and member contributions	1		1	3
Total receivables	1		1	3
INVESTMENTS - at fair value:				
Equity in pooled investment fund	869		869	930
Total assets	1,064	1	1,065	1,023
<b>LIABILITIES</b>				
ACCOUNTS PAYABLE AND OTHER	41	1	42	45
Total liabilities	41	1	42	45
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 1,023</b>	<b>\$ -</b>	<b>\$ 1,023</b>	<b>\$ 978</b>

(A schedule of funding progress is presented on page 21.)

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

COMBINING STATEMENTS OF CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2003 WITH COMPARATIVE TOTALS FOR 2002  
 (In Thousands)

	Plans and Funds										Total	
	Public School Employees' Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	Georgia State Employees' Department Fund	Georgia Military Pension Fund	Georgia District Attorneys Retirement Fund	Superior Court Judges and District Attorneys Retirement Fund	Pooled Investment Fund	Georgia Defined Contribution Plan	Eliminations		2003
NET ASSETS HELD IN TRUST FOR PENSION												
BENEFITS - Beginning of year	\$ 11,538,373	\$ 697,461	\$ 2,13,611	\$ 754,054	\$ 591	\$ 978	\$ 13,251,782	\$ 43,899	\$ (13,251,782)	\$ 13,293,843	\$ 14,177,992	
ADDITIONS:												
Contributions:												
Employer	246,172	3,555	373		\$ 591	2,118				252,852	247,101	
Member	55,456	1,298	3,814			8		13,677		74,550	75,704	
Insurance premiums				14,847						14,847	14,364	
Administrative expense allotment	594	110	175			30				909	940	
Investment income (loss):												
Net increase (decrease)												
in fair value of investments	1											
Interest and dividends	(2,497)		(7)	2			236,467	(77)		236,390	(991,765)	
Less investment expenses	491,107	(24)	(3)			(1)	339,460	342		339,805	441,176	
Allocation of investment earnings		29,673	1,077	33,037		39	(9,966)	(7)		(12,505)	(11,610)	
Net investment income (loss)	488,611	29,649	1,074	33,039	41	38	565,961	1,898	(565,961)	563,690	(562,199)	
Total additions	790,239	35,096	13,702	47,886	632	2,194	565,961	15,575	(565,961)	906,848	(224,090)	
DEDUCTIONS:												
Benefit payments	637,243	37,021	6,483		6	2,119				684,118	618,682	
Refunds of member contributions and interest	5,253	233	70	18,924				9,417		14,993	13,704	
Death benefits	8,509	594	175	225		30		310		18,924	18,227	
Administrative expenses	651,005	37,848	1,376	19,149	6	2,149		9,727		727,988	660,059	
Total deductions	1,39,234	(2,752)	6,974	28,737	626	45	(379,902)	5,848	379,902	178,860	(884,149)	
TRANSFERS TO SYSTEMS FROM POOLED INVESTMENT FUND												
NET INCREASE (DECREASE)	\$ 11,697,607	\$ 694,709	\$ 220,585	\$ 782,791	\$ 626	\$ 1,023	\$ 13,437,841	\$ 49,747	\$ (13,437,841)	\$ 13,472,703	\$ 13,293,843	
NET ASSETS HELD IN TRUST FOR PENSION												
BENEFITS - End of year												

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**  
(Including All Plans and Funds 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, 2003 WITH COMPARATIVE TOTALS FOR 2002**  
(In Thousands)

	Pension Trust Funds			Total
	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund	2003	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS -				
Beginning of year	\$ 978		\$ 978	\$ 1,739
ADDITIONS:				
Contributions:				
Employer	2,005	\$ 113	2,118	2,159
Member	8		8	13
Administrative expense allotment	30		30	30
Investment income (loss):				
Interest and dividends	(1)		(1)	(3)
Less investment expenses	39		39	(745)
Allocation of investment earnings	38		38	(748)
Net investment income (loss)				
Total additions	2,081	113	2,194	1,454
DEDUCTIONS:				
Benefit payments	2,006	113	2,119	2,185
Administrative expenses	30		30	30
Total deductions	2,036	113	2,149	2,215
NET INCREASE (DECREASE)	45		45	(761)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS -				
End of year	\$ 1,023	\$ -	\$ 1,023	\$ 978



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

**Administrative Expense Fund**

**CONTRIBUTIONS AND EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**  
**(In Thousands)**

	<u>2003</u>	<u>2002</u>
<b>Contributions:</b>		
Employees' Retirement System	\$ 8,509	\$ 7,971
Public School Employees' Retirement System	594	625
Legislative Retirement System	110	110
Georgia Judicial Retirement System	175	175
State Employees' Assurance Department	225	225
Georgia Defined Contribution Plan	310	310
Superior Court Judges Retirement Fund	<u>30</u>	<u>30</u>
Total contributions	<u>9,953</u>	<u>9,446</u>
<b>Expenses:</b>		
<b>Personal services:</b>		
Salaries and wages	2,247	1,947
Retirement contributions	235	204
FICA	160	138
Health insurance	294	254
Miscellaneous	<u>40</u>	<u>29</u>
	<u>2,976</u>	<u>2,572</u>
<b>Communications:</b>		
Postage	165	155
Publications and printing	105	82
Telecommunications	96	83
Travel	<u>22</u>	<u>23</u>
	<u>388</u>	<u>343</u>
<b>Professional services:</b>		
Accounting and investment services	2,147	1,758
Computer services	883	1,026
Contracts	1,202	1,603
Actuarial services	521	305
Medical services	163	168
Professional fees	69	87
Legal services	<u>27</u>	<u>68</u>
	<u>5,012</u>	<u>5,015</u>

(Continued)

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

**Administrative Expense Fund**

**CONTRIBUTIONS AND EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**  
**(In Thousands)**

	<u>2003</u>	<u>2002</u>
Rentals:		
Office space	\$ 437	\$ 341
Office equipment	<u>1</u>	<u>3</u>
	<u>438</u>	<u>344</u>
Other services and charges:		
Equipment	18	99
Temporary services	611	580
Supplies and materials	127	85
Repairs and maintenance	33	335
Courier services	13	11
Board member expenses	-	14
Depreciation	12	29
Miscellaneous	<u>325</u>	<u>19</u>
	<u>1,139</u>	<u>1,172</u>
Total expenses	<u>9,953</u>	<u>9,446</u>
Net Income	-	-
Balance:		
Beginning of year	<u>-</u>	<u>-</u>
End of year	<u>\$ -</u>	<u>\$ -</u>

(Concluded)