



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

Basic Financial Statements,
Required Supplementary Schedules, and
Additional Information

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Employees' Retirement System of Georgia:

We have audited the accompanying basic financial statements of the Employees' Retirement System of Georgia (the System), a component unit of the state of Georgia, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the System as of and for the year ended June 30, 2003 were audited by other auditors whose report dated December 22, 2003 expressed an unqualified opinion on those financial statements.

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

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the System's net assets as of June 30, 2004, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress, and schedules of employer contributions on pages 3 through 10 and pages 36 through 39, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information, and express no opinion on it.



Our audit for the year ended June 30, 2004 was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the administrative expenses schedule for the year ended June 30, 2004 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole for the year ended June 30, 2004.

The report of the other auditors referred to above, dated December 22, 2003, stated that the supplementary information for the year ended June 30, 2003, included in the administrative expenses schedule, was subjected to auditing procedures applied in their audit of the 2003 basic financial statements and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2003, taken as a whole.

KPMG LLP

December 17, 2004

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Management's Discussion and Analysis (Unaudited)

June 30, 2004 and 2003

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, 2004. 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 ("GDCP") 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 \$818 million, or 6.1%, from \$13.5 billion at June 30, 2003 to \$14.3 billion at June 30, 2004. The improvement was primarily due to the increase in the fair value of equity investments. 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, 2004, the total additions to net assets were \$1.6 billion and the total deductions were \$801 million. The deductions consisted of benefit payments of \$753 million, refunds of \$15 million, death benefits of \$23 million, and administrative expenses of \$10 million. The additions consisted of employer and member contributions totaling \$324 million, insurance premiums of \$9 million, net investment income of \$1.3 billion, and other income of \$0.9 million. Net investment income of \$1.3 billion (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 income of \$564 million for the year ended June 30, 2003. The increase was primarily due to the improved equity market in 2004 compared to 2003. 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

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June 30, 2004 and 2003

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 \$69 million, or 10% from \$684 million in 2003 to \$753 million in 2004. 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. Benefit payments paid to retirees and beneficiaries increased by \$65 million, or 10.6% from \$619 million in 2002 to \$684 million in 2003. The increase was the result of increases in the number of retirees and beneficiaries receiving benefits across all plans and postretirement cost-of-living increases in benefits.

Overview of the Financial Statements

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

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

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

Description of the Financial Statements

The *Combined Statement of Net Assets* is the statement of financial position presenting information that includes all of the System's assets and liabilities with the balance representing the *Net Assets Held in Trust for Pension Benefits*. The investments of the System in this statement are presented at fair value. These statements are presented on page 11.

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 begin on page 12.

The *Combining Statements of Net Assets and Combining Statements of Changes in Net Assets* present the financial position and change in financial position for each of the funds administered by the System, including the Pooled Investment Fund that holds and invests funds from each of the participating plans and funds.

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June 30, 2004 and 2003

Notes to the basic 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 21.

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 36.

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 38.

Additional information is presented, beginning on page 41. This section includes the *Administrative Expenses Schedule*. The *Administrative Expenses Schedule* presents the expenses incurred in the administration of these plans and funds, and the contributions from each plan and fund to provide for these expenses.

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Management's Discussion and Analysis (Unaudited)

June 30, 2004 and 2003

The following table presents the investment allocation at June 30, 2004, 2003, and 2002:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Asset allocation at June 30 (in percentages):			
Equities	58.9%	51.5%	54.1%
Fixed income	39.8%	47.0%	44.1%
Short-term securities*	1.3%	1.5%	1.8%
Asset allocation at June 30 (in thousands):			
Equities	\$ 8,373,078	\$ 6,912,595	\$ 7,140,706
Fixed income	5,649,196	6,295,131	5,815,140
Short-term securities*	185,046	199,553	239,895
	<u>\$ 14,207,320</u>	<u>\$ 13,407,279</u>	<u>\$ 13,195,741</u>

* Includes mortgages and real estate

The total investment portfolio increased \$800 million from 2003, which is due primarily to an increase in the fair value of equity investments.

The total investment portfolio increased \$212 million from 2002, 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, 2004 was 9.8%, with a 20.1% return on equities and a (1.4)% return on fixed income investments. The five-year annualized rate of return on investments at June 30, 2004 was 2.1%, with a (2.0)% return on equities, and a 7.7% return on 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.

