2002 ANNUAL REPORT

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

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EMPLOYEES' RETIREMENT SYSTEM

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BOARDS OF TRUSTEES

Cecelia Corbin Hunter
Director
Employees' Retirement System

It is my pleasure to join the Boards of Trustees and staff in presenting the 2002 Annual Report on the systems and programs administered by the Employees' Retirement System (ERS). By statute, the staff of ERS administers seven separate and distinct systems:

- Employees' Retirement System of Georgia
- Public School Employees Retirement System
- Legislative Retirement System
- Georgia Judicial Retirement System
- Georgia Defined Contribution Plan
- State Employees' Assurance Department (GTLI)
- State Social Security contracts with political subdivisions

This annual report includes letters from our actuary, Buck Consultants, Inc., on the funding of the retirement systems and the Group Term Life Insurance Program with highlights from the most recent valuation of each system; an investment report, including a listing of the Pooled Investment Fund Portfolio; and the auditors' report from Deloitte & Touche.

INVESTMENTS

At ERS' inception, legislation authorized a 50/50 split between equities and bonds. Thus, the investments of ERS have been forward thinking and always have included a diverse portfolio of bonds and equities. In the early days, trust funds were managed by a sole custodian bank. In 1974, the in-house Division of Investment was created; and in 1983 multiple outside advisers became a part of the investment team.

The Division of Investment has maintained a policy of "conservatism" and "preservation of capital," and has successfully outperformed the market. At the end of 1982 the trust funds had a market value of $1.017 billion; ten years later, 1992, the market value was $5.6 billion; and, ten years later, at the end of 2002, the market value was $12.8 billion.

The ERS staff joins me in expressing our sincere thanks to the Boards of Trustees for their leadership. In addition, we appreciate the support of the Governor, Lieutenant Governor, Retirement Committee Chairmen of the Georgia General Assembly House of Representatives and Senate, respectively, and departmental officials. With this continued support, and the diligence of our staff, we can assure our members and retirees that we have a successful operation and are providing protection and financial soundness to the retirement system.

Cecelia Corbin Hunter

Cecelia Corbin Hunter, Director

ACT 950 (SB 62) –
EMPLOYEES' RETIREMENT SYSTEM

Amends O.C.G.A. 47-1-14(a) relating to the exemption from public inspection to redefine "retirement system" to include any association of like political subdivisions, the purpose of which is the pooling of funds for retirement or pension purposes.

Amends 47-2-96(j) to allow Old and New Plan members to receive credit for up to two years of military service, which began during the draft period (September 16, 1940 to Mach 31, 1947 and June 24, 1948 to July 1, 1973) and extends past military draft cut-off date. Member shall pay the regular employee contribution of 5 percent of compensation last paid as an employee before entering military service or 5 percent first paid as an employee after returning from military service, plus 4 1/2 percent interest. Application must be made prior to December 31, 2003.

ACT 918 (SB138) –
PUBLIC SCHOOL EMPLOYEES
RETIREMENT SYSTEM

Amends 47-4-101 to increase the maximum benefit multiplier from $12.00 up to $15.00 to the extent funds are appropriated. Minimum benefit multiplier increases from $9.50 to $12.00. The General Assembly appropriated and Governor Barnes approved an increase from $12.00 to $12.50 times the years of creditable service. The increase was effective in retiree checks for the month of July, which were deposited or mailed on the last business day of July 2002.

ACT 931 (HB 227) –
EMPLOYEES' RETIREMENT SYSTEM

Creates the Georgia Military Pension Fund under O.C.G.A. 47-24 for members of the Georgia National Guard effective July 1, 2002. Board of Trustees of ERS shall administer the fund.

ACT 998 (HB 254) –
EMPLOYEES' & GEORGIA JUDICIAL
RETIREMENT SYSTEMS

Amends 47-23-64 to allow state court judges and solicitors general to transfer ERS active service to GJRS or establish ERS refunded service under GJRS by paying back contributions plus regular interest (4%). ERS must be notified not later than December 31, 2002 or within 90 days of first becoming a member of GJRS, whichever date is later. No service can be credited that will create any accrued unfunded liability on this system.

ACT 895 (HB 552) –
GEORGIA JUDICIAL RETIREMENT SYSTEM

Amends O.C.G.A. 47-23-21 to allow the Board of Trustees from time to time to adopt a method or methods to establish an employee contribution rate lower than as established in Article 5, provided such rate shall not be lower than 6 1/2 %. Such method shall be based on (1) recommendation of actuary, (2) actuarial soundness of fund, and (3) other factors as Board deems relevant.

ACT 997 (HB 557) –
EMPLOYEES' & GEORGIA JUDICIAL
RETIREMENT SYSTEMS

Amends O.C.G.A. 47-23-29 to establish Group Term Life Insurance (GTLI) for active members of GJRS on or after July 1, 2002 and to be administered via contract by the ERS Board of Trustees. The GTLI coverage will be basically the same as that in effect for ERS members.

ACT 994 (HB 666) –
EMPLOYEES' RETIREMENT SYSTEM

Amends O.C.G.A. 47-2-263 to allow any member subject to 47-2-262 up to four years prior service as a full-time law assistant for a judicial circuit employed pursuant to O.C.G.A. 15-6-28 by paying an amount determined by the actuary as necessary to grant prior service without creating any accrued actuarial liability to the System. Payment must be made not later than July 1, 2003, or within six months of first or again becoming a member, whichever is later.

ACT 959 (HB 785) – EMPLOYEES' RETIREMENT SYSTEM

Amends O.C.G.A. 47-2-326 to allow employees of the Georgia Rail Passenger Authority to become members of ERS effective July 1, 2002 or on the date of employment, whichever is later.

ACT 958 (HB931) – EMPLOYEES' RETIREMENT SYSTEM

Amends O.C.G.A. 47-2-110(c) to provide that benefits of a retired member who retired on a normal service retirement with at least 10 years of actual service as an officer or trooper of the Uniform Division of the Department of Public Safety shall not be suspended if he or she accepts full-time or part-time employment with the Department of Public Safety or the Department of Motor Vehicle Safety as a radio operator or a driver's license examiner. No employee benefits shall accrue, including retirement credits. This provision would no longer apply on or after July 1, 2007.

Also amends 47-2-334(c) to state that employee contributions shall not be less than 1% nor greater than 1 1/2%, with .25% credited to GTLI. Any reduction in percentage shall be based upon (1) recommendation of actuary, (2) actuarial soundness of fund in accordance with standards provided in 47-20-10 or higher standards adopted by Board, and (3) other factors deemed relevant by the Board.

Adds 47-2-299 to allow an employee of a Community Service Board created pursuant to 37-2-6 to obtain prior service as an employee of a private nonprofit hospital deemed to be the community health center through a contract with the Department of Human Resources and which was authorized to bill Medicaid for outpatient clinic option services under the state community mental health program prior to December 31, 1991, and who, without a break in service, became an employee of the Community Service Board in the same position held in the private hospital. Applies to both Old and New Plan members. Member must pay amount deemed by the actuary to grant such benefit without creating any accrued actuarial liability to the retirement system. Application must be made by December 31, 2002.

ACT 69 (HB 1372) – INVESTMENT OF PENSION FUNDS

Creates the Joint Study Committee on Economic Development Through the Investment of State Pension Funds into Private Equities.

OTHER LEGISLATION OF INTEREST

ACT 928 (HB 1313) – ALL SYSTEMS

Increases the amount of retirement income exclusion to $14,000 for taxable years beginning on or after January 1, 2001 and prior to January 1, 2002; $14,500 for taxable years beginning on or after January 1, 2002 and prior to January 1, 2003; $15,000 for taxable years beginning on or after January 1, 2003.

