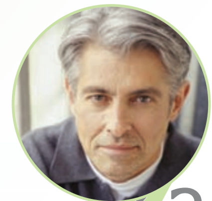
2006 Comprehensive Annual Financial Report

Teachers Retirement System of Georgia

A Component Unit of
The State of Georgia

Fiscal Year Ended
June 30, 2006



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YEARS

Teachers
Retirement
System of
Georgia

2006 Comprehensive Annual Financial Report

Teachers Retirement System of Georgia

A Component Unit of the State of Georgia

Fiscal Year Ended June 30, 2006

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Jeffrey L. Ezell
Executive Director

Teachers Retirement System of Georgia

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TABLE OF CONTENTS

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers Retirement System of Georgia

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Board of Trustees

Board composition as of November 1, 2006.

Teachers Retirement System of Georgia

Letter of Transmittal

Jeffrey L. Ezell
Executive Director

December 11, 2006

Board of Trustees
Teachers Retirement System of Georgia
Atlanta, Georgia

I am pleased to present the Comprehensive Annual Financial Report of the Teachers Retirement System of Georgia (the "System") for the fiscal year ended June 30, 2006. Responsibility for both the accuracy of the data, and completeness and fairness of the presentation, including all disclosures, rests with the management of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System. I trust that you will find this report helpful in understanding your retirement system.

The Comprehensive Annual Financial Report is presented in five sections: (1) the Introductory Section includes this letter of transmittal, principal officials, consultants and advisors, and a summary of plan provisions; (2) the Financial Section includes the auditors' report, management's discussion and analysis, the financial statements, and required supplementary information; (3) the Investment Section includes a report on investment activity, investment policies, investment results, and various investment schedules; (4) the Actuarial Section includes the actuary's certification letter and actuarial assumptions, methods, and valuation data; and (5) the Statistical Section includes selected retirement data and other significant data pertaining to the System presented on a multi-year basis.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers Retirement System of Georgia for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This was the eighteenth consecutive year that the System has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

History and Overview

The System was created in 1943 by an act of the Georgia General Assembly to provide retirement security to those individuals who choose to dedicate their lives to educating the children of the State of Georgia. A summary of the System's benefits is provided on pages 11-13 of this report.

As the largest public retirement system in the State of Georgia and the 26th largest retirement system in the United States, the System pays out $2.0 billion in benefits per year.

The System is administered by a ten-member Board of Trustees. The Executive Director and over 180 employees are responsible for the administration and operations of the System, which serves more than 209,000 active members, 70,000 retirees and 377 employers.

Legislation

During the 2006 session, the Georgia General Assembly passed a piece of legislation that was signed into law by the Governor that substantially impacted the System.

The legislation became effective July 1, 2006 and granted an increase in the monthly retirement benefit

Letter of Transmittal

payments to TRS' eldest retirees. This one-time increase was in addition to the regular COLA received by all retirees in July. According to the bill, retirees who retired: 1) on or before June 30, 1974 received a 10% increase; 2) on or after July 1, 1974, but before July 1, 1982, received a 6% increase; and 3) on or after July 1, 1982, but before July 1, 1987, received a 2% increase in his or her monthly benefit. If any of these retirees had less than 20 years of service at the time of retirement, their increase was reduced.

Financial Information

The management of the System is charged with the responsibility of maintaining a sound system of internal accounting controls. The objectives of such a system are to provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations, and that they are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Even though there are inherent limitations in any system of internal control, the management of the System makes every effort to ensure that through systematic reporting and internal reviews, errors or fraud are quickly detected and corrected.

Please refer to Management's Discussion and Analysis starting on page 15 of this report for an overview of the financial status of the System including a summary of the System Net Assets, Changes in Net Assets, and Asset Allocations.

INVESTMENTS — The System has continued to invest in a mix of high quality bonds and stocks as it historically has done. These types of investments have allowed the System to participate in rising markets, while moderating the risks on the downside. New funds continue to be invested in high quality securities. A high quality balanced fund has proven to be a successful strategy in a variety of markets over a long period of time.

As in previous years, maintaining quality was a primary goal and was successfully met. "Conservation of Capital" and "Conservatism" continue to be the principal guides in investment decisions. The System continued to use a diversified portfolio to accomplish these objectives. In summary, the investment status of the System is excellent.

FUNDING — The System's funding policy provides for employer contributions at rates that, expressed as a percentage of annual covered payroll, are sufficient to provide resources to pay benefits when due.

A useful indicator of the funded status of a retirement system is the relationship between the actuarial value of assets and the actuarial accrued liabilities. The greater the level of funding, the larger the ratio of the actuarial value of assets to the actuarial accrued liabilities.

The System continues to remain strong as evidenced by the ratio of the actuarial value of assets to the actuarial accrued liabilities. This ratio changed from 100.9% in the fiscal year ended June 30, 2004, to 98.0% in the fiscal year ended June 30, 2005. The ultimate test of the financial soundness of a retirement system is its ability to pay all promised benefits when due. I am proud to say that through the continued wisdom and the support of Governor Sonny Purdue and the General Assembly of the State of Georgia, the System has been and continues to be funded on an actuarially sound basis, thus providing the membership the comfort and security they expect from their retirement system.

Initiatives

In our continuous effort to make the services we provide to our customers faster, friendlier and easier, we have implemented some new initiatives and enhanced some old ones.

We have expanded our educational and counseling services to our active members, retirees, employers, and educational association members with the implementation of the Customer Excellence Program ("Program"). The Program, launched in January, 2006, enhances the quality of service we provide our customers by providing unique educational opportunities throughout their TRS membership, and by expanding the availability of these opportunities to various locations throughout the State. The Program allows TRS to partner with our customers and provide them with more opportunities to learn about their retirement benefits, helps prepare them for life after retirement, and encourages our customers to use the resources we have available to make their TRS membership and retirement as beneficial and as easy as possible. Our retirement planners travel throughout the State delivering educational information and

LETTER OF TRANSMITTAL

counseling services to our customers and collect customer feedback, which is used to enhance all aspects of the business.

We continue to enhance the technological capabilities, with the pension administration system implemented two years ago, that allow TRS to streamline our business processes and empower our customers to conduct business with us whenever and from wherever they please. Enhancements made this fiscal year include: 1) allowing active members to change, delete, or add beneficiaries online; 2) providing customers with the ability to seamlessly register for events located throughout the State via their personal online account; 3) allowing active members to view and print their annual member statements from their personal, online account; and 4) improving security of our online account registration process. All of these additions enable our customers to quickly change and add information or register for an event and receive immediate confirmation of the transaction, with the added relief that they're doing so in a secure environment.

And finally, a new organizational structure was created in an effort to streamline operations and enhance the level of customer service delivered internally, between divisions, and externally to TRS active members, retirees and employers. A focus on strategic and operational leadership ensures the TRS vision is supported by the daily operations of the agency. In creating this new structure, I sought champions of change who could translate the TRS vision into a reality. Stephen J. Boyers, Chief Financial Officer, and R. David McCleskey, Chief Operating Officer, were brought on to manage the daily operations of the TRS divisions. The division directors continue to lead their staff to ensure the "customer service excellence" attitude is continued throughout the agency.

OTHER INFORMATION

INDEPENDENT AUDIT — The Board of Trustees requires an annual audit of the financial statements of the System by independent, certified public accountants. The accounting firm of KPMG LLP was selected by the Board. The independent auditors' report on the statements of plan net assets and the related statements of changes in plan net assets is included in the Financial Section of this report.

ACKNOWLEDGMENTS — The compilation of this report reflects the combined effort of the staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the assets contributed by the System's members, their employers, and the State of Georgia.

Copies of this report can be obtained by contacting the System, or may be downloaded from the System's website.

I would like to take this opportunity to express my gratitude to Governor Sonny Perdue, members of the Georgia General Assembly, the staff, the advisors, and to the many people who have worked so diligently to ensure the successful operation of the System.

Sincerely,

Jeffrey L. Ezell
Executive Director

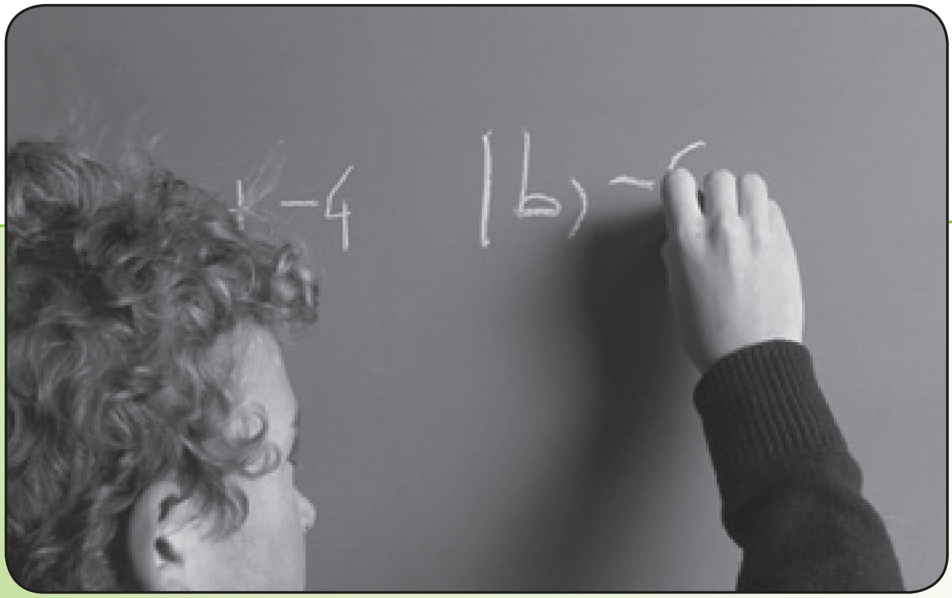
your retirement system

financial highlights

	June 30, 2006	June 30, 2005	% change
Member Contributions	$ 485,721,000	$ 464,931,000	+ 4.5
Employer Contributions	$ 855,626,000	$ 815,693,000	+ 4.9
Net Increase in Fair Value of Investments	$ 1,459,292,000	$ 2,172,591,000	- 32.8
Interest and Dividend Income	$ 1,274,215,000	$ 1,146,655,000	+ 11.1
Benefits Paid to Retired Members	$ 1,991,431,000	$ 1,799,478,000	+ 10.7
Member Withdrawals	$ 53,138,000	$ 50,491,000	+ 5.2
Interest Credited to Member Contributions	$ 205,585,000	$ 196,964,000	+ 4.4

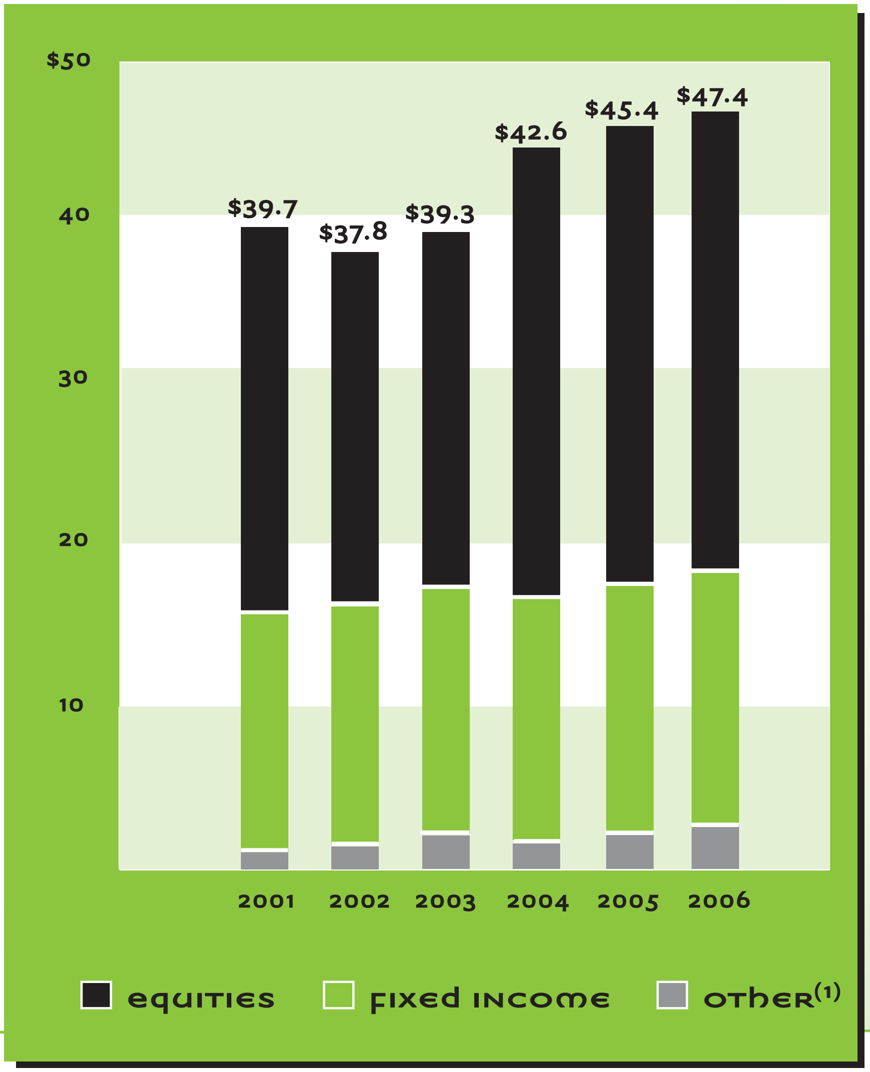
statistical highlights

	2006	2005	% change
Active Membership	209,349	203,252	+ 3.0
Members Leaving the System	8,649	8,518	+ 1.5
Retired Members	70,239	66,282	+ 6.0
Average Monthly Benefit	$ 2,431	$ 2,353	+ 4.6



system assets

growth of total system assets (in billions)



total system assets at june 30 (in thousands)

	2001	2002	2003	2004	2005	2006
Equities	$22,309,783	$20,142,071	$20,058,758	$25,120,626	$27,121,761	$28,654,452
Fixed Income	16,379,674	16,446,346	17,961,576	16,469,405	17,075,215	17,243,798
Other(1)	976,595	1,248,540	1,270,063	1,053,021	1,160,906	1,489,478
Total System Assets	$39,666,052	$37,836,957	$39,290,397	$42,643,052	$45,357,882	$47,387,728

(1) Includes receivables, cash, short-term securities, mortgage loans, and capital assets, net.