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June 30, 2004 and 2003

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

	Changes in net assets (in thousands)			2004		2003	
	2004	2003	2002	Amount change	Percentage change	Amount change	Percentage change
Additions:							
Employer contributions	\$ 250,356	\$ 252,852	\$ 247,101	\$ (2,496)	(1.0)%	\$ 5,751	2.3%
Member contributions	73,691	74,550	75,704	(859)	(1.2)%	(1,154)	(1.5)%
Insurance premiums	9,223	14,847	14,364	(5,624)	(37.9)%	483	3.4%
Net investment income (loss)	1,284,938	563,690	(562,199)	721,248	128.0%	1,125,889	200.3%
Other	903	909	940	(6)	(0.7)%	(31)	(0.3)%
Total additions	1,619,111	906,848	(224,090)	712,263	78.5%	1,130,938	504.7%
Deductions:							
Benefit payments	752,447	684,118	618,682	68,329	10.0%	65,436	10.6%
Refunds	15,418	14,993	13,704	425	2.8%	1,289	9.4%
Death benefits	23,261	18,924	18,227	4,337	22.9%	697	3.8%
Administrative expenses	9,912	9,953	9,446	(41)	(0.4)%	507	5.4%
Total deductions	801,038	727,988	660,059	73,050	10.0%	67,929	10.3%
Net increase (decrease) in net assets	\$ 818,073	\$ 178,860	\$ (884,149)	\$ 639,213	357.4%	\$ 1,063,009	120.2%

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Additions – The System accumulates resources needed to fund benefit payments through contributions and returns on invested funds. In fiscal year 2004, total contributions decreased 1.0%, reflecting a contribution percentage that remained unchanged with a modest overall salary decline. Insurance premiums decreased 37.9% due to a reduction in the employer contribution rate. Net investment income increased by over \$721 million. This increase is principally due to the improved market conditions in 2004 as compared to 2003. For fiscal year 2003, total contributions increased 1.4%, reflecting a contribution percentage that remained unchanged with a modest increase in overall salary growth. The new investment income increased by over \$1 billion. This increase is principally due to the improved market conditions in 2003 as compared to 2002.

Deductions – For fiscal year 2004, deductions increased 10%, primarily because of a 10% increase in benefit payments. This is due to an increase of approximately 3.8% in the number of retirees receiving benefit payments across all defined benefit plans and to postretirement cost-of-living increases in benefits. Death benefits increased 22.9%, which was primarily due to an increase in the number of death claims processed during 2004. During 2003, 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.

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June 30, 2004 and 2003

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, 2003, 2002, and 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)					
	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2003	Funding ratio June 30, 2002	June 30, 2001
ERS	\$ 12,428,736	\$ 12,124,414	\$ 11,750,624	100.5%	101.1%	101.7%
PSERS	734,879	727,529	708,391	110.6%	115.4%	115.5%
LRS	27,157	26,637	26,034	124.0%	122.3%	120.5%
GJRS	237,683	228,417	219,288	127.9%	130.4%	140.5%
GMPPF	609	—	N/A	5.5%	0.0%	N/A

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

Requests for Information

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

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Combined Statements of Net Assets

June 30, 2004 and 2003

(In thousands)

Assets	2004	2003
Cash	\$ 12,526	\$ 4,707
Receivables:		
Employer and member contributions	30,186	26,467
Interest and dividends	62,378	45,397
Due from brokers for securities sold	12,302	28,150
Total receivables	104,866	100,014
Investments – at fair value:		
Short-term	180,777	195,254
Obligations of the U.S. Government and its agencies, corporate, and other bonds	5,649,196	6,295,131
Common stocks	8,373,078	6,912,595
Mortgage loans and real estate	4,269	4,299
Total investments	14,207,320	13,407,279
Capital assets, net	243	42
Total assets	14,324,955	13,512,042
Liabilities		
Accounts payable and other	14,222	12,187
Due to brokers for securities purchased	19,957	27,152
Total liabilities	34,179	39,339
Net assets held in trust for pension benefits	\$ 14,290,776	\$ 13,472,703

(A schedule of funding progress is presented on page 36)

See accompanying notes to basic financial statements.

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Combined Statements of Changes in Net Assets

Years ended June 30, 2004 and 2003

(In thousands)

	<u>2004</u>	<u>2003</u>
Net assets held in trust for pension benefits – beginning of year	\$ 13,472,703	\$ 13,293,843
Additions:		
Contributions:		
Employer	250,356	252,852
Member	73,691	74,550
Insurance premiums	9,223	14,847
Administrative expense allotment	903	909
Investment income:		
Net increase in fair value of investments	971,901	236,390
Interest and dividends	327,149	339,805
Total investment income	<u>1,299,050</u>	<u>576,195</u>
Less investment expenses	<u>14,112</u>	<u>12,505</u>
Net investment income	<u>1,284,938</u>	<u>563,690</u>
Total additions	<u>1,619,111</u>	<u>906,848</u>
Deductions:		
Benefit payments	752,447	684,118
Refunds of member contributions and interest	15,418	14,993
Death benefits	23,261	18,924
Administrative expenses	9,912	9,953
Total deductions	<u>801,038</u>	<u>727,988</u>
Net increase	<u>818,073</u>	<u>178,860</u>
Net assets held in trust for pension benefits – end of year	<u>\$ 14,290,776</u>	<u>\$ 13,472,703</u>

See accompanying notes to basic financial statements.