ACTUARY'S CERTIFICATION LETTER

BUCK CONSULTANTS
A Mellon Consulting Company
200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

August 6, 2002

Board of Trustees
Employees' Retirement System of Georgia
Two Northside 75, Suite 300
Atlanta, GA 30318

Attention: Ms. Cecelia Corbin Hunter, Executive Director

Members of the Board:

Section 47-2-26 of the law governing the operation of the Employees' Retirement System of Georgia provides that the actuary shall make periodic valuations of the contingent assets and liabilities of the Retirement System on the basis of regular interest and the tables last adopted by the Board of Trustees. We have submitted the report giving the results of the actuarial valuation of the System prepared as of June 30, 2001. The report indicates that annual employer contributions at the rate of 5.66% of active payroll for Old Plan members and 10.41% of active payroll for New Plan members for the fiscal year ending June 30, 2003 are sufficient to support the benefits of the System. In preparing the valuation, the actuary relied on data provided by the System. While not verifying data at the source, the actuary performed tests for consistency and reasonableness. Our firm, as actuary, is responsible for all of the actuarial trend data in the financial section of the annual report and the supporting schedules in the actuarial section of the annual report.

Since the previous valuation, the actuarial assumptions have been revised to reflect the results of the experience investigation adopted by the Board on June 20, 2002. In our opinion, the valuation is complete and accurate, and the methodology and assumptions used are reasonable as a basis for the valuation. The valuation takes into account the effect of all amendments to the System enacted through the 2002 session of the General Assembly as well as the 1.5% Ad Hoc COLAs effective July 1, 2002 and January 1, 2003.

The System is funded on an actuarial reserve basis. The actuarial assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Governmental Accounting Standards Board (GASB) Statement Nos. 25 and 27. The funding objective of the plan is that contribution rates over time will remain level as a percent of payroll. The valuation method used is the entry age normal cost method. The normal contribution rate to cover current cost has been determined as a level percent of payroll. Gains and losses are reflected in the unfunded accrued liability which is negative and being amortized as a level percent of payroll within a 20-year period.

The Retirement System is being funded in conformity with the minimum funding standard set forth in Code Section 47-20-10 of the Public Retirement Systems Standards Law. In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience is performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Sincerely,

Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

Buck Consultants, Inc.
770|955-2488 Fax 770|933-8336

VALUATION BALANCE SHEET – *as of June 30, 2001 – dollar amounts in thousands*

ACTUARIAL LIABILITIES

(1)	Present value of prospective benefits payable on account of present retired members, beneficiaries of deceased members, and members entitled to deferred vested benefits:		
	Service and disability benefits	$ 4,875,973	
	Death and survivor benefits	407,503	
	Deferred vested benefits	138,156	
	Total		$ 5,421,632
(2)	Present value of prospective benefits payable on account of present active members:		
	Retirement and survivor allowances	$ 8,977,154	
	Refunds of members' contributions	61,276	
	Total		9,038,430
(3)	**Total Actuarial Liabilities**		$ 14,460,062

PRESENT AND PROSPECTIVE ASSETS

(4)	Actuarial value of assets		$ 11,750,624
(5)	Present value of total future contributions = (3) - (4)	$ 2,709,438	
(6)	Present value of future member contributions and employer paid member contributions		1,398,006
(7)	Present value of future employer contributions = (5) - (6)	$ 1,311,432	
(8)	Employer normal contribution rate	6.24%	
(9)	Present value of future payroll (1%)	$ 241,154	
(10)	Prospective normal contributions = (8) x (9)		1,504,801
(11)	Prospective unfunded accrued liability contributions = (7) - (10)		(193,369)
(12)	**Total Present and Prospective Assets**		$ 14,460,062

ACTUARIAL SUMMARY

EMPLOYEES' RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL RESULTS – *as of June 30, 2001 – dollar amounts in thousands*

VALUATION DATE	JUNE 30, 2001	JUNE 30, 2000
Active members:		
Number	75,132	75,318
Annual Compensation	$ 2,397,169	$ 2,304,289
Retired members and beneficiaries:		
Number	25,889	24,488
Annual allowances	$ 538,890	$ 480,380
Assets:		
Market Value	$ 12,343,625	$ 13,301,163
Actuarial Value	11,750,624	10,999,901
Unfunded actuarial accrued liability	$ (193,369)	$ (426,493)
Amortization Period	20 years	40 years
For Fiscal Year Ending	June 30, 2003	June 30, 2002
Annual required employer contribution rates (ARC):		
Old Plan		
Normal	6.24%	6.51%
Accrued Liability	(0.58)	(0.85)
Total	5.66%	5.66%
New Plan		
Normal (includes 4.75% paid for member)	10.99%	11.26%
Accrued liability	(0.58)	(0.85)
Total	10.41%	10.41%

The valuation reflects 1.5% Ad Hoc COLAs effective July 1, 2002 and January 1, 2003 and the effect of amendments to the System enacted through the 2002 session of the General Assembly.

ACTUARY'S CERTIFICATION LETTER

BUCK CONSULTANTS
A Mellon Consulting Company
200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

July 15, 2002

Board of Trustees
Georgia Public School Employees' Retirement System
Two Northside 75, Suite 300
Atlanta, GA 30318

Attention: Ms. Cecelia Corbin Hunter, Executive Director

Members of the Board:

Section 47-4-60 of the law governing the operation of the Georgia Public School Employees' Retirement System provides that the employer contributions shall be actuarially determined and approved by the Board. We have submitted the report giving the results of the actuarial valuation of the System prepared as of June 30, 2001. The report indicates that annual employer contributions at the rate of $105.67 per active member for the fiscal year ending June 30, 2003 are sufficient to support the benefits of the System. In preparing the valuation, the actuary relied on data provided by the System. While not verifying data at the source, the actuary performed tests for consistency and reasonableness. Our firm, as actuary, is responsible for all of the actuarial trend data in the financial section of the annual report and the supporting schedules in the actuarial section of the annual report.

Since the previous valuation, the actuarial assumptions have been revised to reflect the results of the experience investigation approved by the Board on June 20, 2002. In our opinion, the valuation is complete an accurate, and the methodology and assumptions used are reasonable as a basis for the valuation. The valuation takes into account the effect of amendments to the System enacted change the 2002 session of the General Assembly. Since the previous valuation, the benefit multiplier for active and retired members has been increased by $0.50, from $12.00 to $12.50.

The System is funded on an actuarial reserve basis. The actuarial assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Governmental Accounting Standards Board (GASB) Statement Nos. 25 and 27. The funding objective of the plan is that contribution rates over time will remain level as a dollar per active member. The valuation method used is the entry age normal cost method. The normal contribution rate to cover current cost has been determined as a dollar per active member. Gains and losses are reflected in the unfunded accrued liability which is negative and being amortized as a level dollar per member within a 40-year period.

The valuation has been prepared in accordance with the parameters set forth in Statement Nos. 25 and 27 of the Governmental Accounting Standards Board. The annual required contribution (ARC) of the employer under GASB for the fiscal year ending June 30, 2003 is $4,120,677, which will liquidate the unfunded accrued liability over a 40-year period. The System has a negative Net Pension Obligation (NPO) because more than the annual required contribution under GASB 25/27 was made for the fiscal years ending June 30, 1998, June 30, 1999, June 30, 2000, and June 30, 2001. Since the appropriation amounts for fiscal years 2002 and 2003 are greater than the ARC for the respective years, the plan will continue to increase the negative NPO.

The Retirement System is being funded in conformity with the minimum funding standard set forth in Code Section 47-20-10 of the Public Retirement Systems Standards Law. In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience is performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Sincerely,

Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

Buck Consultants, Inc.
770|955-2488 Fax 770|933-8336

ACTUARIAL SUMMARY

PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

VALUATION BALANCE SHEET – *as of June 30, 2001*

ACTUARIAL LIABILITIES

(1)	Present value of prospective benefits payable on account of present retired members, beneficiaries of deceased members, and terminated members entitled to deferred benefits		$ 354,945,717
(2)	Present value of prospective benefits payable on account of present active members:		
	Service retirement allowances	$ 299,933,891	
	Disability retirement allowances	16,522,551	
	Refunds of members' contributions	5,663,828	
	Total		322,120,270
(3)	**Total Actuarial Liabilities**		$ 677,065,987

PRESENT AND PROSPECTIVE ASSETS

(4)	Actuarial value of assets		$ 708,391,000
(5)	Present value of total future contributions = (3) - (4)	$ (31,325,013)	
(6)	Present value of future member contributions to the Members' Contributions Fund		7,069,428
(7)	Present value of future employer contributions to the Pension Accumulation Fund = (5) - (6)	$ (38,394,441)	
(8)	Employer normal contribution rate	$ 288.48	
(9)	Present value of future membership service	196,373	
(10)	Prospective normal contributions = (8) x (9)		56,649,683
(11)	Prospective unfunded accrued liability contributions = (7) - (10)		(95,044,124)
(12)	**Total Present and Prospective Assets**		$ 677,065,987