Administrative Staff & Organization

Jeffrey L. Ezell
Executive Director

Stephen J. Boyers
Chief Financial Officer

R. David McCleskey
Chief Operating Officer

Charles W. Cary, Jr.
Chief Investment Officer
Investment Services

Diann F. Green
Director
Retirement Services

Lisa M. Hajj
Director
Communications

M. Cathy Hart
Director
Member Services

Dina N. Jones
Director
Employer Services

Laura L. Lanier
Controller
Financial Services

J. Gregory McQueen
Director
Information Technology

Tonia T. Morris
Director
Human Resources

Charles P. Warren
Director
Contact Management

Consulting Services

Actuary
Cavanaugh Macdonald
Consulting, LLC

Auditor
KPMG LLP

Medical Advisors
Gordon J. Azar, M.D.
Atlanta, Georgia
Arthur S. Booth, Jr., M.D.
Atlanta, Georgia
Joseph W. Stubbs, M.D.
Albany, Georgia

Investment Advisors

Albritton Capital Management
Atlanta Capital Management
Oak Associates, ltd.
Sands Capital Management
Evergreen Investments
State Street Global Advisors
Montag & Caldwell
EARNEST Partners
NCM Capital Management
Group
Trusco Capital Management
Barrow, Hanley, Mewhinney
& Strauss
Cooke & Bieler
Crawford Investment
Counsel
Hotchkis and Wiley
Capital Management
Janus Intech Institutional
Asset Management

Summary of Plan Provisions

Purpose

The Teachers Retirement System of Georgia (the "System") was established in 1943 by an act of the Georgia General Assembly for the purpose of providing retirement allowances and other benefits for teachers of this state. The System has the power and privileges of a corporation, and the right to bring and defend actions.

The major objectives of the System are (1) to pay monthly benefits due to retirees accurately and in a timely manner, (2) to soundly invest retirement funds to insure adequate financing for future benefits due and for other obligations of the System, (3) to provide statewide educational and counseling services for System members, (4) to accurately account for the status and contributions of all active and inactive members, and (5) to process refunds due terminated members.

Administration

State statutes provide that the administration of the System be vested in a ten-member Board of Trustees comprised as follows:

Ex officio members:

- the State Auditor,
- the Director of the Office of Treasury and Fiscal Services,

Governor's appointees:

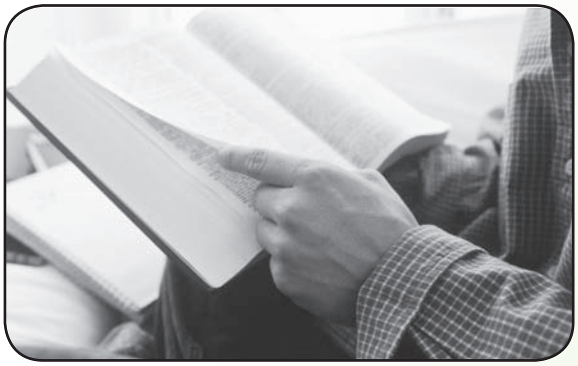
- two active members of the System who are classroom teachers and not employees of the Board of Regents,
- one active member of the System who is a public school administrator,
- one active member of the System who is not an employee of the Board of Regents,
- one member to be selected by the Governor,

Board of Regents appointee:

- one active member of the System who is an employee of the Board of Regents,

Trustee appointees:

- one member who has retired under the System,
- one individual who is a citizen of the state, not a member of the System and experienced in the investment of money.



A complete listing of the current Board of Trustees is included on page 4 of this report.

Management of the System is the responsibility of the Executive Director who is appointed by the Board and serves at its pleasure. On behalf of the Board, the Executive Director is responsible for the proper operation of the System, engaging such actuarial and other services as shall be necessary to transact business, and paying expenses necessary for operations. A listing of the administrative staff is included on page 10 of this report.

Membership

All personnel in covered positions of the state's public school systems, technical colleges, RESA units and all colleges and universities comprising the University System of Georgia who are employed one-half time or more, except those professors and principal administrators electing to participate in the Board of Regents of the University System of Georgia Optional Retirement Plan, are required to be members of the System as a condition of employment.

Eligibility

Service Retirement

Active members may retire and elect to receive monthly retirement benefits after one of the following conditions: 1) completion of 10 years of creditable service and attainment of age 60, or 2) completion of 25 years of creditable service.

Disability Retirement

Members are eligible to apply for monthly retirement benefits under the disability provision of the law if they are an active member, have at least 10 years of creditable service, and are permanently disabled.

SUMMARY OF PLAN PROVISIONS

THE FORMULA

Normal Retirement

Any member who has at least 30 years of creditable service or who has at least 10 years of creditable service and has attained age 60 will receive a benefit calculated by using the percentage of salary formula. Simply stated, two percent (2%) is multiplied by the member's years of creditable service established with the System, including partial years (not to exceed 40 years). The product is then multiplied by the average monthly salary for the two highest consecutive membership years of service. The resulting product is the monthly retirement benefit under the maximum plan of retirement.

Early Retirement

Any member who has not reached the age of 60 and has between 25 and 30 years of creditable service will receive a reduced benefit. The benefit will be calculated using the percentage of salary formula explained above. It will then be reduced by the lessor of 1/12 of 7% for each month the member is below age 60, or 7% for each year or fraction thereof the member has less than 30 years of creditable service. The resulting product is the monthly retirement benefit under the maximum plan of retirement.

Disability Retirement

Disability retirement benefits are also calculated using the percentage of salary formula explained above. The resulting product is the monthly disability retirement benefit under the maximum plan. There is no age requirement for disability retirement.

PLAN A - MAXIMUM PLAN OF RETIREMENT

This plan produces the largest possible monthly benefit payable to the member only during his or her lifetime. There are no survivorship benefits under this plan.

PLAN B - OPTIONAL PLANS OF RETIREMENT

Upon retirement, a member of the System may elect one of six optional plans that provide survivorship benefits. The election of an optional form of payment is made upon application for retirement and it becomes irrevocable upon distribution of the first benefit check. The six options are as follows:

Option 1

The retiring member accepts a relatively small reduction from the maximum monthly benefit in order to guarantee to the estate, beneficiary or beneficiaries named on the retirement application, a lump-sum refund of any remaining portion of member contributions and interest.

Option 2

This plan offers the retiring member a reduced monthly benefit, based on the ages of the member and the beneficiary, payable for life. It further provides a guarantee to the surviving named beneficiary that, at the death of the retired member, the beneficiary will receive the same basic monthly retirement allowance the member received at the date of retirement plus any cost-of-living increases the member received up to the time of death.

Option 2 Pop-Up

Any member may elect a reduced retirement allowance to be designated "Option 2 Pop-Up" with the provision that if the beneficiary dies prior to the retiree that the basic benefit payable to the retiree shall increase to an amount as though the retiree had not selected an optional plan of retirement.

Option 3

This plan of retirement offers a reduced monthly benefit that is based on the ages of the member and the beneficiary. The resulting benefit is paid to the retired member for life, with the guarantee to the surviving named beneficiary that at the time of the retired member's death, the beneficiary will receive a payment for life of one-half of the initial monthly benefit received by the member at the time of retirement plus one-half of any cost-of-living increases the member received up to the time of death.

Option 3 Pop-Up

Any member may elect a reduced retirement allowance to be designated "Option 3 Pop-Up" with the provision that if the beneficiary dies prior to the retiree, the basic benefit payable to the retiree shall increase to an amount as though the retiree had not selected an optional plan of retirement.

Summary of Plan Provisions

Option 4

This plan allows the retiring member to select a specific monthly amount other than provided for in the other options, which will be paid for life following a retiree's death to the living beneficiary. The beneficiary would also receive a pro-rata share of any cost-of-living increases the member received up until the time of death, or the benefit will be divided among the beneficiaries in accordance with the percentage or specific dollar designations made by the member at the time of retirement. One major difference in this plan is that the retiring member may actually elect that following his or her death, a certain amount of money can be paid monthly to a beneficiary rather than a percentage.

Partial Lump-Sum Option Plan

TRS offers a Partial Lump-Sum Option Plan (PLOP) at retirement. In exchange for a permanently reduced lifetime benefit, a member may elect to receive a lump-sum distribution in addition to a monthly retirement benefit. The age of the member and plan of retirement are used to determine the reduction in the benefit.

A member is eligible to participate in the Partial Lump-Sum Option Plan if he or she meets the following criteria. A member must:

- have 30 years of creditable service or 10 years of creditable service and attain age 60 (not early retirement).
- not retire with disability benefits.

At retirement, a member may elect a lump-sum distribution in an amount between 1 and 36 months of his or her normal monthly retirement benefit. This amount will be calculated under Plan A - Maximum Plan of Retirement and will be rounded up and down to be a multiple of $1,000. If a PLOP distribution is elected, the monthly benefit is actuarially reduced to reflect the value of the PLOP distribution. The combination of both the PLOP distribution and the reduced benefit are the same actuarial value as the unreduced normal benefit alone.

Financing the System

The funds to finance the System come from member contributions, 5% of annual salary; employer contributions, 9.24% of annual salary; and investment income.

Independent Auditor's Report

KPMG LLP
Suite 2000
303 Peachtree Street, NE
Atlanta, GA 30308
www.kpmg.com

The Board of Trustees
Teachers Retirement System of Georgia:

We have audited the accompanying statements of plan net assets of Teachers Retirement System of Georgia (the System), a component unit of the State of Georgia, as of June 30, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System as of June 30, 2006 and 2005, and the changes in financial status for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August, 25, 2006 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The 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 is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and accordingly we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of administrative expenses 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, in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

August 25, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS

This section provides a discussion and analysis of the financial performance of the Teachers Retirement System of Georgia (the "System") for the years ended June 30, 2006 and 2005. The discussion and analysis of the System's financial performance is within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL HIGHLIGHTS

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

- At June 30, 2006, the System's assets exceeded its liabilities by $47.3 billion (reported as "net assets") as compared to the net assets of $45.3 billion at June 30, 2005, representing an increase of $2.0 billion. At June 30, 2005, the System's assets exceeded its liabilities by $45.3 billion (reported as "net assets") as compared to the net assets of $42.6 billion at June 30, 2004, representing an increase of $2.7 billion.

- Contributions from members increased by $20.8 million or 4.5% from $464.9 million in 2005 to $485.7 million in 2006. Contributions by employers increased by $39.9 million or 4.9% from $815.7 million in 2005 to $855.6 million in 2006. Contributions from members increased by $16.0 million or 3.6% from $448.9 million in 2004 to $464.9 million in 2005. Contributions by employers increased by $33.4 million or 4.3% from $782.3 million in 2004 to $815.7 million in 2005. These increases are due to increases in membership and higher average payrolls during each of the fiscal years ended June 30, 2006 and 2005.

- Pension benefits paid to retirees and beneficiaries for the years ended June 30, 2006 and 2005 were $2.0 billion and $1.8 billion, representing increases of 10.7% and 12.6%, respectively. This is due to increases in the number of retirees and beneficiaries receiving benefit payments and postretirement benefit adjustments.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The System prepares its financial statements on an accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. These statements provide information about the System's overall financial status.

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

MANAGEMENT'S DISCUSSION & ANALYSIS

The Statements of Plan Net Assets

The *Statements of Plan Net Assets* is the statement of financial position, presenting information that includes all of the System's assets and liabilities, with the balance reported as and representing the *Net Assets Held in Trust for Pension Benefits*. The investments of the System in this statement are presented at fair value. These statements are presented on page 20.

The Statements of Changes in Plan Net Assets

The Statements of Changes in Plan Net Assets reports how the System's net assets changed during the fiscal year. The additions and the deductions to net assets are summarized in this statement. The additions include contributions and investment income, which includes the net increase in the fair value of investments. The deductions include benefit payments, refunds of member contributions, and administrative expenses. These statements are presented on page 21.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the System's financial statements. The notes to the financial statements begin on page 22 of this report.