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Combining Statement of Net Assets

June 30, 2004

(In thousands)

Assets	Plans and funds										Eliminations	Total 2004
	Employees' Retirement System	Public School Employees' Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	State Employees' Assurance Department	Georgia Military Pension Fund	Superior Court Judges And District Attorneys Retirement Funds	Pooled Investment Fund	Georgia Defined Contribution Plan			
Cash	\$ 11,770	\$ 208	\$ 13	\$ 114	\$ (90)	\$ 50	\$ 102	\$ 1	\$ 358	\$	\$	\$ 12,526
Receivables:												
Employer and member contributions	28,020	2	31	955					1,178			30,186
Interest and dividends								62,314	64			62,378
Due from brokers for securities sold								12,302				12,302
Unremitted insurance premiums					1,163						(1,163)	
Total receivables	28,020	2	31	955	1,163			74,616	1,242		(1,163)	104,866
Investments - at fair value:												
Short-term												
Obligations of the U.S. Government and its agencies, corporate, and other bonds								174,104	6,673			180,777
Common stocks	3,744							5,639,244	9,952			5,649,196
Mortgage loans and real estate	12,366,625	723,394	27,052	239,036	843,149	1,230	1,038	8,373,078				8,373,078
Equity in pooled investment fund								525			(14,241,611)	4,269
Total investments	12,370,369	723,394	27,052	239,036	843,149	1,230	1,038	14,186,951	56,692	(14,241,611)		14,207,320
Capital assets, net	243											243
Total assets	12,410,402	723,604	27,096	240,105	844,222	1,280	1,160	14,261,568	58,292	(14,242,774)		14,324,955
Liabilities												
Accounts payable and other	12,916	533	20	128	275		40		310			14,222
Due to brokers for securities purchased								19,957				19,957
Insurance premiums payable	1,134		9	20						(1,163)		
Total liabilities	14,050	533	29	148	275		40	19,957	310	(1,163)		34,179
Net assets held in trust for pension benefits	\$ 12,396,352	\$ 723,071	\$ 27,067	\$ 239,957	\$ 843,947	\$ 1,280	\$ 1,120	\$ 14,241,611	\$ 57,982	\$ (14,241,611)	\$	\$ 14,290,776

(A schedule of funding progress is presented on page 36.)

See accompanying notes to basic financial statements.

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Superior Court Judges and District Attorneys Retirement Funds

Combining Statement of Net Assets

June 30, 2004

(In thousands)

	Pension trust funds		
Assets	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund	Total 2004
Cash	\$ 101	\$ 1	\$ 102
Receivables:			
Employer and member contributions	—	—	—
Total receivables	—	—	—
Investments – at fair value:			
Equity in pooled investment fund	1,058	—	1,058
Total assets	1,159	1	1,160
Liabilities			
Accounts payable and other	39	1	40
Total liabilities	39	1	40
Net assets held in trust for pension benefits	\$ 1,120	\$ —	\$ 1,120

(A schedule of funding progress is presented on page 36.)

See accompanying notes to basic financial statements.

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Combining Statement of Changes in Net Assets
Year ended June 30, 2004
(In thousands)