ACTUARIAL SUMMARY

PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL RESULTS – *as of June 30, 2001*

VALUATION DATE	JUNE 30, 2001	JUNE 30, 2000
Active members:		
Number	38,997	36,182
Retired members and beneficiaries:		
Number	11,661	11,394
Annual allowances	$ 34,151,616**	$ 29,388,547*
Assets:		
Market Value	$ 748,571,000	$ 813,296,000
Actuarial Value	708,391,000	667,642,000
Unfunded actuarial accrued liability	$ (95,044,124)	$ (52,285,329)
Amortization Period	40 years	40 years

For Fiscal Year Ending	June 30, 2003	June 30, 2002
Employer contribution rate per active member:		
Normal	$ 288.48	$ 429.36
Accrued Liability	(182.81)	(108.39)
Total	$ 105.67	$ 320.97
Annual required employer contributions (ARC):		
Normal	$ 11,249,855	$ 15,535,104
Accrued Liability	(7,129,178)	(3,921,878)
Total	4,120,677	11,613,226
Annual appropriation	$ 15,258,226	$ 12,874,104

* *Does not include increase in benefit accrual rate effective July 1, 2000. The results of the valuation have been adjusted to include this increase.*

** *Does not include increases in benefit accrual rate effective July 1, 2002. The results of the valuation have been adjusted to include this increase.*

The valuation takes into account the effect of amendments to the System enacted through the 2002 session of the General Assembly. Since the previous valuation, the benefit multiplier for active and retired members has been increased by $0.50, from $12.00 to $12.50.

ACTUARY'S CERTIFICATION LETTER

BUCK CONSULTANTS

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

July 17, 2002

Board of Trustees
Legislative Retirement System of Georgia
Two Northside 75, Suite 300
Atlanta, GA 30318

Attention: Ms. Cecelia Corbin Hunter, Executive Director

Members of the Board:

Section 47-6-22 of the law governing the operation of the Georgia Legislative Retirement System provides that the actuary shall make periodic valuations of the contingent assets and liabilities of the Retirement System on the basis of regular interest and the tables last adopted by the Board of Trustees. We have submitted the report giving the results of the valuation of the System prepared as of June 30, 2001. The report indicates that no annual employer contributions for the fiscal year ending June 30, 2003 are required to support the benefits of the System. In preparing the valuation, the actuary relied on data provided by the System. While not verifying data at the source, the actuary performed tests for consistency and reasonableness. Our firm, as actuary, is responsible for all of the actuarial trend data in the financial section of the annual report and the supporting schedules in the actuarial section of the annual report.

Since the previous valuation, the post-retirement mortality tables have been revised to reflect the results of the experience investigation adopted by the Board on June 20, 2002. In our opinion the valuation is complete and accurate, and the methodology and assumptions used are reasonable as a basis for the valuation. The valuation takes into account all amendments to the System enacted through the 2002 session of the General Assembly.

The System is funded on an actuarial reserve basis. The actuarial assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Governmental Accounting Standards Board (GASB) Statement Nos. 25 and 27. The funding objective of the plan is that contribution rates over time will remain level as a dollar per active member. The valuation method used is the unit credit cost method. The normal contribution rate to cover current cost has been determined as a dollar per active member. Gains and losses are reflected in the unfunded accrued liability which is negative and being amortized as a level dollar per active member.

The valuation has been prepared in accordance with the parameters set forth in Statement Nos. 25 and 27 of the Governmental Accounting Standards Board. The annual required contribution (ARC) of the employer under GASB for the fiscal year ending June 30, 2003 is $0. The System has a negative Net Pension Obligation (NPO) because more than the annual required contribution under GASB 25/27 was made for the fiscal years ending June 30, 1998, June 30, 1999, June 30, 2000, and June 30, 2001. Since the contribution amounts for fiscal years 2002 and 2003 are greater than the ARC, the plan will continue to increase the negative NPO.

The Retirement System is being funded in conformity with the minimum funding standard set forth in Code Section 47-20-10 of the Public Retirement Systems Standards Law. In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience is performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Sincerely,

Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

Buck Consultants, Inc.
770|955-2488 Fax 770|933-8336

LEGISLATIVE RETIREMENT SYSTEM

VALUATION BALANCE SHEET – *as of June 30, 2001*

ACTUARIAL LIABILITIES

Present value of prospective benefits payable on account of:

(1)	Present retired members and beneficiaries of deceased members and members entitled to deferred vested benefits		$ 15,614,337
(2)	Present active members:		
	Service retirement allowances	$ 7,754,271	
	Disability retirement allowances	549,926	
	Survivor allowances	316,573	
	Refunds of members' contributions	347,327	
	Total		$ 8,968,097
(3)	**Total Actuarial Liabilities**		$ 24,582,434

PRESENT AND PROSPECTIVE ASSETS

(4)	Actuarial value of assets		$ 26,034,000
(5)	Present value of total future contributions = (3) - (4)	$ (1,451,566)	
(6)	Present value of future member contributions		1,596,150
(7)	Present value of future employer contributions = (5) - (6)	$ (3,047,716)	
(8)	Prospective normal contributions		1,376,103
(9)	Prospective unfunded actuarial accrued liability contributions = (7) - (8)		$ (4,423,819)
(10)	**Total Present and Prospective Assets**		$ 24,582,434

LEGISLATIVE RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL RESULTS – *as of June 30, 2001*

VALUATION DATE	JUNE 30, 2001	JUNE 30, 2000
Number of active members	212	210
Retired members and beneficiaries:		
Number	192	189
Annual allowances	$ 1,108,552	$ 1,056,360
Assets:		
Market Value	$ 27,777,000	$ 29,525,000
Actuarial Value	26,034,000	24,666,000
Unfunded actuarial accrued liability	$ (4,423,819)	$ (3,038,310)
Amortization Period	N/A*	N/A*

For Fiscal Year Ending	June 30, 2003	June 30, 2002
Employer contribution rate per active member:		
Normal	$ 429.86	$ 780.23
Accrued Liability	(429.86)	(780.23)
Total	$ 0.00	$ 0.00
Annual required employer contributions (ARC):		
Normal	$ 91,130	$ 163,848
Accrued Liability	(91,130)	(163,848)
Total	0	0

* *If the annual required employer contribution (ARC) is based on 40 year amortization of the unfunded accrued liability, the ARC is less than $0, which is not allowed under GASB 25/27. Therefore, the accrued liability contribution has been set such that the total ARC equals $0.*

The valuation takes into account the effect of amendments to the System enacted through the 2001 session of the General Assembly.

ACTUARY'S CERTIFICATION LETTER

BUCK CONSULTANTS
A Mellon Consulting Company
200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

July 9, 2002

Board of Trustees
Georgia Judicial Retirement System
Two Northside 75, Suite 300
Atlanta, GA 30318

Attention: Ms. Cecelia Corbin Hunter, Executive Director

Members of the Board:

Section 47-23-21 of the law governing the operation of the Georgia Judicial Retirement System provides that the actuary shall make periodic valuations of the contingent assets and liabilities of the Retirement System on the basis of regular interest and the tables last adopted by the Board of Trustees. We have submitted the report giving the results of the actuarial valuation of the System prepared as of June 30, 2001. The report indicates that no annual employer contributions for the fiscal year ending June 30, 2003 are required to support the benefits of the System. In preparing the valuation, the actuary relied on data provided by the System. While not verifying data at the source, the actuary performed tests for consistency and reasonableness. Our firm, as actuary, is responsible for all of the actuarial trend data in the financial section of the annual report and the supporting schedules in the actuarial section of the annual report.

Since the previous valuation, the post-retirement mortality tables have been revised to reflect the results of the experience investigation adopted by the Board on June 20, 2002. In our opinion the valuation is complete and accurate, and the methodology and assumptions used are reasonable as a basis for the valuation. The valuation takes into account the effect of amendments to the System enacted through the 2002 session of the General Assembly, as well as the 1.5% Ad Hoc COLA's effective July 1, 2002 and January 1, 2003.