Required Supplementary Schedules

A brief explanation of the two required schedules found beginning on page 30 of this report follows:

Schedule of Funding Progress

This schedule includes historical trend information for the last six consecutive fiscal years about the actuarially funded status of the plan from a long-term, ongoing plan perspective, and the progress made in accumulating sufficient assets to pay benefits when due.

Schedule of Employer Contributions

This schedule presents historical trend information for the last six consecutive fiscal years about the annual required contributions of employers and the contributions made by employers in relation to the requirement.

MANAGEMENT'S DISCUSSION & ANALYSIS

FINANCIAL ANALYSIS OF THE SYSTEM

A summary of the System's net assets at June 30, 2006, 2005, and 2004 is as follows:

NET ASSETS (IN THOUSANDS)	JUNE 30, 2006	JUNE 30, 2005	JUNE 30, 2004	2006 Amount Change	2006 Percentage Change	2005 Amount Change	2005 Percentage Change
ASSETS:							
Cash and Receivables	$ 570,353	$ 406,080	$ 361,337	$ 164,273	40.5 %	$ 44,743	12.4 %
Investments	46,803,873	44,935,545	42,266,890	1,868,328	4.2 %	2,668,655	6.3 %
Capital Assets, net	13,502	16,257	14,825	(2,755)	(17.0 %)	1,432	9.7 %
Total Assets	47,387,728	45,357,882	42,643,052	2,029,846	4.5 %	2,714,830	6.4 %
LIABILITIES:							
Due to Brokers and Account Payable	141,381	79,202	54,974	62,179	78.5 %	24,228	44.1 %
NET ASSETS	$ 47,246,347	$ 45,278,680	$ 42,588,078	$ 1,967,667	4.3 %	$ 2,690,602	6.3 %

As indicated above, the $2.0 billion and $2.7 billion increases in net assets in 2006 and 2005, respectively, are principally related to the increase in the fair value of investments. The increase in investments is analyzed below.

The following table presents the investment allocation at June 30, 2006, 2005, and 2004:

ASSET ALLOCATION AT JUNE 30	2006	2005	2004
Equities	61.2 %	60.4 %	59.4 %
U.S. Treasuries	25.3 %	23.9 %	26.8 %
U.S. Agencies	6.0 %	8.2 %	8.2 %
Corporate and Other Bonds	5.5 %	5.9 %	4.0 %
Short Term	2.0 %	1.6 %	1.6 %
ASSET ALLOCATION AT JUNE 30 (IN THOUSANDS)			
Equities	$ 28,654,452	$ 27,121,761	$ 25,120,626
U.S. Treasuries	11,851,904	10,722,363	11,323,649
U.S. Agencies	2,819,958	3,688,954	3,461,672
Corporate and other bonds	2,571,936	2,663,898	1,684,084
Short Term	905,623	738,569	676,859
	$ 46,803,873	$ 44,935,545	$ 42,266,890

MANAGEMENT'S DISCUSSION & ANALYSIS

The total investment portfolio increased $1.9 billion from June 30, 2005, which is due primarily to the increase in the fair value of investments.

The total investment portfolio increased $2.7 billion from June 30, 2004, which is due primarily to the increase in the fair value of equity investments.

The investment rate of return in fiscal year 2006 was 6.0%, with a 10.8% return for equities and a (1.4)% return for fixed income compared to an investment rate of return in fiscal year 2005 of 7.9%, with an 8.5% return for equities and a 7.1% return for fixed income. The five-year annualized rate of return on investments at June 30, 2006 was 4.8% with a 3.8% return on equities and a 5.4% return on fixed income.

The investment rate of return in fiscal year 2005 was 7.9%, with an 8.5% return for equities and a 7.1% return for fixed income compared to an investment rate of return in fiscal year 2004 of 9.9%, with a 20.0% return for equities and a (1.4)% return for fixed income. The five-year annualized rate of return on investments at June 30, 2005 was 2.5% with a (1.4)% return on equities and a 7.8% return on fixed income.

A summary of changes in the System's net assets for the years ended June 30, 2006, 2005, and 2004 is as follows:

Changes in Net Assets (in thousands)				2006		2005	
	2006	2005	2004	Amount Change	Percentage Change	Amount Change	Percentage Change
Additions:							
Member Contributions	$ 485,721	$ 464,931	$ 448,929	$ 20,790	4.5 %	$ 16,002	3.6 %
Employer Contributions	855,626	815,693	782,301	39,933	4.9 %	33,392	4.3 %
Net Investment Income	2,691,062	3,279,505	3,794,733	(588,443)	(17.9)%	(515,228)	(13.6)%
Total Additions	4,032,409	4,560,129	5,025,963	(527,720)	(11.6)%	(465,834)	(9.3)%
Deductions:							
Benefit Payments	1,991,431	1,799,478	1,598,467	191,953	10.7 %	201,011	12.6 %
Refunds	53,138	50,491	42,580	2,647	5.2 %	7,911	18.6 %
Administrative Expenses	20,173	19,558	15,378	615	3.1 %	4,180	27.2 %
Total Deductions	2,064,742	1,869,527	1,656,425	195,215	10.4 %	213,102	12.9 %
Net Increase in Plan Net Assets	$ 1,967,667	$ 2,690,602	$ 3,369,538	$ (722,935)	(26.9)%	$ (678,936)	(20.1)%

MANAGEMENT'S DISCUSSION & ANALYSIS

Additions

The System accumulates resources needed to fund benefits through contributions and returns on invested funds. Member contributions increased 4.5% and 3.6% in 2006 and 2005, respectively, primarily because of increased membership and a higher average payroll in both years. Employer contributions likewise increased 4.9% and 4.3% in 2006 and 2005, respectively, also as a result of increased membership and a higher average payroll. The employer contribution rate remained constant at 9.24% for 2006 and 2005. The employer contribution rate was recommended by the actuary and approved by the System's Board of Trustees. The net investment income is as a result of solid investment returns.

Deductions

Deductions increased 10.4% in 2006 and 12.9% in 2005, primarily because of the 10.7% and 12.6% increase in benefit payments resulting from an increase in the number of retirees and beneficiaries receiving benefit payments to 70,239 in 2006 from 66,282 in 2005 and 61,590 in 2004 and postretirement benefit increases in both years.

Funding Status

The schedule of funding progress and schedule of employer contributions provide information regarding how the plan is 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 between the actuarial value of assets and the actuarial accrued liabilities. The higher this ratio, the better funded the System is from an actuarial perspective.

The June 30, 2005 actuarial valuation, which is the latest valuation available, indicates that the actuarial value of assets was $46.8 billion and that the actuarial accrued liability was $47.8 billion. This results in a funding ratio of 98.0%. The June 30, 2004 actuarial valuation indicates that the actuarial value of assets was $44.6 billion and that the actuarial accrued liability was $44.2 billion. This results in a funding ratio of 100.9%.

The System continues to be in a strong financial position, as evidenced by the funding ratio.

STATEMENTS OF PLAN NET ASSETS

JUNE 30, 2006 & 2005 (IN THOUSANDS)

	2006	2005
ASSETS		
CASH	$ 855	$ 2,138
RECEIVABLES:		
Interest and Dividends	254,826	222,521
Due from Brokers for Securities Sold	168,320	35,101
Member and Employer Contributions	105,225	102,081
Due from Fulton County School Employees Pension Fund	41,127	44,239
Total Receivables	569,498	403,942
INVESTMENTS - at fair value:		
Short-Term	905,623	738,569
U.S Treasuries	11,851,904	10,722,363
U.S. Agencies	2,819,958	3,688,954
Corporate and Other Bonds	2,571,936	2,663,898
Common Stocks	28,654,452	27,121,761
Total Investments	46,803,873	44,935,545
CAPITAL ASSETS, net	13,502	16,257
Total Assets	47,387,728	45,357,882
LIABILITIES		
Due to Brokers for Securities Purchased	132,205	71,674
Accounts Payable and Other	9,176	7,528
Total Liabilities	141,381	79,202
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 47,246,347	$ 45,278,680

(A Schedule of Funding Progress is presented on page 30.)

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

For the Years Ended June 30, 2006 & 2005 (in thousands)

	2006	2005
Net Assets Held in Trust for Pension Benefits - Beginning of year	$ 45,278,680	$ 42,588,078
Additions:		
Contributions:		
Employer	855,626	815,693
Member	485,721	464,931
Investment Income:		
Net Increase in Fair Value of Investments	1,459,292	2,172,591
Interest, Dividends, and Other	1,274,215	1,146,655
Total	2,733,507	3,319,246
Less Investment Expense	42,445	39,741
Net Investment Income	2,691,062	3,279,505
Total Additions	4,032,409	4,560,129
Deductions:		
Benefit Payments	1,991,431	1,799,478
Refunds of Member Contributions	53,138	50,491
Administrative Expenses, net	20,173	19,558
Total Deductions	2,064,742	1,869,527
Net Increase	1,967,667	2,690,602
Net Assets Held in Trust for Pension Benefits - End of year	$ 47,246,347	$ 45,278,680

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 & 2005

A. PLAN DESCRIPTION

Teachers Retirement System of Georgia (the "System") was created in 1943 by an act of the Georgia Legislature (the Act) to provide retirement benefits for teachers who qualify under the Act. The System is administered as a cost-sharing, multiple-employer plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 25. On October 25, 1996, the Board of Trustees created the Supplemental Retirement Benefit Plan of the Georgia Teachers (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 the System. The purpose of SRBP is to provide retirement benefits to employees covered by the System whose benefits are otherwise limited by IRC §415. Although the System is a component unit of the state of Georgia's financial reporting entity, it is accountable for its own fiscal matters and presentation of its separate financial statements. A Board of Trustees comprised of active and retired members and ex-officio state employees is ultimately responsible for the administration of the System.

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 GASB Statement No.14. The concept underlying the definition of the reporting entity is that elected officials are accountable. The decision to include a potential component unit in the reporting entity is also made by applying specific criteria as outlined in GASB No. 39, including consideration of the nature and significance of the relationship of potential component units. Based on those criteria, the System has not included any other entities in its reporting entity.

Eligibility and Membership

All teachers in the state public schools, the University System of Georgia (except those professors and principal administrators electing to participate in an optional retirement plan), and certain other designated employees in educational-related work are eligible for membership.

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

Retirees and beneficiaries currently receiving benefits	**70,239**
Terminated employees entitled to benefits but not yet receiving benefits	**64,771**
Active plan members	**209,349**
Total	**344,359**
Employers	**377**

Retirement Benefits

The System provides service retirement, disability retirement, and survivor's benefits. Title 47 of the *Official Code of Georgia* assigns the authority to establish and amend the provisions of the System to the State Legislature. A member is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

Normal retirement (pension) benefits paid to members are equal to 2% of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of 7% for each month the member is below age 60, or by 7% for each year or fraction thereof by which the member has less than 30 years of service.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 & 2005

A. PLAN DESCRIPTION (CONTINUED)

Retirement Benefits

It is also assumed that certain cost-of-living adjustments, based on the Consumer Price Index, will be made in future years. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in addition to a reduced monthly retirement benefit. Options are available for distribution of the member's monthly pension, at a reduced rate, to a designated beneficiary on the member's death.

Death and Disability Benefits

Retirement benefits also include death and disability benefits, whereby the disabled member or surviving spouse is entitled to receive annually an amount equal to the member's service retirement benefit or disability retirement, whichever is greater. The benefit is based on the member's creditable service (minimum of ten years of service) and compensation up to the time of disability.

The death benefit is the amount that would be payable to the member's beneficiary had the member retired on the date of death on either a service retirement allowance or a disability retirement allowance, whichever is larger. The benefit is based on the member's creditable service (minimum of ten years of service) and compensation up to the date of death.

Contributions

The System is funded by member and employer contributions as adopted and amended by the Board of Trustees. Contributions required for fiscal year 2006 were based on the June 30, 2003 actuarial valuation as follows:

Member:	**5.00 %**
Employer:	
Normal	**9.65 %**
Unfunded accrued liability	**(0.56) %**
Expenses	**0.15 %**
Total	**9.24 %**

Contributions

Members become fully vested after ten years of service. If a member terminates with less than ten years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions with accumulated interest are reported as net assets held in trust for pension benefits.

SRBP

Beginning July 1, 1997, all members and retired former members in the System are eligible to participate in this plan whenever their benefits under the System exceed the limitation on benefits imposed by IRC §415. At June 30, 2006 and 2005, there were 19 and 21 members, respectively, eligible to participate in this portion of the System. Employer contributions of $227,000 and $202,000 and retirement payments of $227,000 and $202,000 under the SRBP are included in the statement of changes in plan net assets for the years ended June 30, 2006 and 2005, respectively.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting. Contributions from the employers and the members are recognized as additions when due, pursuant to formal commitments, as well as statutory or contractual requirements. Retirement and refund payments are recognized as deductions when due and payable.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 & 2005

During fiscal year 2006, the System adopted the provisions of GASB Statement No. 44, *Condition Reporting: the Statistical Section*. This pronouncement requires changes to the statistical section that is presented in the Comprehensive Annual Financial Report. These changes are incorporated in the System's Comprehensive Annual Financial Report for the year ended June 30, 2006.