	Plans and funds										Eliminations	Total 2004
	Employees' Retirement System	Public School Employees' Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	State Employees' Assurance Department	Georgia Military Pension Fund	Superior Court Judges And District Attorneys Retirement Funds	Pooled Investment Fund	Georgia Defined Contribution Plan			
Net assets held in trust for pension benefits - beginning of year	\$ 11,697,607	\$ 694,709	\$ 25,615	\$ 220,585	\$ 782,791	\$ 626	\$ 1,023	\$ 13,437,841	\$ 49,747	\$ (13,437,841)	\$ 13,472,703	
Additions:												
Contributions:												
Employer	245,388	836	52	1,558	---	617	1,905	---	---	---	250,356	
Member	54,166	1,317	293	3,848	---	---	181	13,886	---	---	73,691	
Insurance premiums	---	---	---	---	9,223	---	---	---	---	---	9,223	
Administrative expense allotment	---	588	110	175	---	---	30	---	---	---	903	
Investment income:												
Net increase (decrease) in fair value of investments	---	---	---	---	---	---	---	---	(158)	---	971,901	
Interest and dividends	---	---	---	---	3	---	---	---	261	---	327,149	
Less investment expenses	(1,895)	(37)	(5)	(4)	---	(3)	(9)	---	(10)	---	(14,112)	
Allocation of investment earnings	1,117,693	66,186	2,449	21,319	75,416	89	90	---	3,553	---	---	
Net investment income	1,115,798	66,149	2,444	21,315	75,419	86	81	---	3,646	---	---	
Total additions	1,415,352	68,890	2,899	26,896	84,642	703	2,197	1,286,795	17,532	(1,286,795)	1,284,938	
Deductions:												
Benefit payments	702,314	39,646	1,323	7,042	---	49	2,070	---	3	---	752,447	
Refunds of member contributions and interest	5,819	294	14	307	---	---	---	---	8,984	---	15,418	
Death benefits	---	---	---	---	23,261	---	---	---	---	---	23,261	
Administrative expenses	8,474	588	110	175	225	---	30	---	310	---	9,912	
Total deductions	716,607	40,528	1,447	7,524	23,486	49	2,100	---	9,297	---	801,038	
Transfers to systems from pooled investment fund	---	---	---	---	---	---	---	---	---	---	---	
Net increase in net assets	698,745	28,362	1,452	19,372	61,156	654	97	(483,025)	8,235	(803,770)	818,073	
Net assets held in trust for pension benefits - end of year	\$ 12,396,352	\$ 723,071	\$ 27,067	\$ 239,957	\$ 843,947	\$ 1,280	\$ 1,120	\$ 14,241,611	\$ 57,982	\$ (14,241,611)	\$ 14,290,776	

See accompanying notes to basic financial statements.

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

Superior Court Judges and District Attorneys Retirement Funds

Combining Statement of Changes in Net Assets

Year ended June 30, 2004

(In thousands)

	<u>Plans and funds</u>		<u>Total 2004</u>
	<u>Superior Court Judges Retirement Fund</u>	<u>District Attorneys Retirement Fund</u>	
Net assets held in trust for pension benefits – beginning of year	\$ 1,023	\$ —	\$ 1,023
Additions:			
Contributions:			
Employer	1,807	98	1,905
Member	181	—	181
Administrative expense allotment	30	—	30
Investment income:			
Interest and dividends	—	—	—
Less investment expenses	(9)	—	(9)
Allocation of investment earnings	90	—	90
Net investment income	81	—	81
Total additions	2,099	98	2,197
Deductions:			
Benefit payments	1,972	98	2,070
Administrative expenses	30	—	30
Total deductions	2,002	98	2,100
Net increase	97	—	97
Net assets held in trust for pension pension benefits – end of year	\$ <u>1,120</u>	\$ <u>—</u>	\$ <u>1,120</u>

See accompanying notes to basic financial statements.

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

Combining Statement of Net Assets

June 30, 2003
(In thousands)

Assets	Plans and funds										Total
	Employees' Retirement System	Public School Employees' Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	State Employees' Assurance Department	Georgia Military Pension Fund	Superior Court Judges and District Attorneys Retirement Funds	Pooled Investment Fund	Georgia Defined Contribution Plan	Eliminations	
Cash	\$ 4,101	\$ 87	\$ 61	\$ 54	\$ 4	\$ 85	\$ 195	\$ —	\$ 120	\$ —	\$ 4,707
Receivables:											
Employer and member contributions	25,137	8	—	293	—	—	1	—	1,028	—	26,467
Interest and dividends	—	—	—	—	—	—	—	—	41	—	45,397
Due from brokers for securities sold	—	—	—	—	—	—	—	—	—	—	28,150
Unremitted insurance premiums	—	—	—	—	3,795	—	—	—	—	(3,795)	—
Total receivables	25,137	8	—	293	3,795	—	1	—	1,069	(3,795)	100,014
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
Common stocks	—	—	—	—	—	—	—	6,290,045	5,086	—	6,295,131
Mortgage loans and real estate	3,744	—	—	—	—	—	—	6,912,595	—	—	6,912,595
Equity in pooled investment fund	11,679,683	695,093	25,613	220,497	779,032	541	869	555	36,513	(13,437,841)	4,299
Total investments	11,683,427	695,093	25,613	220,497	779,032	541	869	13,391,487	48,561	(13,437,841)	13,407,279
Capital assets, net	42	—	—	—	—	—	—	—	—	—	42
Total assets	11,712,707	695,188	25,674	220,844	782,831	626	1,065	13,464,993	49,750	(13,441,636)	13,512,042
Liabilities											
Accounts payable and other	11,480	479	18	125	40	—	42	—	3	—	12,187
Due to brokers for securities purchased	—	—	—	—	—	—	—	—	—	—	27,152
Insurance premiums payable	3,620	—	41	134	—	—	—	—	—	(3,795)	—
Total liabilities	15,100	479	59	259	40	—	42	—	3	(3,795)	39,339
Net assets held in trust for pension benefits	\$ 11,697,607	\$ 694,709	\$ 25,615	\$ 220,585	\$ 782,791	\$ 626	\$ 1,023	\$ 13,437,841	\$ 49,747	\$ (13,437,841)	\$ 13,472,703

(A schedule of funding progress is presented on page 36.)