The System is funded on an actuarial reserve basis. The actuarial assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Governmental Accounting Standards Board (GASB) Statement Nos. 25 and 27. The funding objective of the plan is that contribution rates over time will remain level as a percent of payroll. The valuation method used is the entry age normal cost method. The normal contribution rate to cover current cost has been determined as a level percent of payroll. Gains and losses are reflected in the unfunded accrued liability which is negative and being amortized as a level percent of payroll within a 10-year period.

The valuation has been prepared in accordance with the parameters set forth in Statement Nos. 25 and 27 of the Governmental Accounting Standards Board. Although there was an annual required contribution (ARC) of the employer under GASB for the fiscal year ending June 30, 2001 of 4.62% of payroll, the employer contribution made was less than that amount, and the System barely met the minimum funding standards set forth in Code Section 47-20-10. The System will have a Net Pension Obligation (NPO) because less than the ARC contributions were made for the fiscal year ending June 30, 2001. The NPO will be paid off by higher future contributions.

The Retirement System is being funded in conformity with the minimum funding standard set forth in Code Section 47-20-10 of the Public Retirement Systems Standards Law. In our opinion, the system is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience is performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Sincerely,

Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

Buck Consultants, Inc.
770|955-2488 Fax 770|933-8336

GEORGIA JUDICIAL RETIREMENT SYSTEM

VALUATION BALANCE SHEET – *as of July 1, 2001*

ACTUARIAL LIABILITIES

Present value of prospective benefits payable on account of:

(1)	Present retired members and beneficiaries of deceased members and members entitled to deferred vested benefits		$ 51,093,721
(2)	Present active members		205,169,443
(3)	**Total Actuarial Liabilities**		$ 256,263,164

PRESENT AND PROSPECTIVE ASSETS

(4)	Actuarial value of assets		$ 219,288,000
(5)	Present value of total future contributions = (3) - (4)	$ 36,975,164	
(6)	Present value of future member contributions		28,273,980
(7)	Present value of future employer contributions = (5) - (6)	$ 8,701,184	
(8)	Employer normal contribution rate	20.33%	
(9)	Present value of future payroll (1%)	$ 3,536,935	
(10)	Prospective normal contributions = (8) x (9)		71,905,889
(11)	Prospective unfunded actuarial accrued liability contributions = (7) - (10)		$ (63,204,705)
(12)	**Total Present and Prospective Assets**		$ 256,263,164

ACTUARIAL SUMMARY

GEORGIA JUDICIAL RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL RESULTS – *as of July 1, 2001*

VALUATION DATE	JULY 1, 2001	JULY 1, 2000
Active members:		
Number	435	416
Annual compensation	$ 37,687,700	$ 34,855,836
Retired members and beneficiaries:		
Number	130	116
Annual allowances	$ 5,615,022	$ 4,561,959
Assets:		
Market Value	$ 225,173,000	$ 239,644,000
Actuarial Value	219,288,000	204,136,000
Unfunded actuarial accrued liability	$ (63,204,705)	$ (65,708,156)
Amortization Period	10 years	12 years
For Fiscal Year Ending	June 30, 2003	June 30, 2002
Annual required employer contribution rates (ARC):		
Normal	20.33%	19.98%
Accrued Liability	(20.33)	(19.98)
Total	0.00%	0.00%

The valuation takes into account the effect of amendments to the System enacted through the 2002 session of the General Assembly.

The valuation reflects the 1.5% Ad Hoc COLA's effective July 1, 2002 and January 1, 2003.

ACTUARY'S CERTIFICATION LETTER

BUCK CONSULTANTS
A Mellon Consulting Company
200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

September 30, 2002

Board of Trustees
Employees' Retirement System of Georgia
Two Northside 75
Atlanta, GA 30318

Attention: Ms. Cecelia Corbin Hunter, Executive Director

Members of the Board:

Chapters 47 2 and 47 19 of the Code of Georgia which govern the operation of the Georgia Employees' Group Term Life Insurance Plan provide that the actuary shall make periodic valuations of the contingent assets and liabilities of the Insurance Plan on the basis of regular interest and the tables last adopted by the Board of Trustees. We have submitted the report giving the results of the valuation of the Plan prepared as of June 30, 2001. The report indicates that combined employer and employee contributions at the rate of 0.75% of active payroll for Old Plan members and 0.50% of active payroll for New Plan members are sufficient to support the benefits of the Plan.

Since the previous valuation, the actuarial assumptions have been revised to reflect the results of the experience investigation adopted by the Board on June 20, 2002. The valuation takes into account the effect of all amendments to the System enacted through the 2002 session of the General Assembly.

The Plan is funded on an actuarial reserve basis. The actuarial assumptions used are in the aggregate reasonably related to the experience under the Plan and to reasonable expectations of anticipated experience under the Plan. In our opinion the Plan is operating on an actuarially sound basis and the sufficiency of the funds to provide the benefits called for by the Plan may be safely anticipated.

Sincerely yours,

Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

Buck Consultants, Inc.
770|955-2488 Fax 770|933-8336

ACTUARIAL SUMMARY

GROUP TERM LIFE INSURANCE

VALUATION BALANCE SHEET – *as of June 30, 2001*

ACTUARIAL LIABILITIES		
(1)	Present value of prospective benefits payable on account of present retired members	$ 237,817,358
(2)	Present value of prospective benefits payable on account of present active members	415,300,388
(3)	**Total Actuarial Liabilities**	$ 653,117,746
PRESENT AND PROSPECTIVE ASSETS		
(4)	Actuarial value of assets	$ 753,964,000
(5)	Present value of future member premiums	$73,813,379
(6)	Present value of future employer contributions	67,840,582
(7)	Total present assets and present value of future employee premiums and employer contributions	$ 895,617,961
(8)	Actuarial Deficit	(242,500,215)
(9)	**Total Present and Prospective Assets**	$ 653,117,746

ACTUARIAL SUMMARY

GROUP TERM LIFE INSURANCE

SUMMARY OF PRINCIPAL RESULTS – *as of June 30, 2001*

VALUATION DATE	JUNE 30, 2001	JUNE 30, 2000
Active members:		
Number	75,132	75,318
Annual Compensation	$ 2,397,168,519	$ 2,304,289,449
Retired members:		
Number	20,621	18,964
Insurance amount	$ 652,905,949	$ 580,395,780
Assets:		
Market Value	$ 790,700,000	$ 846,072,000
Actuarial Value	753,964,000	700,123,000
Actuarial deficit	$ (242,500,215)	$ (65,691,207)
Contribution rates:		
Old Plan Members		
Employee	0.50%*	0.50%*
Employer	0.25	0.25
Total	0.75%	0.75%
New Plan Members		
Employee	0.25%	0.25%
Employer	0.25	0.25
Total	0.50%	0.50%

** 0.25% paid by employer*

POOLED INVESTMENT FUND – *fiscal year 2002*

$ 11,472,726,000	Employees' Retirement System
748,633,000	State Employees' Assurance Department
693,991,000	Public School Employees Retirement System
25,363,000	Legislative Retirement System
925,000	Superior Court Judges Retirement Fund*
26,722,000	Georgia Defined Contribution Plan
212,151,000	Georgia Judicial Retirement System
$ 13,180,511,000	**Total Pooled Investments at Fair Value**

* *The Superior Court Judges Retirement Fund was closed on December 31, 1976. As of June 30, 2002 there were two active members remaining in the Fund with retirement payments funded through Department of Administrative Services appropriations.*

STRUCTURAL ANALYSIS OF INVESTMENTS AT FAIR VALUE

Type of Investment	June 30, 2002
Short Term Investments	2%
Bonds	44%
Common Stocks	54%
Mortgages and Real Estate	Nil
	100%

TEMPORARY INVESTMENTS – *as of June 30, 2002*

FACE AMOUNT	ISSUER	FAIR VALUE
$ 228,003,000	United States Government and Corporate Obligations (subject to repurchase agreements due 7/01/02)	$ 228,003,000