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. 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.

Capital Assets

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

Use of Estimates

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

C. INVESTMENT PROGRAM

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

Cash

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

Investments

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

a) Short-Term

Short-term investments are authorized in the following instruments:

- Repurchase and reverse repurchase agreements, whereby the System and a broker exchange cash for direct obligations of the U.S. Government or obligations unconditionally guaranteed by 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 & 2005

C. INVESTMENT PROGRAM (CONTINUED)

The System held repurchase agreements of $905,623,000 and $738,569,000 at June 30, 2006 and 2005, respectively.

- U.S. Treasury obligations with varying terms up to 360 days.

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

- Commercial paper, with a maturity of 180 days or less. Commercial paper is an unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The System considers for investment only commercial paper of the highest quality, rated P-1 and/or A-1 by national credit rating agencies.

- Master notes, an overnight security administered by a custodian bank, and an obligation of a corporation whose commercial paper is rated P-1 and/or A-1 by national credit rating agencies.

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

b) Long-Term

Fixed income investments are authorized in the following instruments:

- U.S. and foreign government obligations with terms up to 30 years. The System held U.S. Treasuries of $11,851,904,300 and $10,722,363,210 at June 30, 2006 and 2005, respectively.

- Obligations unconditionally guaranteed by agencies of the U.S. Government with terms up to 30 years. The System held agency bonds of $2,819,957,690 and $3,688,953,184 at June 30, 2006 and 2005, respectively.

- Corporate bonds with at least an "A" rating by a national rating agency and limited to no more than 5% of total System assets in any one name. Maturities of these securities vary up to a period of 40 years. The System held corporate bonds of $2,571,935,910 and $2,663,898,250 at June 30, 2006 and 2005, 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 on a historical cost basis may be placed in equities and no more than 5% in any one corporation. Equity holdings in any one corporation may not exceed 5% of the outstanding equity of the issuing corporation. The equity portfolio is managed by the Division of Investment Services (the "Division") in conjunction with independent advisors. Buy/sell decisions are based on securities meeting rating criteria established by the Board of Trustees; in-house research considering such matters 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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 & 2005

C. INVESTMENT PROGRAM (CONTINUED)

It is the System's investment policy to require that the bond portfolio be of high quality and chosen with respect to maturity ranges, coupon levels, refunding characteristics, and marketability. The System's policy is to require that new purchases of bonds be restricted to high grade bonds rated no lower than "A" by any nationally recognized statistical rating organization. The System's investment in U.S. Agencies was 16.4% of the total fixed income portfolio and was rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The System's investment in corporate bonds was 14.9% of the total fixed income portfolio, which consisted of 8.7% rated AAA/Aaa and 6.2% rated AA/Aa.

The investment policy requires that repurchase agreements be limited to the purchase of U.S. Treasury or Agency obligations or corporate bonds rated no lower than "A" by any nationally recognized statistical rating organization, with a market value in excess of funds advanced. As of June 30, 2006, the System held repurchase agreements of $905,623,000.

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

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

EFFECTIVE DURATION OF FIXED INCOME ASSETS AND REPURCHASE AGREEMENTS BY SECURITY TYPE

Fixed income and repurchase agreements security type	Market value, June 30, 2006	Percent of all fixed income assets and repurchase agreements	Effective duration (years)
U.S. Treasuries	$ 11,815,904,300	65.3 %	5.3
U.S. Agencies	2,819,957,690	15.5 %	4.2
Corporate bonds	2,571,935,910	14.2 %	5.1
Repurchase agreements	905,623,000	5.0 %	0.0
Total	$ 18,149,420,900	100.0 %	5.0

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 & 2005

D. INVESTMENTS LENDING PROGRAM

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

Securities loaned totaled $16,716,869,674 and $16,709,071,014 at market value at June 30, 2006 and 2005, respectively. The collateral value was equal to 104.5% and 105.1% of the loaned securities' value at June 30, 2006 and 2005, respectively. The System's lending collateral was held in the System's name by the tri-party custodian.

Loaned securities are included in the accompanying statements of plan net assets since the System maintains ownership. The related collateral securities are not recorded as assets on the System's statements of plan net assets, and a corresponding liability is not recorded, since the System is deemed not to have the ability to pledge or trade the collateral securities. In accordance with the criteria set forth in GASB No. 28, the System is deemed not to have the ability to pledge or sell 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 & 2005

E. CAPITAL ASSETS

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

	Balance at June, 2005	Additions	Disposals	Balance at June, 2006
CAPITAL ASSETS:				
Land	$ 944,225	$ —	$ —	$ 944,225
Building	2,800,000	—	—	2,800,000
Furniture and Fixtures	333,975	39,081	(25,098)	347,958
Computer Equipment	929,324	620,997	(399,052)	1,151,269
Computer Software	14,979,713	—	—	14,979,713
	19,987,237	660,078	(424,150)	20,223,165
ACCUMULATED DEPRECIATION:				
Building	(70,000)	(70,000)	—	(140,000)
Furniture and Fixtures	(208,718)	(39,225)	20,617	(227,326)
Computer Equipment	(455,499)	(154,696)	247,891	(362,304)
Computer Software	(2,995,943)	(2,995,943)	—	(5,991,886)
	(3,730,160)	(3,259,864)	268,508	(6,721,516)
CAPITAL ASSETS, NET	$16,257,077	$ (2,599,786)	$ (155,642)	$ 13,501,649

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

	Balance at June, 2004	Additions	Disposals	Balance at June, 2005
CAPITAL ASSETS:				
Land	$ 944,225	$ —	$ —	$ 944,225
Building	2,800,000	—	—	2,800,000
Furniture and Fixtures	333,975	—	—	333,975
Computer Equipment	721,368	207,956	—	929,324
Computer Software	10,468,336	4,511,377	—	14,979,713
	15,267,904	4,719,333	—	19,987,237
ACCUMULATED DEPRECIATION:				
Building	—	(70,000)	—	(70,000)
Furniture and Fixtures	(161,007)	(47,711)	—	(208,718)
Computer Equipment	(281,697)	(173,802)	—	(455,499)
Computer Software	—	(2,995,943)	—	(2,995,943)
	(442,704)	(3,287,456)	—	(3,730,160)
CAPITAL ASSETS, NET	$14,825,200	$ 1,431,877	$ —	$16,257,077

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 & 2005

F. Due From Fulton County School Employees Pension Fund

As of July 1, 1988, substantially all members of the Fulton County School Employees Pension Fund became members in the System. The transfer involved 3,990 members, at a total cost to the Fulton County School Employees Pension Fund of $168,976,347. The employer's portion of contributions plus accrued interest (maximum 9%) is payable over 22 remaining annual installments.

G. Administrative Expenses

Administrative expenses are reported in the financial statements; however, the actual accounting for the expenses is performed in a separate expense fund. Administrative expenses paid out of System earnings are as follows:

	2006	2005
Salaries and Employee Benefits	$ 15,849,016	$ 14,158,288
Other Operating Expenses	8,065,471	8,398,804
Total Administrative Expenses	23,914,487	22,557,092
Less Reimbursement by Other State Retirement Systems for Services Rendered on Their Behalf	3,741,845	2,998,985
Net Administrative Expenses	$ 20,172,642	$ 19,558,107

H. Commitments and Contingencies

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

The System has entered into a one-year agreement for building maintenance with yearly optional renewal terms. The management fees related to the agreement were $723,975 for each year ended June 30, 2006 and 2005.

required supplementary schedules

see independent auditors' report

schedule of funding progress (Dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (Funding Excess) (b-a)	Funding Ratio (a/b)	Annual Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll [(b-a)/c]
6/30/00	$ 35,675,729	$ 34,876,171	$ (799,558)	102.3 %	$ 7,218,644	(11.1) %
6/30/01	38,584,834	37,153,421	(1,431,413)	103.9	7,306,855	(19.6)
6/30/02	40,502,333	39,706,523	(795,810)	102.0	7,617,869	(10.4)
6/30/03	42,372,661	41,905,676	(466,985)	101.1	8,261,961	(5.7)
6/30/04	44,617,956	44,230,031	(387,925)	100.9	8,038,118	(4.8)
6/30/05	46,836,895	47,811,214	974,319	98.0	8,252,598	11.8

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

schedule of employer contributions (Dollars in thousands)

Years Ended June 30,	State Annual Required Contribution	Percentage Contributed
2000	$ 779,571	100 %
2001	808,480	100
2002	716,917	100
2003	768,673	100
2004	782,301	100
2005	815,693	100

See accompanying notes to required supplementary schedules.

required supplementary schedules

see independent auditors' report

notes to required supplementary schedules

Schedule of Funding Progress

The actuarial value of assets recognizes a portion of the difference between the market 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 market value and expected actuarial value. The actuarial value of assets is limited to a range between 80% and 120% of market value.

Schedule of Employer Contributions

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

Actuarial Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Since the previous valuation on June 30, 2004, the rate of salary increases was revised to more closely reflect the actual and anticipated experience of the System and the remaining amortization period was increased from 11 years to 14 years. Additional information from the actuarial valuations for the most recent two-year period is as follows:

Valuation Date	June 30, 2005	June 30, 2004
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent of Pay, Open	Level Percent of Pay, Open
Remaining Amortization Period	14 Years	11 Years
Asset Valuation Method	5-Year Smoothed Market	5-Year Smoothed Market
Actuarial Assumption:		
Investment Rate of Return	7.50%	7.50%
Projected Salary Increases	3.20 to 8.60%	3.75 to 8.00%
Inflation Rate	3.75%	3.75%
Post-Retirement Cost-of-Living Adjustments	3% Annually	3% Annually

Additional Information - Administrative Expenses
For the Years Ended June 30, 2006 & 2005

	2006	2005
Personal Services:		
Salaries and Wages	$ 12,083,198	$ 10,879,778
Retirement Contributions	1,254,557	1,130,107
Health Insurance	1,714,485	1,424,179
FICA	754,074	687,566
Miscellaneous	42,702	36,658
Total Personal Services	15,849,016	14,158,288
Communications:		
Postage	216,351	232,155
Publications and Printing	403,399	273,730
Telecommunications	184,413	219,511
Travel	55,107	32,869
Total Communications	859,270	758,265
Professional Services:		
Computer Services	1,712,703	2,916,884
Contracts	9,944	—
Actuarial Services	82,801	148,262
Audit Fees	86,450	65,848
Legal Services	36,000	48,433
Medical Services	139,798	135,665
Total Professional Services	2,067,696	3,315,092
Management Fees:		
Building Maintenance	723,975	723,975
Total Management Fees	723,975	723,975
Other Services and Charges:		
Temporary Services	12,401	308
Repairs and Maintenance	20,109	40,676
Supplies and Materials	831,768	144,626
Courier Services	13,891	12,810
Depreciation Expense	3,259,864	3,287,456
Loss on Disposal of Equipment	155,642	—
Miscellaneous	120,060	114,801
Office Equipment	795	795
Total Other Services and Charges	4,414,530	3,601,472
Total Administrative Expenses	23,914,487	22,557,092
Less Reimbursement by Other State Retirement Systems for Services Rendered on Their Behalf	3,741,845	2,998,985
Net Administrative Expenses	$20,172,642	$19,558,107

See accompanying independent auditors' report.

INVESTMENT OVERVIEW

The financial markets continued to be volatile, as has been the case over the last ten years. The System has continued to invest in a mix of high quality bonds and stocks as it has historically done.

These types of investments have allowed the System to participate in rising markets while moderating the risks on the downside. New funds continue to be invested in high quality securities. A high quality balanced fund has proven to be a successful strategy in a variety of markets over a long period of time.

As in previous years, maintaining quality was a primary goal and was successfully met. "Conservation of Capital" and "Conservatism" continue to be the principal guides in investment decisions. The Board of Trustees continued to use a diversified portfolio to accomplish these objectives.

Both U.S. and worldwide economic growth rates remained above trend over the last year. Employment levels continued to improve. The consumer, housing and business spending continued to be strong throughout the year. Corporate profits again showed strong growth. Oil prices peaked at the end of the year and were a significant contributor to the rise in inflation to 4.3% for the year. With the rise in inflation, the Fed continued to raise interest rates. The increase in oil prices coupled with the rise in short term interest rates has started to impact corporate earnings expectations.

Studies undertaken to evaluate the investment returns of pension funds over very long time horizons indicate that the asset allocation decision has the most impact on the fund's returns. Although the returns for the various asset categories vary from year to year, over the long term equities have outperformed fixed income and cash by a very wide margin. For that reason, the System has maintained a maximum equity exposure with the remainder of the fund in fixed income securities designed to generate income and preserve capital.

Returns for rolling three and five year periods are presented in this section. These longer time periods, in our opinion, allow for more valid evaluation of returns, both in absolute terms and relative to an asset class index, by reducing emphasis on the short-term volatility of markets.