See accompanying notes to basic financial statements.

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

Superior Court Judges and District Attorneys Retirement Funds

Combining Statement of Net Assets

June 30, 2003

(In thousands)

Assets	Pension trust funds		Total
	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund	
Cash	\$ 194	\$ 1	\$ 195
Receivables:			
Employer and member contributions	1	—	1
Total receivables	1	—	1
Investments – at fair value:			
Equity in pooled investment fund	869	—	869
Total assets	1,064	1	1,065
Liabilities			
Accounts payable and other	41	1	42
Total liabilities	41	1	42
Net assets held in trust for pension benefits	\$ 1,023	\$ —	\$ 1,023

(A schedule of funding progress is presented on page 36.)

See accompanying notes to basic financial statements.

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

Combining Statement of Changes in Net Assets
Year ended June 30, 2003
(In thousands)

	Plans and funds										Eliminations	Total
	Employees' Retirement System	Public School Employees' Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	State Employees' Assurance Department	Georgia Military Pension Fund	Superior Court Judges And District Attorneys Retirement Funds	Pooled Investment Fund	Georgia Defined Contribution Plan			
Net assets held in trust for pension benefits - beginning of year	\$ 11,558,373	\$ 697,461	\$ 25,467	\$ 213,611	\$ 754,054	\$ --	\$ 978	\$ 13,251,782	\$ 43,899	\$ (13,251,782)	\$	\$ 13,293,843
Additions:												
Contributions:												
Employer Member	246,172	3,555	43	373	--	591	2,118	--	--	--	--	252,852
Insurance premiums	55,456	1,298	297	3,814	--	--	8	--	13,677	--	--	74,550
Administrative expense allotment	--	594	110	175	14,847	--	30	--	--	--	--	14,847
Investment income:												
Net increase (decrease) in fair value of investments	--	--	--	--	--	--	--	236,467	(77)	--	--	236,390
Interest and dividends	1	--	--	--	2	--	--	339,460	342	--	--	339,805
Less investment expenses	(2,497)	(24)	(3)	(7)	--	--	(1)	(9,966)	(7)	--	--	(12,505)
Allocation of investment earnings	491,107	29,673	1,077	9,347	33,037	41	39	--	1,640	(565,961)	--	--
Net investment income	488,611	29,649	1,074	9,340	33,039	41	38	565,961	1,898	(565,961)	--	563,690
Total additions	790,239	35,096	1,524	13,702	47,886	632	2,194	565,961	15,575	(565,961)	--	906,848
Deductions:												
Benefit payments	637,243	37,021	1,246	6,483	--	6	2,119	--	--	--	--	684,118
Refunds of member contributions	5,253	233	20	70	--	--	--	--	9,417	--	--	14,993
Death benefits	--	--	--	--	18,924	--	--	--	--	--	--	18,924
Administrative expenses	8,509	594	110	175	225	--	30	--	310	--	--	9,953
Total deductions	651,005	37,848	1,376	6,728	19,149	6	2,149	--	9,727	--	--	727,988
Transfers to systems from pooled investment fund	--	--	--	--	--	--	--	(379,902)	--	--	379,902	--
Net increase in net assets	139,234	(2,752)	148	6,974	28,737	626	45	186,059	5,848	(186,059)	--	178,860
Net assets held in trust for pension benefits - end of year	\$ 11,697,607	\$ 694,709	\$ 25,615	\$ 220,585	\$ 782,791	\$ 626	\$ 1,023	\$ 13,437,841	\$ 49,747	\$ (13,437,841)	\$	\$ 13,472,703

See accompanying notes to basic financial statements.

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

Superior Court Judges and District Attorneys Retirement Funds

Combining Statement of Changes in Net Assets

Year ended June 30, 2003

(In thousands)

	Plans and funds		Total
	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund	
Net assets held in trust for pension benefits – beginning of year	\$ 978	\$ —	\$ 978
Additions:			
Contributions:			
Employer	2,005	113	2,118
Member	8	—	8
Administrative expense allotment	30	—	30
Investment income:			
Interest and dividends	—	—	—
Less investment expenses	(1)	—	(1)
Allocation of investment earnings	39	—	39
Net investment income	38	—	38
Total additions	2,081	113	2,194
Deductions:			
Benefit payments	2,006	113	2,119
Administrative expenses	30	—	30
Total deductions	2,036	113	2,149
Net increase	45	—	45
Net assets held in trust for pension benefits – end of year	\$ 1,023	\$ —	\$ 1,023

See accompanying notes to basic financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
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Notes to Basic Financial Statements

June 30, 2004 and 2003

(1) General

The accompanying basic financial statements of the Employees' Retirement System of Georgia, including all plans and funds administered by the Employees' Retirement System of Georgia (collectively, the "System"), is comprised of the Employees' Retirement System of Georgia ("ERS"), Public School Employees' Retirement 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 ("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, as amended by GASB Statement No. 39. Based on these criteria, the System has not included any other entities in its reporting entity.