U.S. GOVERNMENT, CORPORATE AND OTHER BONDS – *as of June 30, 2002*

FACE AMOUNT	ISSUER	INTEREST RATE %	YEAR OF MATURITY	FAIR MARKET VALUE
$ 3,964,130.63	General Electric	8.350	2004	$ 4,232,898.69
125,000,000.00	General Electric Cap Corp	5.375	2007	127,842,500.00
120,000,000.00	FNMA	6.375	2009	129,787,200.00
224,000,000.00	US Treas. Note	5.875	2004	238,069,440.00
790,000,000.00	US Treas. Note	4.625	2006	813,700,000.00
445,000,000.00	US Treas. Note	3.500	2006	437,074,550.00
1,045,000,000.00	US Treas. Note	4.375	2007	1,059,368,750.00
205,000,000.00	US Treas. Note	5.000	2011	208,460,400.00
385,000,000.00	US Treas. Note	5.000	2011	390,293,750.00
1,010,000,000.00	US Treas. Note	4.875	2012	1,013,787,500.00
220,000,000.00	US Treas. Bond	7.250	2022	262,075,000.00
242,000,000.00	US Treas. Bond	6.250	2023	259,317,520.00
120,000,000.00	US Treas. Bond	6.875	2025	138,300,000.00
360,000,000.00	US Treas. Bond	6.125	2027	380,700,000.00
205,000,000.00	US Treas. Bond	5.250	2029	192,829,150.00
140,000,000.00	US Treas. Bond	6.250	2030	151,638,200.00
$ 5,639,964,130.63				$ 5,807,476,858.69

COMMON STOCK HOLDINGS – *as of June 30, 2002*

SHARES	COMPANY	FAIR MARKET VALUE
4,654,525	Pfizer Inc.	$ 162,908,375.00
3,868,028	Exxon Mobil Corp.	158,279,705.76
3,994,139	Citigroup Inc.	154,772,886.25
2,691,800	Microsoft	147,241,460.00
2,122,995	American International Group	144,851,948.85
2,631,500	Wal-Mart Stores Inc.	144,758,815.00
2,634,520	Johnson & Johnson	137,680,015.20
1,450,460	Proctor & Gamble Co.	129,526,078.00
4,313,300	General Electric Co.	125,301,365.00
3,196,250	Home Depot	117,398,262.50
2,053,700	Coca Cola Co.	115,007,200.00
2,383,460	Pepsico Inc.	114,882,772.00
2,309,800	Medtronic	98,974,930.00
1,738,170	Wells Fargo Co.	87,012,790.20
1,182,523	Bank of America Corp.	83,202,318.28
1,076,500	United Technologies	73,094,350.00
3,815,000	Intel Corp.	69,700,050.00
1,230,800	Merck & Co. Inc.	62,327,712.00
1,836,344	Gillette Co.	62,196,971.28
841,300	Federal National Mortgage Association	62,045,875.00
	Total – 20 Largest Holdings	**$ 2,251,163,880.32**
	Total – All Holdings	**$ 7,140,706,275.10**

A complete listing of all stock holdings will be available upon written request.

MORTGAGE – *as of June 30, 2002*

BORROWER AND MORTGAGED PROPERTY	INTEREST RATE %	YEAR LAST PAYMENT DUE	BALANCE OUTSTANDING ON LOAN
West & Abbitt Bent Creek Col Apts	9.5	2004	$582,074
			$582,074

REAL ESTATE INVESTMENT – *as of June 30, 2002*

DESCRIPTION OF PROPERTY	FAIR VALUE	COMMENTS
Beta Building Two Northside 75, Atlanta (Constitutes one-half interest in property)	$ 3,744,225	Presently houses the offices of Employees' and Teachers Retirement Systems. The Employees' Retirement System on 7/1/76 acquired a 50% interest in the building.

AUDITED FINANCIAL STATEMENTS

TABLE OF CONTENTS

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

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

INDEPENDENT AUDITORS' REPORT

VALUATION BALANCE SHEET – *as of June 30, 2001 – dollar amounts in thousands*

Deloitte & Touche

Deloitte & Touche LLP
191 Peachtree Street, N.W.
Suite 1500
Atlanta, Georgia 30303-1924

www.us.deloitte.com

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, 2002 and 2001, 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, 2002 and 2001, and the changes in financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, as of July 1, 2001, the System adopted the provisions of the Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments, and No. 38, Certain Financial Statement Note Disclosures.*

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

Deloitte& Touche LLP
November 27, 2002

MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the Employees' Retirement System of Georgia (the "System") provides an overview of the financial performance during the fiscal year ended June 30, 2002. It is intended to be a narrative supplement to the financial information that begins on page 26, and should be read within the context of the accompanying financial statements, notes to the financial statements and disclosures, supplementary schedules, and additional information.

The System is responsible for administering a cost-sharing multiple-employer defined benefit pension plan for various employer agencies of Georgia, along with five 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")
- Superior Court Judges Retirement Fund ("SCJRF")
- District Attorneys Retirement Fund ("DARF")

The defined contribution retirement plan is the Georgia Defined Contribution Plan ("GDCP").

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 decreased by $884 million, or 6.2%, from $14.2 billion to $13.3 billion for the year ended June 30, 2002. The decrease was primarily due to the downturn in equity markets.
- Net investment loss (interest and dividend income, reduced by net depreciation in the fair value of investments and investment expenses) was $562 million for the year ended June 30, 2002 - an improvement over the loss of $911 million for the prior fiscal year.
- Contributions from employers declined by $89 million, or 26.5% for the year ended June 30, 2002. The decline was primarily due to a planned reduction in the contribution rate of approximately 30%. Retirement payments increased by $58 million, or 10.4% for the year ended June 30, 2002.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statement include: (1) the combined statements of net assets, (2) the combined statements of changes in net assets, (3) notes to the financial statements, (4) required supplementary schedules, and (5) additional information. The financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Government Accounting Standards Board.

The required supplementary schedules include a schedule of funding progress and 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 statements are presented as of June 30, 2002 and June 30, 2001 for comparative purposes. These statements are presented on page 28.

The *Combined Statement of Changes in Net Assets* reports the changes in net assets during the fiscal years ended June 30, 2002 and June 30, 2001 for comparative purposes. Additions and deductions of net assets are summarized in this statement. Additions include contributions to the retirement plans from employers and members, group life insurance premiums, and investment loss, which includes interest and dividends and the net depreciation in the fair value of investments. Deductions include retirement payments, life insurance death benefit payments, refunds of member contributions, and administrative expenses. These statements are presented on page 29.

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 30 of the report.

There are two *Required Supplementary Schedules* included in this report. These required schedules are applicable to the four defined benefit plans: ERS, PSERS, LRS, and GJRS. 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 37.

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 39.

Additional information is presented, beginning on page 40. 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

MANAGEMENT'S DISCUSSION & ANALYSIS

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

	Net Assets(in thousands) June 30, 2002	2001	Amount Change	Percentage Change
Assets:				
Cash and receivables	$ 108,753	$ 132,488	$ (23,735)	(17.9)%
Investments	13,195,741	14,055,934	(860,193)	(6.1)%
Capital assets, net	33	–	33	–
Total assets	13,304,527	14,188,422	(883,895)	(6.2)%
Liabilities:				
Accounts payable and other	10,684	10,430	254	2.4%
Net assets	$13,293,843	$14,177,992	$(884,149)	(6.2)%

The allocation of investments by type at June 30, 2002 and 2001 are as follows:

	2002	2001
Asset Allocation at June 30 (in percentages)		
Equities	54.1%	57.0%
Fixed income	44.1%	41.4%
Short-term securities*	1.8%	1.6%
Asset Allocation at June 30 (in thousands)		
Equities	$ 7,140,706	$ 8,014,283
Fixed income	5,815,140	5,822,463
Short-term securities*	239,895	219,188
	$13,195,741	$14,055,934

* Includes mortgage and real estate

The total investment portfolio decreased by approximately $860 million. The decline was primarily due to unfavorable conditions in the equity markets.

The investment rate of return in fiscal year ended June 30, 2002 was (4.0%), with a (14.5%) return on equities and a 10.9% return on fixed income investments. The five year annualized rate of return on investments at June 30, 2002 was 5.7%, with a 2.9% return on equities, and a 9.3% return on fixed income investments.