Rates of return are calculated by using a modified "Dietz time weighted method" which is in accordance with the Association for Investment Management and Research (AIMR) objectives.

Equity markets achieved most of their performance in the middle two quarters of the year ended June 30, 2006. Among individual companies, returns varied depending upon the company's size, industry, and exposure to global markets. Returns were significantly above the prior year's consolidation levels for foreign and large capitalization stocks. Foreign stocks clearly outpaced the rest of the markets with returns in the 26%-27% range. Among large capitalization stocks, performance ranged from 8% for the S&P 500 to 11% for the Dow Jones Industrials. Small and medium capitalization domestic stocks provided returns in line with their ten-year average returns in the 12%-14% range. These good overall returns can be explained by generally improving worldwide economic conditions during this period. The exceptional foreign returns are a function of both the good economic conditions and a decline in the U.S. dollar relative to other currencies.

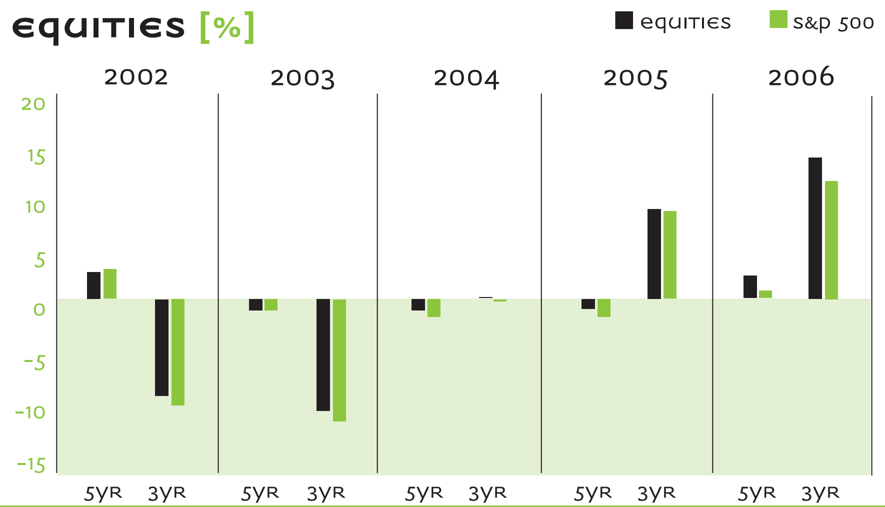
Returns for the fixed-income markets were below average this year as yields on long-term Treasury bonds rose from 4.2% in June 2005 to 5.2% at the end of June 2006. The ten-year U.S. Treasury Note returned negative 5.8% and the thirty-year U.S. Treasury Bond returned negative 11.1%. In comparison, the one-year U.S. Treasury Note returned 2.9% as the Federal Reserve continued to raise short-term rates. Our primary benchmark, the Lehman Government / Credit Index returned negative 1.5%. It is a shorter maturity index containing higher yielding corporate bonds as well as Treasuries. Higher quality bonds outperformed lower quality bonds as evidenced by the negative 0.9% return for AAA & AA versus negative 1.9% for BBB bonds.

In summary, the investment status of the System is excellent. The high quality of the System's investments is in keeping with the continued policy of "Conservatism" and "Conservation of Capital."

Prepared by the Division of Investment Services

Time-Weighted Rates of Return

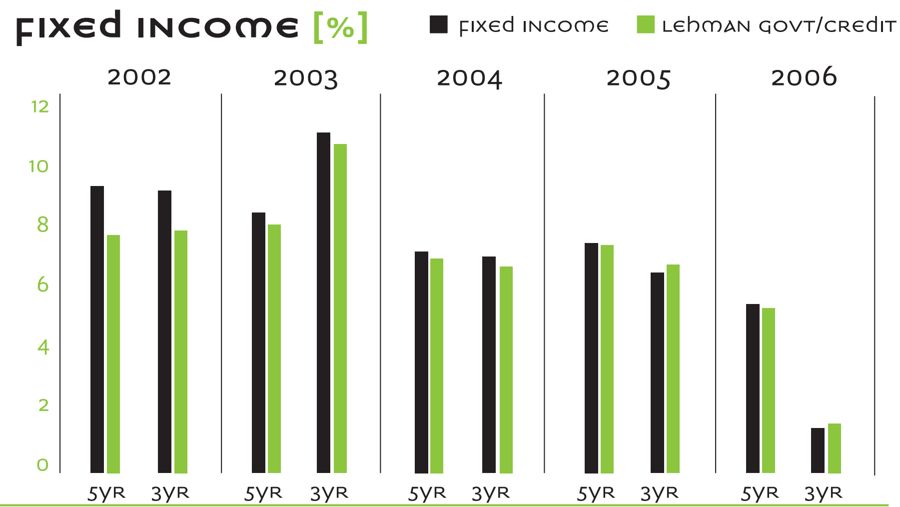
Equities [%]



	2004	2005	2006
3-year:			
Equities	.1%	8.4%	13.0%
S&P 500	- .6%	8.3%	11.2%
5-year:			
Equities	-1.6%	-1.4%	3.8%
S&P 500	-2.1%	-2.4%	2.5%

	2002	2003
3-year:		
Equities	-7.7%	-10.6%
S&P 500	-9.2%	-11.2%
5-year:		
Equities	3.6%	- 1.6%
S&P 500	3.7%	- 1.6%

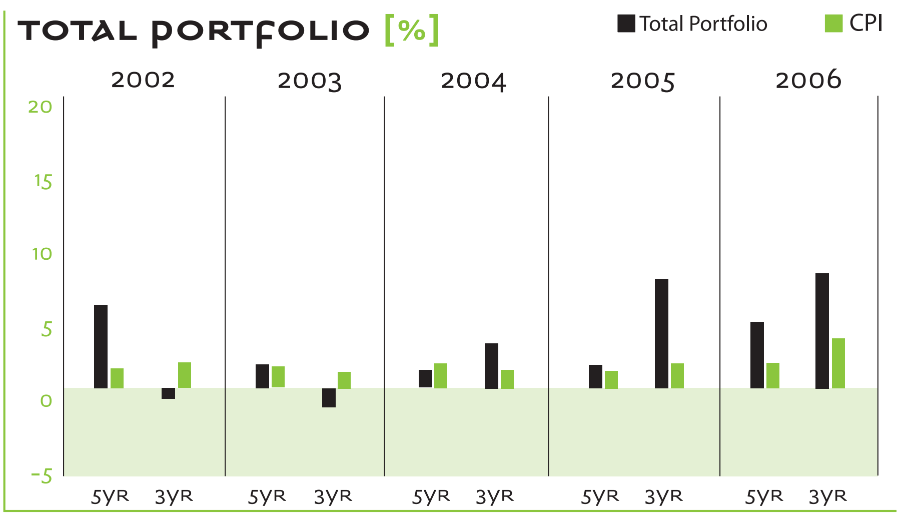
Fixed Income [%]



	2004	2005	2006
3-year:			
Fixed Income	7.2%	6.0%	1.4%
Lehman Govt/Credit	6.7%	6.4%	1.6%
5-year:			
Fixed Income	7.7%	7.8%	5.4%
Lehman Govt/Credit	7.1%	7.7%	5.1%

	2002	2003
3-year:		
Fixed Income	9.2%	11.3%
Lehman Govt/Credit	7.9%	10.8%
5-year:		
Fixed Income	9.3%	8.1%
Lehman Govt/Credit	7.5%	7.8%

Total Portfolio [%]

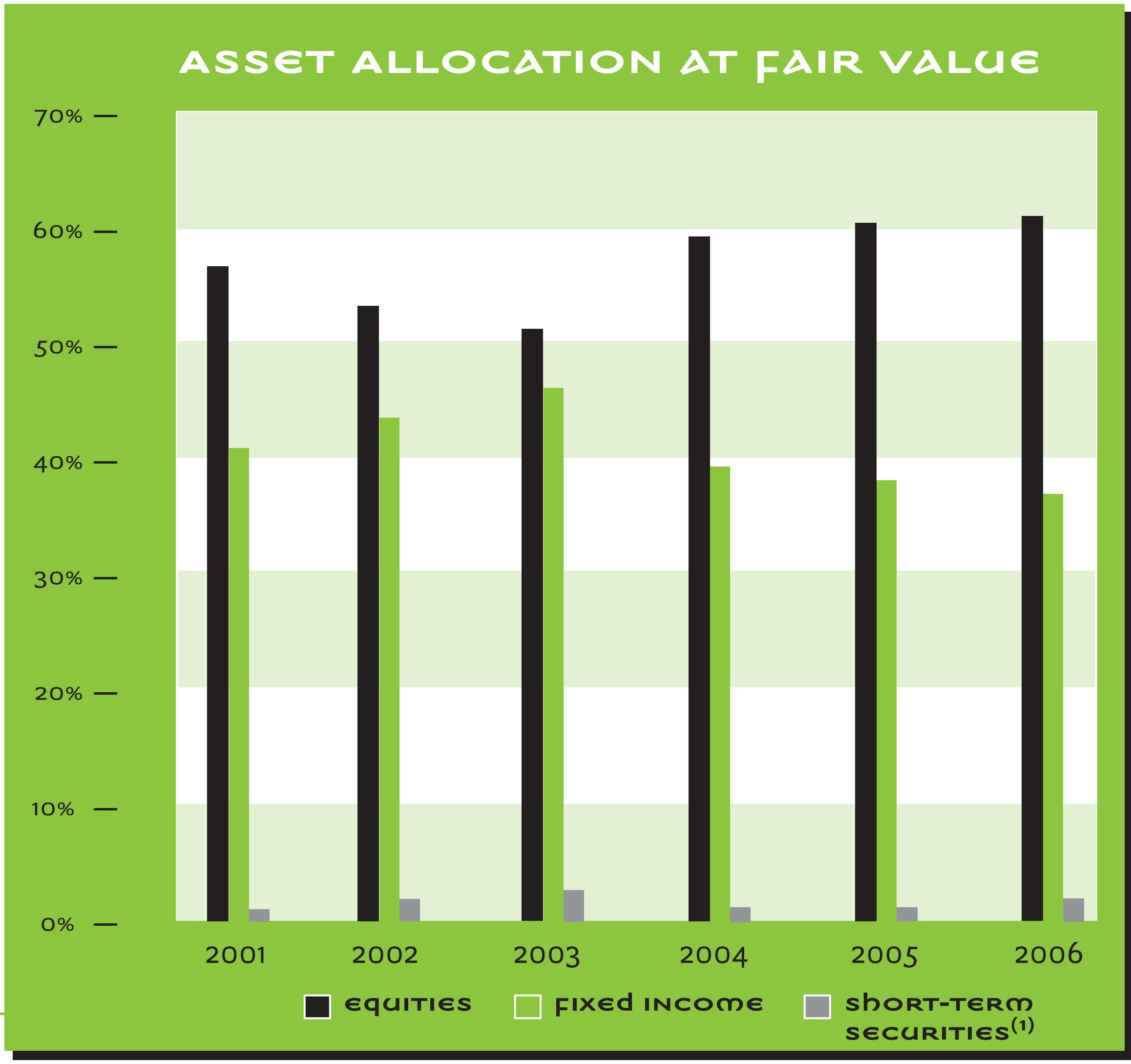


	2004	2005	2006
3-year:			
Total Portfolio	3.3%	7.4%	7.9%
CPI	2.1%	2.7%	3.4%
5-year:			
Total Portfolio	2.4%	2.5%	4.8%
CPI	2.7%	2.2%	2.7%

	2002	2003
3-year:		
Total Portfolio	- .7%	-1.6%
CPI	2.7%	2.2%
5-year:		
Total Portfolio	6.1%	2.6%
CPI	2.3%	2.4%

Note: Rates of return are calculated by using a modified “Dietz time weighted method” which is in accordance with the Association for Investment Management and Research (AIMR) objectives.

ASSET ALLOCATION



ASSET ALLOCATION AT JUNE 30,	2001	2002	2003	2004	2005	2006
Equities	56.9%	53.9%	51.5%	59.4%	60.4%	61.2%
Fixed Income	41.7%	44.0%	46.2%	39.0%	38.0%	36.8%
Short-Term Securities (1)	1.4%	2.1%	2.3%	1.6%	1.6%	2.0%
ASSET ALLOCATION AT JUNE 30, (IN MILLIONS)						
Equities	$22,310	$20,142	$20,059	$25,121	$27,122	$28,654
Fixed Income	16,380	16,446	17,961	16,469	17,075	17,244
Short-Term Securities (1)	541	781	899	677	739	906
Total Investments	$39,231	$37,369	$38,919	$42,267	$44,936	$46,804

(1) Short-term securities include mortgages.