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, basic financial statements. The Boards of Trustees, comprised of active and retired members and ex-officio state employees, are ultimately responsible for the administration of the System.

(2) Authorizing Legislation and Plan Descriptions

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

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

Membership

As of June 30, 2004, participation in ERS is as follows:

Retirees and beneficiaries currently receiving benefits	29,847
Terminated employees entitled to benefits but not yet receiving benefits	60,039
Active plan members	73,509
Total	163,395
Employers	526

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
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Notes to Basic Financial Statements

June 30, 2004 and 2003

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. Annually, postretirement cost-of-living adjustments are also made to members' benefits. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension at reduced rates to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

Contributions and Vesting

Member contributions under the old plan are 4% of annual compensation up to \$4,200 plus 6% of annual compensation in excess of \$4,200. Under the old plan, the state pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these state contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan are 1.25% of annual compensation. The state is required to contribute at a specified percentage of active member payroll determined annually by actuarial valuation.

Employer contributions required for fiscal year 2004 were based on the June 30, 2002 actuarial valuation as follows:

	Old Plan	New Plan
Employer:		
Normal	6.21%	6.21%
Employer paid for member	—	4.75%
Accrued liability	(0.55)%	(0.55)%
Total	5.66%	10.41%

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
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Notes to Basic Financial Statements

June 30, 2004 and 2003

Employer contributions required for fiscal year 2003 were based on the June 30, 2001 actuarial valuation as follows:

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

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

The employer contributions are projected to liquidate the actuarial accrued funding excess within 10 years based upon the actuarial valuation at June 30, 2003, on the assumption that the total payroll of active members will increase by 3.75% each year.

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

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

There were 199 and 162 members eligible to participate in this portion of ERS as of June 30, 2004 and 2003, respectively. Employer contributions of \$2,200,000 and \$1,308,000 and benefit payments of \$2,193,000 and \$1,907,000 under the SRBP are included in the combined statements of changes in net assets for the years ended June 30, 2004 and 2003, respectively. Cash of \$48,000 and \$42,000 under the SRBP is included in the combined statements of net assets for the years ended June 30, 2004 and 2003, respectively.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
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Notes to Basic Financial Statements

June 30, 2004 and 2003

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

Membership

As of June 30, 2004, participation in PSERS is as follows:

Retirees and beneficiaries currently receiving benefits	12,353
Terminated employees entitled to benefits but not yet receiving benefits	41,709
Active plan members	54,883
Total	108,945
Employers	183

Benefits

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

Upon retirement, the member will receive a monthly benefit of \$13.00 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, 2004 and 2003 were \$24.36 and \$105.67 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 11 years based upon the actuarial valuation at June 30, 2003.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
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Notes to Basic Financial Statements

June 30, 2004 and 2003

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

Membership

As of June 30, 2004, participation in LRS is as follows:

Retirees and beneficiaries currently receiving benefits	207
Terminated employees entitled to benefits but not yet receiving benefits	148
Active plan members	215
Total	570
Employers	3

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, 2004 and 2003 based on the June 30, 2002 and 2001 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, the Superior Court Judges, and the District Attorneys (collectively, the Predecessor Retirement Systems). As of June 30, 1998, any person who was an active, inactive, or retired

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June 30, 2004 and 2003

member or beneficiary of the Predecessor Retirement Systems was transferred to GJRS in the same status effective July 1, 1998. All assets of the Predecessor Retirement Systems were transferred to GJRS as of July 1, 1998. The ERS Board of Trustees and three additional trustees administer GJRS.

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

Membership

As of June 30, 2004, participation in GJRS is as follows:

Retirees and beneficiaries currently receiving benefits	151
Terminated employees entitled to benefits but not yet receiving benefits	75
Active plan members	451
	677
Total	677
Employers	4

Benefits

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

Annual retirement benefits paid to members are computed as 66-2/3% of 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.

Employer contributions required for fiscal year 2004 were based on the June 30, 2002 actuarial valuation as follows:

Employer:	
Normal	20.33%
Accrued liability	(16.48)%
	3.85%
Total	3.85%

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June 30, 2004 and 2003

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 eleven years based upon the actuarial valuation at June 30, 2003 assuming that the amount of accrued liability payment increases 3.75% each year.