	Changes in Net Assets(in thousands) 2002	2001	Amount Change	Percentage Change
Additions:				
Employer contributions	$ 247,101	$ 335,988	$ (88,887)	(26.5)%
Member contributions	75,704	72,448	3,256	4.5%
Insurance premiums	14,364	13,813	551	4.0%
Net investment loss	(562,199)	(910,655)	348,456	38.3%
Other	940	940	–	
Total additions	(224,090)	(487,466)	263,376	54.0%
Deductions:				
Retirement payments	618,682	560,572	58,110	10.4%
Refunds	13,704	14,998	(1,294)	(8.6)%
Death benefits	18,227	18,017	210	1.2%
Administrative expenses	9,446	8,425	1,021	12.1%
Total deductions	660,059	602,012	58,047	9.6%
Net decrease in net assets	$(884,149)	$(1,089,478)	$ 205,329	18.8

An explanation of the significant components of the changes in net assets follows:

Additions – The System accumulates resources needed to fund benefit payments through contributions and returns on invested funds. Employer contributions decreased 26.5%, primarily because of a reduction in the ERS employer contribution rate of approximately 30%. The fiscal year ended June 30, 2001 employer contribution rate was higher than the employer contribution rate recommended by the actuary and was approved by the System's Board of Trustees. Member contributions increased 4.5%, primarily because of increased ERS membership participation from 151,393 in 2001 to 153,687 in 2002, and increases in average compensation levels in 2002. The net investment loss is the result of the continuing unfavorable market conditions, as previously discussed.

Deductions – Deductions increased 9.6%, primarily because of a 10.4% increase in retirement payments. This is partly due to an increase of approximately 4% in the number of retirees receiving benefit payments across all defined benefit plans. Administrative expenses increased by approximately $1 million, an increase of 12% over the prior year due primarily to costs related to the reengineering of the System's business processes.

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, 2001 and June 30, 2000 actuarial valuations, the latest valuations available, indicate the actuarial value of assets and funding ratios for the four defined benefit retirement plans were as follows:

	ACTUARIAL VALUE OF PLAN ASSETS (IN THOUSANDS) June 30, 2001	June 30, 2000	FUNDING RATIO June 30, 2001	June 30, 2000
ERS	$11,750,624	$10,999,901	101.7%	104.0%
PSERS	708,391	667,642	115.5%	108.5%
LRS	26,034	24,666	120.5%	114.0%
GJRS	219,288	204,136	140.5%	147.5%

The System continues to be in a strong financial position as evidenced by the funding ratios, and it remains financially sound, despite the unfavorable investment results in the current fiscal year. 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.

AUDITED FINANCIAL STATEMENTS

EMPLOYEES' RETIREMENT SYSTEM

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

COMBINED STATEMENTS OF NET ASSETS – *June 30, 2002 and 2001 – in thousands*

	2002	2001
ASSETS		
CASH	$ 5,044	$ 1,546
RECEIVABLES:		
Employer and member contributions	28,600	36,986
Interest and dividends	75,109	93,956
Total receivables	103,709	130,942
INVESTMENTS – at fair value:		
Short-term	235,569	214,837
Obligations of the U.S. Government and its agencies, corporate, and other bonds	5,815,140	5,822,463
Common stocks	7,140,706	8,014,283
Mortgage loans and real estate	4,326	4,351
Total investments	13,195,741	14,055,934
CAPITAL ASSETS, net	33	
Total assets	13,304,527	14,188,422
LIABILITIES		
Accounts payable and other	10,684	10,430
Total liabilities	10,684	10,430
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 13,293,843	$ 14,177,992

(A schedule of funding progress is presented on page 37.)

See notes to combined financial statements.

AUDITED FINANCIAL STATEMENTS

EMPLOYEES' RETIREMENT SYSTEM

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

COMBINED STATEMENTS OF CHANGES IN NET ASSETS – *June 30, 2002 and 2001 – in thousands*

	2002	2001
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS - Beginning of year	$ 14,177,992	$ 15,267,470
ADDITIONS:		
Contributions:		
Employer	247,101	335,988
Member	75,704	72,448
Insurance premiums	14,364	13,813
Administrative expense allotment	940	940
Investment loss:		
Net depreciation in fair value of investments	(991,765)	(1,379,000)
Interest and dividends	441,176	479,631
Total investment loss	(550,589)	(899,369)
Less investment expenses	11,610	11,286
Net investment loss	(562,199)	(910,655)
Total additions	(224,090)	(487,466)
DEDUCTIONS:		
Retirement payments	618,682	560,572
Refunds of member contributions and interest	13,704	14,998
Death benefits	18,227	18,017
Administrative expenses	9,446	8,425
Total deductions	660,059	602,012
NET DECREASE	(884,149)	(1,089,478)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS – End of year	$ 13,293,843	$ 14,177,992

See notes to combined financial statements.

EMPLOYEES' RETIREMENT SYSTEM

(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, 2002 and 2001*

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"), 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, 2002, participation in ERS is as follows:

Retirees and beneficiaries currently receiving benefits	27,272
Terminated employees entitled to benefits but not yet receiving benefits	59,796
Active plan members	73,924
Total	160,992
Employers	518

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.

NOTES TO COMBINED FINANCIAL STATEMENTS – *as of and for the years ended June 30, 2002 and 2001*

Employer contributions required for fiscal year 2002 were based on the June 30, 2000 actuarial valuation as follows:

	Old Plan	New Plan
Employer:		
Normal	6.24 %	6.24 %
Employer paid for member	–	4.75 %
Accrued liability	(0.58)%	(0.58)%
Total	5.66 %	10.41 %

Employer contributions for fiscal year 2001, as approved by the System's Board of Trustees, were as follows:

	Old Plan	New Plan
Employer:		
Normal	6.66 %	6.66 %
Employer paid for member	–	4.75 %
Accrued liability	3.09 %	3.09 %
Total	9.75 %	14.50 %

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 20 years based upon the actuarial valuation at June 30, 2001, 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 132 and 256 members eligible to participate in this portion of ERS as of June 30, 2002 and 2001, respectively. Employer contributions of $2,802,000 and $2,780,000 and retirement payments of $2,509,000 and $2,742,000 under the SRBP are included in the combined statements of changes in net assets for the years ended June 30, 2002 and 2001, respectively. Cash of $542,000 and $114,000 and employer receivable of $96,000 and $205,000 under the SRBP are included in the combined statements of net assets for the years ended June 30, 2002 and 2001, respectively.

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

Membership – As of June 30, 2002, participation in PSERS is as follows:

Retirees and beneficiaries currently receiving benefits	11,917
Terminated employees entitled to benefits but not yet receiving benefits	40,873
Active plan members	46,551
Total	99,341
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 $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, 2002 and 2001 were $320.97 and $391.33 per active member, respectively, and were based on the June 30, 2000 and 1999 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 contributions, the member forfeits all rights to retirement benefits.

The employer contributions are projected to liquidate the actuarial accrued funding excess within 40 years based upon the actuarial valuation at June 30, 2001.

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, 2002, participation in LRS is as follows:

Retirees and beneficiaries currently receiving benefits	193
Terminated employees entitled to benefits but not yet receiving benefits	130
Active plan members	212
Total	535
Employers	1

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

Upon retirement, the member will receive a monthly service retirement allowance of $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, 2002 and 2001 based on the June 30, 2000 and 1999 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, 2002, participation in GJRS is as follows:

Retirees and beneficiaries currently receiving benefits	136
Terminated employees entitled to benefits but not yet receiving benefits	43
Active plan members	458
Total	637
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. 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.

NOTES TO COMBINED FINANCIAL STATEMENTS – *as of and for the years ended June 30, 2002 and 2001*

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, 2002 based on the June 30, 2000 actuarial valuation. The employer contribution required for the year ended June 30, 2001 was 4.62% of active members' compensation, which was based on the June 30, 1999 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, 2001 assuming that the amount of accrued liability payment increases 3.5% each year.

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

Membership – As of June 30, 2002, participation in SCJRF is as follows:

Retirees and beneficiaries currently receiving benefits	32
Terminated employees entitled to benefits but not yet receiving benefits	4
Active plan members	2
Total	38
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.

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

Membership – As of June 30, 2002, 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.

g. 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, 2002, participation in GDCP is as follows:

Terminated employees entitled to benefits but not yet receiving benefits	70,225
Active plan members	32,540
Total	102,765
Employers	310

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND SYSTEM ASSET MATTERS

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 $341,000 in rental expense for the years ended June 30, 2002 and 2001, 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.