Portfolio Detail Statistics

Twenty Largest Equity Holdings*

Shares	Company	Fair Value
12,082,800	General Electric Co.	$ 398,249,088
5,586,278	Exxon Mobil Corp.	342,718,155
6,321,969	Citigroup Inc.	305,035,004
5,896,094	Bank of America Corp.	283,602,121
4,681,222	Procter & Gamble Co.	260,275,943
10,445,700	Microsoft Corp.	243,384,810
3,906,041	American International Group Inc.	230,651,721
541,400	Google Inc.	227,025,262
2,791,000	Altria Group Inc.	204,943,130
3,261,020	Pepsico Inc.	195,791,641
8,317,142	Pfizer Inc.	195,203,323
2,992,100	Schlumberger Ltd.	194,815,631
9,352,000	Cisco Systems Inc.	182,644,560
3,022,080	Johnson & Johnson	181,083,034
2,760,620	Amgen Inc.	180,075,243
1,750,414	Occidental Petroleum Corp.	179,504,956
3,730,000	Medtronic Inc.	175,011,600
2,648,598	ConocoPhillips	173,562,627
4,048,317	JPMorgan Chase & Co.	170,029,314
4,228,900	QUALCOMM Inc.	169,452,023
Total of 20 Largest Equity Holdings		$ 4,493,059,186
Total Equity Holdings		$ 28,654,451,585

Ten Largest Fixed-Income Holdings*

Description	Maturity Date	Interest Rate (%)	Par Value	Fair Value
U.S. Treasury Note	02/15/16	4.500 %	$ 2,235,000,000	$ 2,126,401,350
U.S. Treasury Bond	02/15/36	4.500	2,295,000,000	2,057,788,800
U.S. Treasury Note	08/31/06	2.375	1,325,000,000	1,319,355,500
U.S. Treasury Note	11/15/06	3.500	1,116,000,000	1,108,891,080
U.S. Treasury Note	03/31/07	3.750	1,052,000,000	1,040,165,000
U.S. Treasury Note	11/30/07	4.250	725,000,000	715,430,000
U.S. Treasury Bond	11/15/28	5.250	680,000,000	676,810,800
U.S. Treasury Note	02/28/07	3.375	665,000,000	656,767,300
FHLMC	04/18/11	5.125	640,000,000	630,003,200
U.S. Treasury Note	01/15/10	3.625	647,000,000	616,015,170
Total of 10 Largest Fixed-Income Holdings				$ 10,947,628,200
Total Fixed-Income Holdings				$ 17,243,797,900

* A complete listing is available upon written request, subject to restrictions of O.C.G.A. Section 47-1-14.

ACTUARY'S CERTIFICATION LETTER

Cavanaugh Macdonald
CONSULTING, LLC

May 5, 2006

Board of Trustees,
Teachers Retirement System of Georgia
Suite 100, Two Northside 75
Atlanta, GA 30318

Members of the Board:

Section 47-3-23 of the law governing the operation of the Teachers Retirement System of Georgia provides that the actuary shall make annual 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, 2005. The report indicates that annual employer contributions at the rate of 9.24% of compensation for the fiscal year ending June 30, 2008 are sufficient to support the benefits of the System. Since the previous valuation, the assumed rates of withdrawal, disability, retirement and mortality and rates of salary increase have been revised to reflect the results of the experience investigation for the five year period ending June 30, 2004. These revised assumptions were adopted by the Board on March 22, 2006. 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.

In our opinion, the valuation is complete and accurate, and the methodology and assumptions are reasonable as a basis for the valuation. The valuation takes into account the effect of all amendments to the System enacted through the 2005 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 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 14-year period.

The 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 yours,

Edward A. Macdonald, ASA, FCA, MAAA
President

Summary of Actuarial Assumptions & Methods

The laws governing the Teachers Retirement System of Georgia (the "System") provide that an actuary perform an annual valuation of the contingent assets and liabilities of the System and perform at least once every five years an actuarial investigation of the mortality, service, and compensation experience of the members and beneficiaries of the System. The latest actuarial valuation of the System prepared as of June 30, 2005, was made on the basis of the interest rate assumption approved by the Board on November 19, 2003, and the mortality, rates of separation and salary increase tables approved by the Board on March 22, 2006.

The more pertinent facts and significant assumptions underlying the computations included in the June 30, 2005, report are as follows:

a) **Actuarial Method Used**–The actuarial cost method used to determine funding is the entry age actuarial cost method. Gains and losses are reflected in the unfunded accrued liability. Adopted December 30, 1976.

b) **Investment Return**–7.50% per annum, compounded annually. Adopted November 19, 2003.

c) **Earnings Progression**–Salaries are expected to increase 3.20% to 8.60% annually depending upon the employee's age. Includes inflation at 3.75%. Adopted March 22, 2006.

d) **Death, Disability and Withdrawal Rates**–Death, disability and withdrawal rates for active employees and service retirement tables are based upon the System's historical experience. The death-after-retirement rates are based on the 1994 Group Annuity Mortality Table (set forward one year for males). Adopted March 22, 2006.

e) **Asset Valuation Method**–5-year smoothed market actuarial value. The actuarial value of assets recognizes a portion of the difference between the market value of the assets and the expected value of assets, based on the assumed valuation rate of return. The amount recognized each year is 20% of the difference between market value and actuarial expected value. The actuarial value of assets is limited to a range between 80% and 120% of market value. Adopted March 22, 2006.

f) **Service Retirement Benefit**–The service benefit (pension) paid to members is an annuity that is owed to them at retirement that will provide a total annual pension equal to 2% of the average of the member's two consecutive highest paid years of service multiplied by the number of years of creditable service up to 40 years. It is also assumed that certain cost-of-living adjustments will be made in future years.

g) **Actuarially Determined Unfunded Accrued Liability** –The present value of the unfunded accrued liability, based on unaudited data provided the actuary by the System, was approximately $974 million at June 30, 2005.

h) **Required Contributions** (% of compensation)– Adopted May 17, 2006. Contributions required by the annual actuarial valuation as of June 30, 2005, to be made for the year ended June 30, 2008:

(1) Member	**5.00%**
(2) Employer:	
Normal	**8.13%**
Unfunded Accrued Liability	**1.11%**
Total	**9.24%**

In addition, the Board approved an additional 0.04% increase in the employer contribution rate for fiscal years 2007 and 2008 to fund the passage of HB 400 during the 2006 legislative session. Thus, the contributions required to be made for the year ended June 30, 2008 are:

(1) Member	**5.00%**
(2) Employer:	
Normal	**8.13%**
Unfunded Accrued Liability	**1.15%**
Total	**9.28%**

summary of actuarial assumptions & methods

service retirement

Adopted March 22, 2006

	Annual Rate*			Annual Rate*	
Age	**Men**	**Women**	**Age**	**Men**	**Women**
50	28%	23%	65	32%	30%
55	29	28	66	25	30
60	23	30	67	30	26
61	23	25	68	28	26
62	29	31	69	28	26
63	23	27	70	100	100
64	25	26			

*It is also assumed that 10% of eligible active members will retire each year with a reduced early retirement benefit and that an additional 5% of active members will retire in their first year of eligibility for unreduced retirement with 30 years of service.

separation before service retirement

Adopted March 22, 2006

	Annual Rate of				
			Withdrawal		
Age	**Death**	**Disability**	**0-4 Yrs**	**5-9 Yrs**	**10+ Yrs**
		MEN			
20	0.05%	0.05%	39.00%	— %	— %
25	0.06	0.05	18.00	11.00	—
30	0.08	0.07	16.00	6.00	7.00
35	0.09	0.07	15.00	6.00	3.00
40	0.10	0.09	15.00	6.00	2.00
45	0.15	0.11	13.00	6.00	2.00
50	0.23	0.25	11.00	4.50	2.00
55	0.40	0.53	12.00	4.50	2.00
60	0.71	—	—	—	—
64	0.11	—	—	—	—
		WOMEN			
20	0.03%	0.03%	30.00%	— %	— %
25	0.03	0.03	15.00	13.00	—
30	0.03	0.04	16.00	8.00	5.00
35	0.05	0.05	15.00	8.00	4.00
40	0.07	0.07	12.00	6.00	3.00
45	0.09	0.11	11.00	5.00	2.00
50	0.13	0.20	11.00	4.50	2.00
55	0.21	0.63	12.00	4.50	3.00
60	0.39	—	—	—	—
64	0.67	—	—	—	—

ACTUARIAL VALUATION DATA

ACTIVE MEMBERS

	Active Members			
Fiscal Year(1)	Members	Annual Payroll (000's)	Average Pay	% Increase
2000	190,911	$ 7,218,644	$ 37,812	3.4 %
2001	192,654	7,306,855	37,927	0.3
2002	199,029	7,617,869	38,275	0.9
2003	205,453	8,261,961	40,213	5.1
2004	198,572	8,083,118	40,706	1.2
2005	199,088	8,252,598	41,452	1.8

RETIREES AND BENEFICIARIES

	Added to Roll		Removed from Roll		Roll- End of Year			
Fiscal Year(1)	Number	Annual Allowances (000's)	Number	Annual Allowances (000's)	Number	Annual Allowances (000's)	% Increase in Annual Allowances	Average Annual Allowance
2000	4,814	$ 187,262	1,441	$ 25,067	47,105	$ 1,033,324	18.6%	$ 21,937
2001	5,246	171,642	1,584	26,671	50,767	1,178,295	14.0	23,210
2002	4,858	169,833	1,403	26,286	54,222	1,321,842	12.2	24,378
2003	5,097	188,458	1,627	30,581	57,692	1,479,719	11.9	25,649
2004	5,381	206,251	1,483	29,525	61,590	1,656,445	11.9	26,895
2005	6,176	230,973	1,594	33,139	66,172	1,854,279	11.9	28,022

(1) Fiscal year refers to the actuarial valuation performed as of June 30 of that year and determines the funding necessary for the fiscal year beginning two years after the valuation date. (Prior to fiscal year 2003 the actuarial valuation performed as of June 30 of that year determined the funding necessary for the subsequent fiscal year.) An actuarial valuation for the fiscal year ended June 30, 2006 is currently in process and was not available for this analysis.

ACTUARIAL VALUATION DATA

SOLVENCY TEST (IN THOUSANDS)

	Aggregate Actuarial Accrued Liabilities For				Portion of Accrued Liabilities Covered by Assets		
Fiscal Year*	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer-Financed Portion)	Actuarial Value of Assets	(1)	(2)	(3)
2000	$ 4,092,231	$ 12,657,649	$ 18,126,291	$ 35,675,729	100.0%	100.0%	100.0%
2001	4,251,816	14,075,798	18,825,807	38,584,834	100.0	100.0	100.0
2002	4,487,248	15,915,320	19,303,955	40,502,333	100.0	100.0	100.0
2003	4,739,109	17,581,264	19,585,303	42,372,661	100.0	100.0	100.0
2004	4,923,415	19,870,020	19,436,596	44,617,956	100.0	100.0	100.0
2005	5,171,813	23,229,592	19,409,809	46,836,895	100.0	100.0	95.0

* Fiscal year refers to the actuarial valuation performed as of June 30 of that year and determines the funding necessary for the fiscal year beginning two years after the valuation date. (Prior to fiscal year 2003 the actuarial valuation performed as of June 30 of that year determined the funding necessary for the subsequent fiscal year.) An actuarial valuation for the fiscal year ended June 30, 2006 is currently in process and was not available for this analysis.

MEMBER AND EMPLOYER CONTRIBUTION RATES

Fiscal Year	Member	Employer
2002	5.00%	9.24%
2003	5.00	9.24
2004	5.00	9.24
2005	5.00	9.24
2006	5.00	9.24
2007	5.00	9.28

ACTUARIAL VALUATION DATA

ANALYSIS OF FINANCIAL EXPERIENCE (IN MILLIONS)

Item	Analysis of the Change in Unfunded Accrued Liability Increase (Decrease) During the Years Ended June 30,					
	2005	2004	2003	2002	2001	2000
Interest Added to Previous Unfunded Accrued Liability	$ (29.1)	$ (35.0)	$ (57.7)	$ (103.8)	$ (60.0)	$ 65.2
Accrued liability contribution	49.4	79.6	77.4	41.1	(169.1)	(164.5)
Experience:						
Valuation Asset Growth	516.4	507.5	788.5	667.7	(269.4)	(1,533.0)
Pensioners' Mortality	(14.0)	48.8	(30.0)	(35.1)	(10.9)	3.4
Turnover and Retirements (1)	59.9	26.8	277.0	(236.5)	(553.8)	643.8
New Entrants	104.0	118.5	149.1	99.9	92.7	106.4
Salary Increases	(227.5)	(667.1)	372.4	202.3	(319.3)	106.7
Method Changes	313.7	—	—	—	—	—
Amendments (2)	—	—	78.7	—	—	—
Assumption Changes (3)	589.4	—	(1,326.6)	—	657.9	(958.6)
Total Increase (Decrease)	$ 1,362.2	$ 79.1	$ 328.8	$ 635.6	$ (631.9)	$ (1,730.6)

(1) Turnover and Retirements

2004 - Reflects impact of change in reported data due to a change in computer system. Previous years' data reported active members as any participant who contributed during the fiscal year. The 2004 data reported active members as only those who were contributing any of the last three months of the fiscal year.

(2) Amendments

2003 - Reflects an ad hoc cost-of-living adjustment of 0.5% to all retirees as of July 1, 2002.

(3) Assumption Changes

2000 - Rates of separation from active service and rates of salary increase have been revised to more closely reflect the actual and anticipated experience of the System. In addition, the interest rate assumption has been changed from 7.00% to 7.50%.