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

Membership

As of June 30, 2004, GMPF had 61 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.

Employer contributions required for the year ended June 30, 2004 were \$68.79 per active member and were based on the June 30, 2003 actuarial valuation.

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

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

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June 30, 2004 and 2003

The employer contributions are projected to liquidate the unfunded actuarial accrued liability within 40 years based upon the actuarial valuation at June 30, 2003.

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

Membership

As of June 30, 2004, 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	2
	<hr/>
Total	37
	<hr/>
Employers	1

Benefits

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

Contributions and Vesting

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

- (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, 2004, DARF had eight retirees and beneficiaries currently receiving benefits.

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June 30, 2004 and 2003

Benefits

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

Contributions and Vesting

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

- (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, 2004, participation in GDCP is as follows:

Terminated employees entitled to benefits but not yet receiving benefits	83,289
Active plan members	32,593
Total	115,882
Employers	296

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.

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

(3) Significant Accounting Policies and System Asset Matters

(a) Basis of Accounting

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

(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 \$561,000 and \$437,000 in rental expense for the years ended June 30, 2004 and 2003, 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 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 basic financial statements.

(4) Investment Program

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

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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

The System's investments are categorized 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, 2004 and 2003 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 \$180,777,000 and \$195,254,000 at June 30, 2004 and 2003, 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.

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(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 agency and corporate bonds of \$1,754,167,000 and \$139,706,000 at June 30, 2004 and 2003, 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 \$3,895,029,000 and \$6,155,425,000 at June 30, 2004 and 2003, 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 totaling \$8,373,078,000 and \$6,912,595,000 at June 30, 2004 and 2003, 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 \$16,624,000 and \$12,048,000 at June 30, 2004 and 2003, 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.

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The units and fair value of each plan's equity in the pooled common investment fund at June 30, 2004 and 2003 were as follows (dollars in thousands):

	2004		2003	
	Fair value	Units	Fair value	Units
Employees' Retirement System	\$ 12,366,625	6,501,622	\$ 11,679,683	6,737,963
Public School Employees' Retirement System	723,394	380,317	695,093	400,996
Legislative Retirement System	27,052	14,222	25,613	14,776
Georgia Judicial Retirement System	239,036	125,670	220,496	127,203
State Employees' Assurance Department	843,149	443,277	779,032	449,421
Georgia Military Pension Fund	1,230	647	541	312
Superior Court Judges Retirement Fund	1,058	556	869	501
Georgia Defined Contribution Plan	40,067	21,065	36,514	21,065
	<u>\$ 14,241,611</u>	<u>7,487,376</u>	<u>\$ 13,437,841</u>	<u>7,752,237</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 \$5,345,289,000 and \$6,220,148,000 at fair value at June 30, 2004 and 2003, respectively. The collateral value was equal to 105.0% and 104.2% of the loaned securities value at June 30, 2004 and 2003, 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 statements of net assets since the System maintains ownership. The related collateral securities are not recorded as assets on the System's statements of net assets, and a corresponding liability is not recorded, since the System is deemed not to have the ability to pledge or trade the collateral securities. The System is deemed not to have the ability to pledge or sell the collateral securities since the System's lending contracts do not address whether the lender can pledge or sell the collateral securities without a borrower default, the System has not previously demonstrated that ability, and there are no indications of the System's ability to pledge or sell the collateral securities.

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(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, 2003. The valuation indicated that the employee contribution rates of .50% and .25% of members' salaries for old plan members and new plan members, respectively, were appropriate as of June 30, 2003. There were no employer contributions required for the year ended June 30, 2004. 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, 2004 and 2003 and for the years then ended:

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2004</u>
Capital assets:				
Equipment	\$ 62,686	\$ 233,137	\$ —	\$ 295,823
Vehicles	20,551	—	—	20,551
	<u>83,237</u>	<u>233,137</u>	<u>—</u>	<u>316,374</u>
Accumulated depreciation for:				
Equipment	(28,006)	(28,795)	—	(56,801)
Vehicles	(13,211)	(2,935)	—	(16,146)
	<u>(41,217)</u>	<u>(31,730)</u>	<u>—</u>	<u>(72,947)</u>
Capital assets, net	<u>\$ 42,020</u>	<u>\$ 201,407</u>	<u>\$ —</u>	<u>\$ 243,427</u>
	Balance at			Balance at
	June 30, 2002	Additions	Disposals	June 30, 2003
Capital assets:				
Equipment	\$ 41,597	\$ 21,089	\$ —	\$ 62,686
Vehicles	20,551	—	—	20,551
	<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	(10,276)	(2,935)	—	(13,211)
	<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>