New Accounting Pronouncements – The GASB has issued SGAS No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by SGAS No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and No. 34*, and SGAS No. 38, *Certain Financial Statement Note Disclosures*. The System adopted these statements on July 1, 2001. In general, these statements required the System to present a Management's Discussion and Analysis ("MD&A") and to depreciate capital assets. The MD&A is considered to be required supplementary information and precedes the financial statements. The adoption of these statements did not have a material effect on the financial status of the System. See Note 7 for information regarding capital assets.

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, 2002 and 2001 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 $235,569,000 and $214,837,000 at June 30, 2002 and 2001, respectively.
  - U.S. Treasury obligations with varying terms up to 360 days.
- Other short-term securities authorized, but not currently used, are:
  - Commercial paper, with a maturity of 180 days or less. Commercial paper is an unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The System considers for investment only commercial paper of the highest quality, rated P-1 and/or A-1 by national credit rating agencies.
  - Master notes, an overnight security administered by a custodian bank and an obligation of a corporation whose commercial paper is rated P-1 and/or A-1 by national credit rating agencies.
  - Investments in commercial paper or master notes are limited to no more than $25 million in any one name.

(b) Long-Term:

- Fixed income investments are authorized in the following instruments:
  - Corporate bonds with at least an "A" rating by a national rating agency and limited to no more than 5% of total System assets in any one name. Maturities of these securities vary up to a period of 40 years to provide the System with flexibility necessary to meet changing market conditions. The System held corporate bonds of $132,075,000 and $6,139,000 at June 30, 2002 and 2001, respectively.
  - U.S. and foreign government obligations with terms up to 30 years. Quality and call requirements of corporate bonds are applicable. The System held U.S. government obligations of $5,683,065,000 and $5,816,324,000 at June 30, 2002 and 2001, respectively.
  - Private placements are authorized under the same general restrictions applicable to corporate bonds.
  - Mortgage investments are authorized to the extent that they are secured by first mortgages on improved real property located in the State of Georgia having a loan-to-value ratio no higher than 75%. Mortgages, as a group cannot exceed 10% of total assets or 1% for any one loan.

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

Substantially all of the investments of ERS, PSERS, LRS, SCJRF, GJRS, SEAD, and certain investments of GDCP are pooled into one common investment fund. Investments of approximately $15,231,000, held by GDCP, are not included in the investment pool. Units in the pooled investment fund are allocated to the respective funds based upon the cost of assets contributed, and additional units are allocated to the participating funds based on the market value of the pooled investment fund at the date of contribution. Net income of the pooled investment fund is allocated monthly to the participating funds based upon the number of units outstanding during the month.

The units of the pooled investment fund at June 30, 2002 and 2001 were allocated as follows (in thousands):

	2002	2001
Employees' Retirement System	6,950	7,118
Public School Employees Retirement System	420	433
Legislative Retirement System	15	16
Georgia Judicial Retirement System	129	130
State Employees' Assurance Department	454	459
Superior Court Judges Retirement Fund	1	1
Georgia Defined Contribution Plan	16	13
	7,985	8,170

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 $5,675,299,000 and $5,993,645,000 at fair value at June 30, 2002 and 2001, respectively. The collateral value was equal to 104.9% and 104.2% of the loaned securities' value at June 30, 2002 and 2001, 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, 2001. The valuation indicated that the employee contribution rate of .50% and .25% and the employer contribution rate of .25% and .25% of members' salaries for old plan members and new plan members, respectively, as of June 30, 2001 was 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

As the result of the adoption of SGAS No. 34 discussed in Note 3, the System has included capital assets and depreciation expense in the accompanying financial statements. The following is a summary of capital assets and depreciation information as of June 30, 2002 and for the year then ended:

	Balance at June 30, 2001	Additions	Disposals	Balance at June 30, 2002
Capital assets:				
Equipment	$ –	$41,597	$ –	$41,597
Vehicles	–	20,551	–	20,551
	–	62,148	–	62,148
Accumulated depreciation for:				
Equipment		(18,639)	–	(18,639)
Vehicles	–	(10,276)	–	(10,276)
	–	(28,915)	–	(28,915)
Capital assets, net	$ –	$33,233	$ –	$33,233

REQUIRED SUPPLEMENTARY SCHEDULES
(In thousands)

SCHEDULE OF FUNDING PROGRESS

PAYROLL	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)	UNFUNDED AAL/ (FUNDING EXCESS) AS A PERCENTAGE OF COVER [(B–A)/C]
Employees' Retirement System	6/30/97	7,432,306	8,159,345	727,039	91.1%	1,977,928	36.8%
	6/30/98	8,613,575	9,093,758	480,183	94.7%	2,055,966	23.4%
	6/30/99	9,848,723	9,695,614	(153,109)	101.6%	2,152,072	(7.1)%
	6/30/00	10,999,901	10,573.408	(426,493)	104.0%	2,304,289	(18.5)%
	6/30/01	11,750,624	11,557,255	(193,369)	101.7%	2,397,169	(8.1)%
Public School Employees' Retirement System[1]	6/30/97	462,639	465,764	3,125	99.3%	N/A	N/A
	6/30/98	528,770	504,779	(23,991)	104.8%	N/A	N/A
	6/30/99	599,464	586,352	(13,112)	102.2%	N/A	N/A
	6/30/00	667,642	615,357	(52,285)	108.5%	N/A	N/A
	6/30/01	708,391	613,347	(95,044)	115.5%	N/A	N/A
Legislative Retirement System	6/30/97	18,197	18,086	(111)	100.6%	2,340	(4.7)%
	6/30/98	20,375	19,272	(1,103)	105.7%	2,363	(46.7)%
	6/30/99	22,679	20,129	(2,550)	112.7%	2,411	(105.8)%
	6/30/00	24,666	21,628	(3,038)	114.0%	2,411	(126.0)%
	6/30/01	26,034	21,610	(4,424)	120.5%	3,567	(124.0)%
Georgia Judicial Retirement System	7/1/98	160,171	117,771	(42,400)	136.0%	26,226	(161.7)%
	7/1/99	183,249	129,233	(54,016)	141.8%	29,594	(182.5)%
	7/1/00	204,136	138,427	(65,709)	147.5%	34,856	(188.5)%
	7/1/01	219,288	156,083	(63,205)	140.5%	37,688	(167.7)%

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.

[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 notes to required supplementary schedules.

REQUIRED SUPPLEMENTARY SCHEDULES
(In thousands)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

	Year Ended June 30,	State Annual Required Contribution	Percentage Contributed
Employees' Retirement System	1997	282,249	100%
	1998	286,794	100%
	1999	304,461	100%
	2000	302,332	100%
	2001	315,505	100%
Public School Employees' Retirement System	1997	13,645	100%
	1998	13,638	107%
	1999	10,839	158%
	2000	9,789	184%
	2001	12,874	132%
Legislative Retirement System	1997	159	100%
	1998	164	126%
	1999	84	108%
	2000	22	436%
	2001	–	N/A
Georgia Judicial Retirement System	1999	694	100%
	2000	834	100%
	2001	1,741	11%

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.

See notes to required supplementary schedules.

EMPLOYEES' RETIREMENT SYSTEM

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

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

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

2. **Schedule of Employer Contributions** – The required employer contributions and percent of those contributions actually made are presented in the schedule.