2001 - Reflects a reduction in interest rate assumption from 7.50%, to 7.25% and a decrease in the salary increase assumption by 0.25% at each age.

2003 - Reflects an increase in interest rate assumption from 7.25% to 7.50% and an increase in the salary increase assumption by 0.25% at each age.

2005 - The assumed rates of withdrawal, disability, retirement, and mortality and the assumed rates of salary increase have been revised to more closely reflect the actual and anticipated experience of the System. In addition, the administration expense load was increased to 0.25% from 0.15% of active payroll.

STATISTICAL SECTION OVERVIEW

The statistical section presents additional information to provide financial statement users with added historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess the System's financial condition.

Financial Trends

The schedules presented on page 44 and page 45 contain trend information to help the reader understand how the System's financial position has changed over time.

Operating Information

The schedules presented on page 46 and page 47 contain benefits service and employer data to help the reader understand how the System's financial report relates to the services of the System and the activities it performs.

Financial Trends

Additions by Source (in thousands)

Fiscal Year	Member Contributions	Employer Contributions	Net Investment Income (loss)	Total Additions to (Deductions From) Plan Net Assets
1997	$ 281,472	$ 652,928	$ 5,233,522	$ 6,167,922
1998	305,752	710,409	6,561,731	7,577,892
1999	330,517	776,178	3,889,927	4,996,622
2000	355,948	779,571	2,788,202	3,923,721
2001	369,006	808,480	(2,099,972)	(922,486)
2002	403,952	716,917	(1,610,477)	(489,608)
2003	438,998	768,673	1,669,768	2,877,439
2004	448,929	782,301	3,794,733	5,025,963
2005	464,931	815,693	3,279,505	4,560,129
2006	485,721	855,626	2,691,062	4,032,409

Contributions were made in accordance with actuarially determined contribution requirements.

Deductions by Type (in thousands)

	Benefit Payments									
Fiscal Year	Service	Partial Lump-Sum Option (1)	Disability	Survivor Benefit	Supplemental Payments (2)	Lump-Sum Death Settlement	Total Benefit Payments	Net Administrative Expense	Refunds	Total Deductions From Plan Net Assets
1997	$ 639,404	$ —	$ 24,861	$ 35,160	$ 5,199	$ 1,408	$ 706,032	$ 6,157	$ 36,415	$ 748,604
1998	707,595	—	27,700	38,760	4,949	1,578	780,582	6,637	42,098	829,317
1999	786,963	—	30,302	41,852	4,628	1,446	865,191	7,810	42,911	915,912
2000	923,049	—	34,160	48,063	4,334	1,962	1,011,568	9,058	44,718	1,065,344
2001	1,058,683	—	37,118	52,528	3,881	1,166	1,153,376	10,502	58,831	1,222,709
2002	1,181,838	—	40,418	57,718	3,582	1,355	1,284,911	15,966	41,250	1,342,127
2003	1,323,871	—	43,545	62,223	3,120	1,881	1,434,640	14,804	40,883	1,490,327
2004	1,481,710	—	47,002	65,821	2,757	1,177	1,598,467	15,378	42,580	1,656,425
2005	1,656,652	15,653	50,959	72,025	2,398	1,791	1,799,478	19,558	50,491	1,869,527
2006	1,863,194	26,601	62,773	35,394	2,093	1,376	1,991,431	20,173	53,138	2,064,742

(1) Partial Lump-Sum Option Plan became effective July 1, 2004.
(2) Supplemental payments to retirees who belong to a local retirement system.

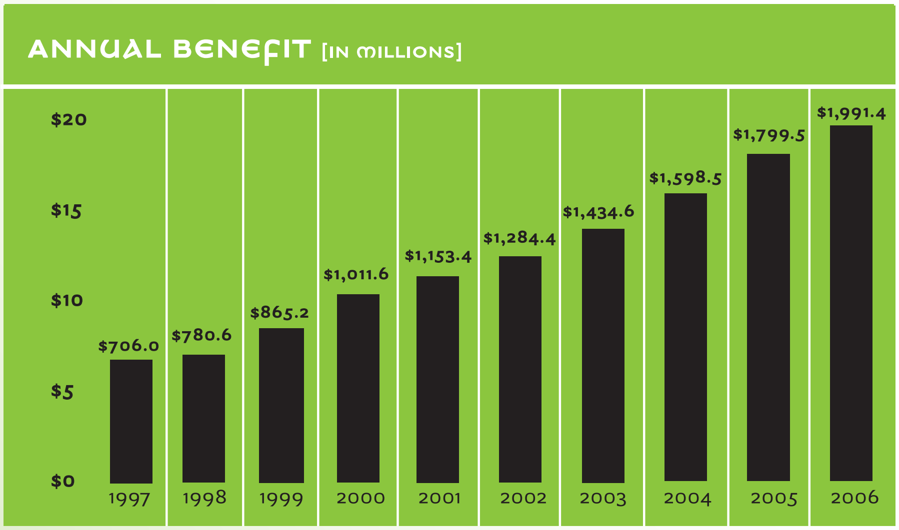
FINANCIAL TRENDS

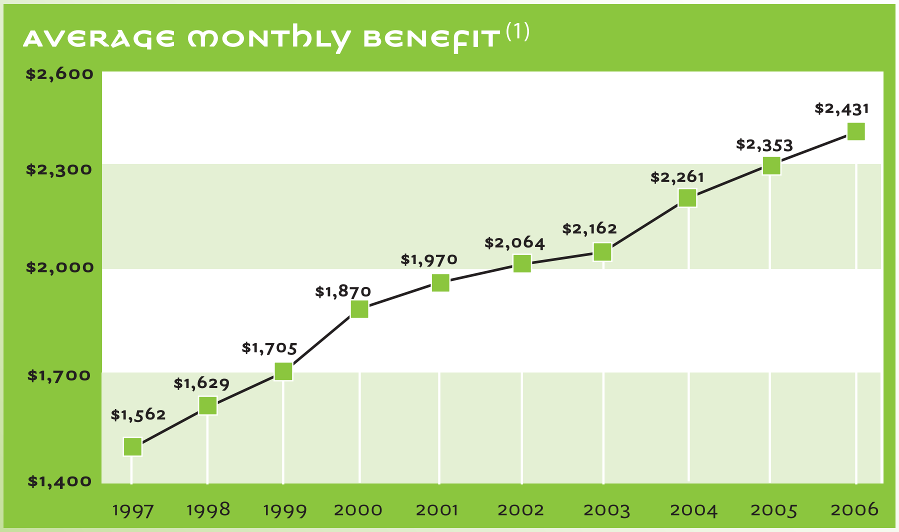
CHANGES IN NET ASSETS (IN THOUSANDS)

Fiscal Year	Total Additions to Plan Net Assets	Total Deductions from Plan Net Assets	Changes in Plan Net Assets
1997	$ 6,167,922	$ 748,604	$ 5,419,318
1998	7,577,892	829,317	6,748,575
1999	4,996,622	915,912	4,080,710
2000	3,923,721	1,065,344	2,858,377
2001	(922,486)	1,222,709	(2,145,195)
2002	(489,608)	1,342,127	(1,831,735)
2003	2,877,439	1,490,327	1,387,112
2004	5,025,963	1,656,425	3,369,538
2005	4,560,129	1,869,527	2,690,602
2006	4,032,409	2,064,742	1,967,667

OPERATING INFORMATION

BENEFIT PAYMENT STATISTICS

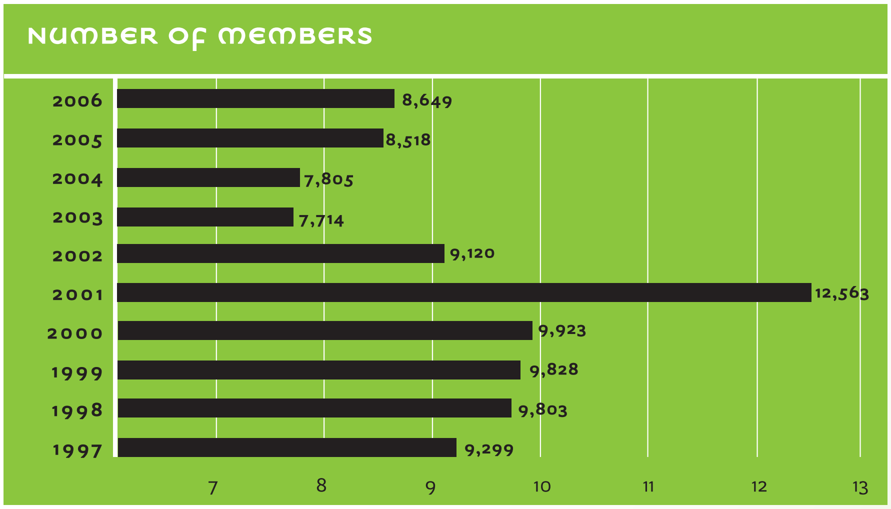


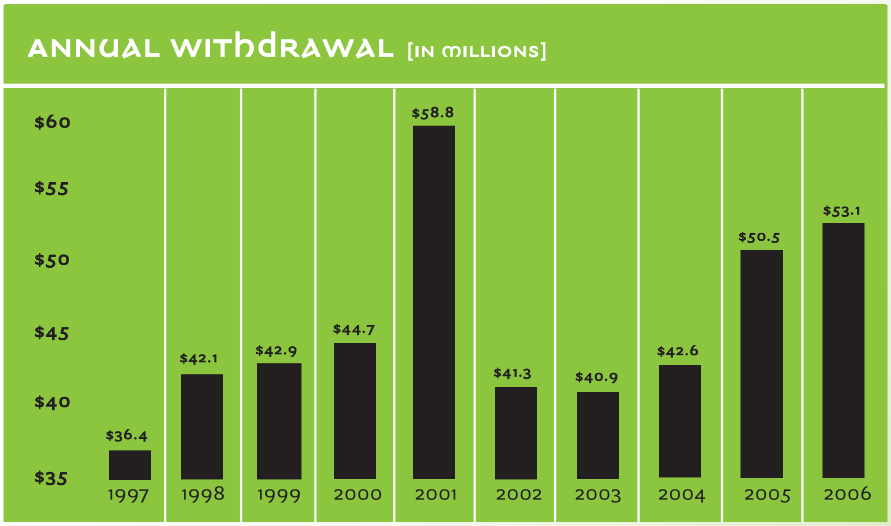


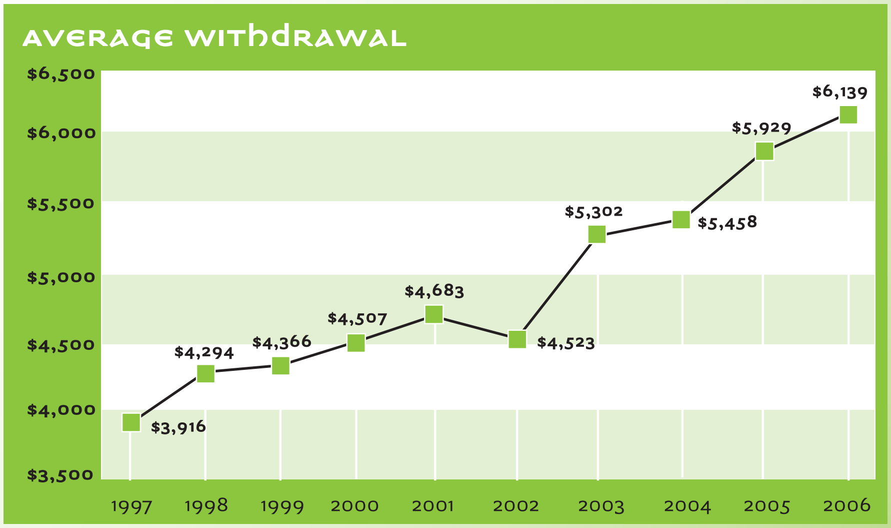
(1) Retirees who belonged to a local retirement system and who receive supplemental payments are not included.