REQUIRED SUPPLEMENTARY SCHEDULES

(See Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
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Required Supplementary Schedules (Unaudited)
Schedules of Funding Progress
(In thousands)

Actuarial valuation date	Actuarial value of plan assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL/(funding excess) (b-a)	Funding ratio (a/b)	Annual covered payroll (c)	Excess as percentage of covered payroll [(b-a)/c]
Employees' Retirement System						
6/30/1998	\$ 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)%
6/30/2003	12,428,736	12,370,563	(58,173)	100.5%	2,489,490	(2.3)%
Public School Employees' Retirement System ¹						
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
6/30/2003	734,879	664,207	(70,672)	110.6%	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)%
6/30/2003	27,157	21,898	(5,259)	124.0%	3,434	(153.1)%
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)%
6/30/2003	237,683	185,825	(51,858)	127.9%	38,867	(133.4)%
Georgia Military Pension Fund						
6/30/2002	—	8,322	8,322	0.0%	N/A	N/A
6/30/2003	609	11,098	10,489	5.5%	N/A	N/A

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

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

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

See accompanying notes to required supplementary schedules.

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Required Supplementary Schedules (Unaudited)

Schedules of Employer Contributions

(In thousands)

	<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%
	2003	246,172	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%
	2003	4,121	86%
Legislative Retirement System	1998	164	126%
	1999	84	108%
	2000	22	436%
	2001	—	N/A
	2002	—	N/A
	2003	—	N/A
Georgia Judicial Retirement System	1999	694	100%
	2000	834	100%
	2001	1,741	11%
	2002	—	N/A
	2003	—	N/A
Georgia Military Pension Plan	2003	591	100%

This data was provided by the System's actuary.

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

See accompanying notes to required supplementary schedules.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

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Notes to Required Supplementary Schedules

(Unaudited)

June 30, 2004

(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, 2003	June 30, 2002
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	13 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return ¹	7.25%	7%
Projected salary increases ¹	5.45-9.25%	5.20-9.00%
Postretirement cost-of-living adjustment	None	None

Public School Employees'
Retirement System:

Valuation date	June 30, 2003	June 30, 2002
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period of the Funding Excess	11 years	20 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return ¹	7.25%	7%
Projected salary increases	N/A	N/A
Postretirement cost-of-living adjustment	3% annually	3% annually

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

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Notes to Required Supplementary Schedules

(Unaudited)

June 30, 2004

Legislative Retirement System:

Valuation date	June 30, 2003	June 30, 2002
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 ¹	7.25%	7%
Projected salary increases	N/A	N/A
Postretirement cost-of-living adjustment	3% annually	3% annually

Georgia Judicial Retirement System:

Valuation date	June 30, 2003	July 1, 2002
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	11 years	10 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return ¹	7.25%	7%
Projected salary increases ¹	5.75%	5.50%
Postretirement cost-of-living adjustment	None	None

Georgia Military Pension Fund:

Valuation date	June 30, 2003	June 30, 2002
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period of the unfunded actuarial accrued liability	40 years	40 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return ¹	7.25%	7%
Projected salary increases ¹	N/A	N/A
Postretirement cost-of-living adjustment	None	None

¹Includes inflation rate of 3.75%

ADDITIONAL INFORMATION
(See Independent Auditors' Report)

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Administrative Expenses Schedule

Contributions and Expenses

Years ended June 30, 2004 and 2003

(In thousands)

	2004	2003
Contributions:		
Employees' Retirement System	\$ 8,474	\$ 8,509
Public School Employees' Retirement System	588	594
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	30	30
	9,912	9,953
Expenses:		
Personal services:		
Salaries and wages	2,623	2,247
Retirement contributions	259	235
FICA	179	160
Health insurance	343	294
Miscellaneous	11	40
	3,415	2,976
Communications:		
Postage	210	165
Publications and printing	35	105
Telecommunications	130	96
Travel	15	22
	390	388
Professional services:		
Accounting and investment services	2,616	2,147
Computer services	1,022	883
Contracts	268	1,202
Actuarial services	347	521
Medical services	200	163
Professional fees	72	69
Legal services	24	27
	4,549	5,012

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Administrative Expenses Schedule

Contributions and Expenses

Years ended June 30, 2004 and 2003

(In thousands)

	2004	2003
Rentals:		
Office space	\$ 561	\$ 437
Office equipment	1	1
	562	438
Other services and charges:		
Equipment	9	18
Temporary services	689	611
Supplies and materials	84	127
Repairs and maintenance	53	33
Courier services	14	13
Depreciation	32	12
Miscellaneous	115	325
	996	1,139
Total expenses	9,912	9,953
Net income	—	—
Balance:		
Beginning of year	—	—
End of year	\$ —	\$ —

See accompanying independent auditors' report.