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

Employees' Retirement System:

Valuation date	June 30, 2001	June 30, 2000
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent of pay, open	Level percent of pay, open
Remaining amortization period of the Funding Excess	20 years	40 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return[1]	7%	7%
Projected salary increases[1]	5.20-9.00%	5.20-9.00%
Postretirement cost-of-living adjustment	None	None

Public School Employees' Retirement System:

Valuation date	June 30, 2001	June 30, 2000
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period of the Funding Excess	40 years	40 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return[1]	7%	7%
Projected salary increases[1]	N/A	N/A
Postretirement cost-of-living adjustment	3% annually	3% annually

Legislative Retirement System:

Valuation date	June 30, 2001	June 30, 2000
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%	7%
Projected salary increases[1]	5.20%	5.20%
Postretirement cost-of-living adjustment	3% annually	3% annually

Georgia Judicial Retirement System:

Valuation date	July 1. 2001	July 1, 2000
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	12 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return[1]	7%	7%
Projected salary increases[1]	5.20%	5.20%
Postretirement cost-of-living adjustment	None	None

[1]Includes inflation rate of 3.50%

EMPLOYEES' RETIREMENT SYSTEM

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

COMBINING STATEMENTS OF NET ASSETS – *June 30, 2002 with comparative totals for 2001 in thousands*

ASSETS	Employees' Retirement System (PENSION TRUST FUNDS)	Public School Employees' Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	State Employees' Assurance Department	Superior Court Judges and District Attorneys Retirement Funds	Pooled Investment Fund	Georgia Defined Contribution Plan	Eliminations	Total All Systems 2002	Total All Systems 2001
CASH	$ 4,353	$ (73)	$ (17)	$ 86	$ 36	$ 90		$569		$ 5044	$1,546
RECEIVABLES:											
Employee and employer contributions	27,144	4	30	273		3		1,146		28,600	36,986
Interest and dividends							$ 75,015	94		75,109	93,956
Unremitted insurance premiums					1,123				$ (1,123)	–	–
Total receivables	27,144	4	30	273	1,123	3	75,015	1,240	(1,123)	103,709	130,942
INVESTMENTS – at fair value:											
Short-term							228,003	7,566		235,569	214,837
Obligations of the U.S. Government and its agencies, corporate and other bonds							5,807,476	7,664		5,815,140	5,822,463
Common stocks							7,140,706			7,140,706	8,014,283
Mortgage loans and real estate	3,744						582			4,326	4,351
Equity in pooled investment fund	11,534,275	697,942	25,507	213,359	752,895	930		26,874	(13,251,782)	–	–
Total investments	11,538,019	697,942	25,507	213,359	752,895	930	13,176,767	42,104	(13,251,782)	13,195,741	14,055,934
CAPITAL ASSETS, net	33									33	–
Total assets	11,569,549	697,873	25,520	213,718	754,054	1,023	13,251,782	43,913	(13,252,905)	13,304,527	14,188,422
LIABILITIES											
Accounts payable and other	10,091	412	15	107		45		14		10,684	10,430
Insurance premiums payable	1,085		38						(1,123)	–	–
Total liabilities	11,176	412	53	107		45		14	(1,123)	10,684	10,430
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 11,558,373	$ 697,461	$ 25,467	$ 213,611	$ 754,054	$ 978	$ 13,251,782	$ 43,899	$ (13,251,782	$ 13,293,843	$ 14,177,992

SUPERIOR COURT JUDGES AND DISTRICT ATTORNEYS RETIREMENT FUNDS

COMBINING STATEMENTS OF NET ASSETS – *June 30, 2002 with comparative totals for 2001 in thousands*

	PENSION TRUST FUNDS			
	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund	TOTAL	
ASSETS			2002	2001
CASH	$ 87	$ 3	$ 90	$ 59
RECEIVABLES:				
Employee and employer contributions	3		3	–
Total receivables	3		3	–
INVESTMENTS – at fair value:				
Equity in pooled investment fund	930		930	1,725
Total assets	1,020	3	1,023	1,784
LIABILITIES				
ACCOUNTS PAYABLE AND OTHER	42	3	45	45
Total liabilities	42	3	45	45
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 978	$ –	$ 978	$1,739

(A schedule of funding progress is presented on page 37.)

EMPLOYEES' RETIREMENT SYSTEM

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

COMBINING STATEMENTS OF CHANGES IN NET ASSETS – *June 30, 2002 with comparative totals for 2001*

(in thousands)

	PLAN AND FUNDS										
	Employees' Retirement System	Public School Employees' Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	State Employees' Assurance Department	Superior Court Judges and District Attorneys Retirement Funds	Pooled Investment Fund	Georgia Defined Contribution Plan	Eliminations	Total All Systems 2002	Total All Systems 2001
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS – Beginning of year	$ 12,343,625	$ 748,571	$ 27,777	$ 225,173	$ 790,700	$ 1,739	$ 14,129,531	$ 40,407	$ (14,129,531)	$ 14,177,992	$ 15,267,470
ADDITIONS:											
Contributions:											
Employer	233,229	11,623	70	20		2,159				247,101	335,988
Member	57,920	1,275	291	3,527		13		12,678		75,704	72,448
Insurance premiums					14,364					14,364	13,813
Administrative expense allotment		625	110	175		30				940	940
Investment loss:											
Net appreciation in fair value of investments							(991,710)	(55)		(991,765)	(1,379,000)
Interest and dividends	60				5		440,444	667		441,176	479,631
Less investment expenses	(730)	(58)	(3)	(11)		(3)	(10,798)	(7)		(11,610)	(11,286)
Allocation of investment earnings	(487,728)	(28,895)	(1,412)	(9,117)	(32,563)	(745)	–	(1,604)	562,064	–	–
Net investment loss	(488,398)	(28,953)	(1,415)	(9,128)	(32,558)	(748)	(562,064)	(999)	562,064	(562,199)	(910,655)
Total additions	(197,249)	(15,430)	(944)	(5,406)	(18,194)	1,454	(562,064)	11,679	562,064	(224,090)	(487,466)
DEDUCTIONS:											
Retirement payments	574,602	34,794	1,240	5,861		2,185				618,682	560,572
Refunds of employee contributions and interest	5,430	261	16	120				7,877		13,704	14,998
Death benefits					18,227					18,227	18,017
Administrative expenses	7,971	625	110	175	225	30		310		9,446	8,425
Total deductions	588,003	35,680	1,366	6,156	18,452	2,215		8,187		660,059	602,012
TRANSFERS TO SYSTEMS FROM POOLED INVESTMENT FUND							(315,685)		315,685	–	–
NET (DECREASE) INCREASE	(785,252)	(51,110)	(2,310)	(11,562)	(36,646)	(761)	(877,749)	3,492	877,749	(884,149)	(1,089,478)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS – End 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	$14,177,992

COMBINING STATEMENTS OF CHANGES IN NET ASSETS – *June 30, 2002 with comparative totals for 2001*

(in thousands)

	PENSION TRUST FUNDS		TOTAL	
	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund	2002	2001
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS – Beginning of year	$1,739		$1,739	$1,896
ADDITIONS:				
Contributions:				
Employer	2,042	$ 117	2,159	2,087
Member	13		13	12
Administrative expense allotment	30		30	30
Investment loss:				
Interest and dividends				
Less investment expenses	(3)		(3)	–
Allocation of investment earnings	(745)		(745)	(111)
Net investment loss	(748)		(748)	(111)
Total additions	1,337	117	1,454	2,018
DEDUCTIONS:				
Retirement payments	2,068	117	2,185	2,145
Administrative expenses	30		30	30
Total deductions	2,098	117	2,215	2,175
NET INCREASE (DECREASE)	(761)		(761)	(157)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS – End of year	$ 978	$ –	$ 978	$1,739

EMPLOYEES' RETIREMENT SYSTEM

(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, 2002 and 2001*

(in thousands)

	2002	2001
Contributions:		
Employees' Retirement System	$ 7,971	$ 6,950
Public School Employees' Retirement System	625	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	30	30
Total contributions	9,446	8,425
Expenses:		
Personal services:		
Salaries and wages	1,947	1,805
Retirement contributions	204	310
FICA	138	125
Health insurance	254	236
Miscellaneous	29	43
	2,572	2,519
Communications:		
Postage	155	101
Publications and printing	82	40
Telecommunications	83	78
Travel	23	17
	343	236
Professional services:		
Accounting and investment services	1,758	1,474
Computer services	1,026	1,879
Consulting services	1,603	826
Actuarial services	305	155
Medical services	168	192
Professional fees	87	61
Legal services	68	37
	5,015	4,624
Rentals:		
Office space	$ 341	$ 341
Office equipment	3	1
	344	342
Other services and charges:		
Equipment	99	4
Temporary services	580	218
Supplies and materials	85	29
Repairs and maintenance	335	441
Courier services	11	5
Board member expenses	14	5
Depreciation	29	–
Miscellaneous	19	2
	1,172	704
Total expenses	9,446	8,425
Net Income	–	–
Balance:		
Beginning of year	–	–
End of year	$ –	$ –