OPERATING INFORMATION

MEMBER WITHDRAWAL STATISTICS







Operating Information

Average Monthly Benefit Payments

As of Fiscal Years Ended June 30,	Years Credited Service 10 - 15	16 - 20	21 - 25	26 - 30	Over 30	Total [1]
1997						
Average monthly benefit	$ 510.40	$ 832.35	$1,181.40	$1,775.12	$2,165.49	$1,561.72
Average final average salary	$1,819.49	$1,848.81	$2,088.27	$2,522.73	$2,430.82	$2,248.19
Number of retirees	5,270	4,602	5,035	7,771	15,161	37,839
1998						
Average monthly benefit	$ 528.83	$ 861.02	$1,222.40	$1,856.37	$2,274.97	$1,629.36
Average final average salary	$2,054.90	$1,919.25	$2,173.38	$2,656.34	$2,586.49	$2,390.15
Number of retirees	5,627	4,875	5,375	8,417	15,822	40,116
1999						
Average monthly benefit	$ 551.60	$ 894.97	$1,263.69	$1,918.36	$2,393.84	$1,704.82
Average final average salary	$2,190.82	$1,997.43	$2,257.55	$2,756.89	$2,769.20	$2,524.57
Number of retirees	5,948	5,099	5,701	8,952	16,824	42,524
2000						
Average monthly benefit	$ 593.17	$ 963.80	$1,360.70	$2,052.43	$2,634.68	$1,869.51
Average final average salary	$2,245.68	$2,075.34	$2,361.92	$2,876.36	$3,030.48	$2,691.27
Number of retirees	6,348	5,327	6,052	9,682	18,604	46,013
2001						
Average monthly benefit	$ 616.25	$1,002.59	$1,402.72	$2,115.77	$2,777.21	$1,969.83
Average final average salary	$2,299.66	$2,176.91	$2,446.67	$3,014.62	$3,286.65	$2,863.34
Number of retirees	6,726	5,612	6,377	10,504	20,580	49,799
2002						
Average monthly benefit	$ 636.47	$1,040.11	$1,449.95	$2,184.49	$2,912.02	$2,063.65
Average final average salary	$2,349.40	$2,263.60	$2,538.94	$3,144.23	$3,497.89	$3,012.80
Number of retirees	7,147	5,879	6,719	11,214	22,379	53,338
2003						
Average monthly benefit	$ 661.13	$1,077.42	$1,509.95	$2,266.24	$3,035.82	$2,162.15
Average final average salary	$2,406.59	$2,374.19	$2,646.56	$3,266.00	$3,693.00	$3,162.91
Number of retirees	7,534	6,131	6,982	12,003	24,338	56,988
2004						
Average monthly benefit	$ 674.62	$1,110.89	$1,565.97	$2,347.53	$3,184.36	$2,261.11
Average final average salary	$2,441.23	$2,477.15	$2,744.16	$3,379.79	$3,881.98	$3,299.10
Number of retirees	7,984	6,576	7,350	12,832	26,245	60,987
2005						
Average monthly benefit	$ 696.97	$1,146.84	$1,618.76	$2,423.87	$3,307.04	$2,352.80
Average final average salary	$2,510.47	$2,580.28	$2,848.54	$3,496.14	$4,060.70	$3,439.07
Number of retirees	8,503	7,064	7,799	13,733	28,609	65,708
2006						
Average monthly benefit	$ 717.62	$1,173.51	$1,671.72	$2,493.69	$3,417.76	$2,430.73
Average final average salary	$2,577.78	$2,653.02	$2,954.43	$3,596.45	$4,204.10	$3,554.09
Number of retirees	8,941	7,506	8,236	14,628	30,479	69,790

[1] Retirees who belonged to a local retirement system and who receive supplemental payments are not included in this schedule.

Operating Information

Retired Members by Type of Benefit

Amount of Monthly Benefit	Number of Retirees	Type of Retirement (1) A	B	C	D	Option Selected (2) Maximum	Opt-1	Opt-2	Opt-3	Opt-4	Opt-2 Pop-Up	Opt-3 Pop-Up
$ 1 - 250	925	415	74	165	271	475	13	273	69	60	21	14
251 - 500	4,128	3,265	495	352	16	2,922	81	690	176	64	132	63
501 - 750	4,769	3,812	505	397	55	3,377	118	808	224	47	124	71
751 - 1,000	4,522	3,655	493	315	59	3,159	131	691	245	43	152	101
1,001 - 1,250	3,795	3,102	409	252	32	2,607	120	611	222	32	116	87
1,251 - 1,500	3,596	3,027	353	201	15	2,401	114	573	234	42	133	99
1,501 - 1,750	3,665	3,179	324	161	1	2,546	118	494	228	39	144	96
1,751 - 2,000	3,661	3,223	314	124	–	2,522	139	470	232	51	145	102
2,001 - 2,250	3,985	3,598	280	107	–	2,790	132	465	262	58	156	122
2,251 - 2,500	4,605	4,290	223	92	–	3,289	169	477	265	76	183	146
2,501 - 2,750	4,953	4,724	163	66	–	3,569	211	431	247	86	234	175
2,751 - 3,000	5,423	5,300	87	36	–	4,048	270	383	259	94	218	151
3,001 - 3,250	4,588	4,502	45	41	–	3,390	243	332	212	81	159	171
3,251 - 3,500	3,717	3,661	27	29	–	2,762	191	258	212	58	126	110
3,501 - 3,750	2,982	2,948	17	17	–	2,230	146	188	162	69	83	104
3,751 - 4,000	2,185	2,160	12	13	–	1,597	102	178	147	45	63	53
4,001 - 4,250	1,678	1,654	13	11	–	1,193	98	136	112	36	52	51
4,251 - 4,500	1,357	1,340	5	12	–	906	81	124	108	40	42	56
4,501 - 4,750	1,103	1,090	2	11	–	741	59	100	100	31	41	31
4,751 - 5,000	940	931	1	8	–	609	71	81	84	28	28	39
Over 5,000	3,662	3,625	10	27	–	2,179	191	433	431	178	97	153
Totals	70,239	63,501	3,852	2,437	449	49,312	2,798	8,196	4,231	1,258	2,449	1,995

(1) Type of Retirement
A - Service
B - Disability
C - Survivor benefit
D - Supplemental payments to retirees who belonged to a local retirement system.

(2) Refer to Introductory Section, pages 12 and 13 for descriptions of Options.

OPERATING INFORMATION

PRINCIPAL PARTICIPATING EMPLOYERS

EMPLOYERS	2006 Covered Employees	2006 Rank	2006 Percentage of Total System	2000 [1] Covered Employees	2000 [1] Rank	2000 [1] Percentage of Total System
Gwinnett County Schools	14,808	1	7.08%	10,438	1	5.44%
DeKalb County Schools	11,374	2	5.43	10,349	2	5.39
Cobb County Schools	11,152	3	5.33	9,766	3	5.09
Fulton County Schools	9,052	4	4.33	7,354	5	3.83
University of Georgia	7,934	5	3.79	8,575	4	4.47
Clayton County Schools	5,532	6	2.64	5,075	8	2.64
Atlanta City Schools	5,385	7	2.57	6,131	7	3.19
Chatham County Schools	3,943	8	1.88	4,070	9	2.12
Muscogee County School District	3,815	9	1.82	4,025	10	2.10
Richmond County Schools	3,777	10	1.80	—	—	—
Medical College of Georgia	—	—	—	6,338	6	3.30
All Others	132,577		63.33	119,787		62.43
Total	209,349		100.00%	191,908		100.00%

[1] Data by employer is unavailable prior to fiscal year 2000.

PARTICIPATING EMPLOYERS

UNIVERSITIES AND COLLEGES

Abraham Baldwin Agricultural College
Albany State University
Armstrong Atlantic State University
Atlanta Metropolitan College
Augusta State University
Bainbridge College
Clayton College and State University
Coastal Georgia Community College
Columbus State University
Dalton State College
Darton College
East Georgia College
Fort Valley State University
Gainesville College
Georgia College and State University
Georgia Gwinnett College
Georgia Highlands College
Georgia Institute of Technology
Georgia Perimeter College
Georgia Southern University
Georgia Southwestern College
Georgia State University
Gordon College
Kennesaw State University
Macon State College
Medical College of Georgia
Middle Georgia College
North Georgia College and State University
Savannah State University
Skidaway Institute of Oceanography
South Georgia College
Southern Polytechnic State University
University of Georgia
Valdosta State University
Waycross College
State University of West Georgia

BOARDS OF EDUCATION

Appling County
Atkinson County
Atlanta City
Bacon County
Baker County
Baldwin County
Banks County
Barrow County
Bartow County
Ben Hill County
Berrien County
Bibb County
Bleckley County
Brantley County
Bremen City
Brooks County
Bryan County
Buford City
Bulloch County
Burke County
Butts County
Calhoun City
Calhoun County
Camden County
Candler County
Carroll County
Carrollton City
Cartersville City
Catoosa County
Charlton County
Chatham County

Operating Information

Participating Employers

Boards of Education (cont.)

Chattahoochee County
Chattooga County
Cherokee County
Chickamauga City
Clarke County
Clay County
Clayton County
Clinch County
Cobb County
Coffee County
Colquitt County
Columbia County
Commerce City
Cook County
Coweta County
Crawford County
Crisp County
Dade County
Dalton City
Dawson County
Decatur City
Decatur County
DeKalb County
Dodge County
Dooly County
Dougherty County
Douglas County
Dublin City
Early County
Echols County
Effingham County
Elbert County
Emanuel County
Evans County
Fannin County
Fayette County
Floyd County
Forsyth County
Franklin County
Fulton County
Gainesville City
Georgia Military College
Gilmer County
Glascock County
Glynn County
Gordon County
Grady County
Greene County
Griffin-Spalding County
Gwinnett County
Habersham County
Hall County
Hancock County
Haralson County
Harris County
Hart County
Heard County
Henry County
Houston County
Irwin County
Jackson County
Jasper County
Jeff Davis County
Jefferson City
Jefferson County
Jenkins County
Johnson County
Jones County
Lamar County
Lanier County
Laurens County
Lee County
Liberty County
Lincoln County
Long County
Lowndes County
Lumpkin County
Macon County
Madison County
Marietta City
Marion County
McDuffie County
McIntosh County
Meriwether County
Miller County
Mitchell County
Monroe County
Montgomery County
Morgan County
Murray County
Muscogee County
Newton County
Oconee County
Oglethorpe County
Paulding County
Peach County
Pelham City
Pickens County
Pierce County
Pike County
Polk School District
Pulaski County
Putnam County
Quitman County
Rabun County
Randolph County
Richmond County
Rockdale County
Rome City
Schley County
Screven County
Seminole County
Social Circle City
Stephens County
Stewart County
Sumter County
Talbot County
Taliaferro County
Tattnall County
Taylor County
Telfair County
Terrell County
Thomas County
Thomasville City
Thomaston-Upson County
Tift County
Toombs County
Towns County
Treutlen County
Trion City
Troup County
Turner County
Twiggs County
Union County
Valdosta City
Vidalia City
Walker County
Walton County
Ware County
Warren County
Washington County
Wayne County
Webster County
Wheeler County
White County
Whitfield County
Wilcox County
Wilkes County
Wilkinson County
Worth County

Public Libraries

Athens Regional Library
Barnesville-Lamar County
Bartow County Library
Bartram Trail Regional Library
Brooks County Library
Camden County Library
Chatsworth-Murray County Library
Chattooga County Library
Cherokee Regional Library
Chestatee Regional Library
Clayton County Regional Library
Coastal Plains Regional Library
Cobb County Public Library
Conyers-Rockdale Library
DeKalb County Public Library
Desota Trail Regional Library
Dougherty County Public Library
East Central Georgia Regional Library
Elbert County Public Library
Fitzgerald-Ben Hill County Library
Flint River Regional Library
Forsyth County Public Library
Gwinnett County Public Library

Operating Information

Participating Employers

Public Libraries (cont.)

Hall County Library
Hart County Library
Hawkes Library
Henry County Library
Houston County Public Library
Jefferson County Library
Kinchafoonee Regional Library
Lake Blackshear Regional Library
Lee County Public Library
Lincoln County Library
Live Oak Public Library
M.E. Roden Memorial Library
Mary Vinson Memorial Library
Middle Georgia Regional Library
Moultrie-Colquitt County Library
Mountain Regional Library
Newnan-Coweta Public Library
Newton County Library
Northeast Georgia Regional Library
Northwest Georgia Regional Library
Ocmulgee Regional Library
Oconee Regional Library
Ohoopee Regional Library
Okefenokee Regional Library
Peach Public Library
Piedmont Regional Library
Pine Mountain Regional Library
Roddenberry Memorial Library
Sara Hightower Regional Library
Satilla Regional Library
Screven-Jenkins Regional Library
Sequoyah Regional Library
South Georgia Regional Library
Southwest Georgia Regional Library
Statesboro Regional Library
Thomas County Public Library
Three Rivers Regional Library
Troup-Harris-Coweta Regional Library
Uncle Remus Regional Library
Warren County Public Library
West Georgia Regional Library

Technical Colleges

Albany Technical College
Altamaha Technical College
Applachian Technical College
Athens Technical College
Atlanta Technical College
Augusta Technical College
Central Georgia Technical College
Chattahoochee Technical College
Columbus Technical College
Coosa Valley Technical College
DeKalb Technical College
East Central Technical College
Flint River Technical College
Georgia Aviation & Technical College
Griffin Technical College
Gwinnett Technical College
Heart of Georgia Technical College
Lanier Technical College
Middle Georgia Technical College
Moultrie Technical College
North Georgia Technical College
North Metro Technical College
Northwestern Technical College
Ogeechee Technical College
Okefenokee Technical College
Sandersville Technical College
Savannah Technical College
South Georgia Technical College
Southeastern Technical College
Southwest GA Technical College
Swainsboro Technical College
Valdosta Technical College
West Central Technical College
West Georgia Technical College

Regional Educational Service Agencies

Central Savannah River Area RESA
Chattahoochee Flint RESA
Coastal Plains RESA
First District RESA
Griffin RESA
Heart of Georgia RESA
Metro RESA
Middle Georgia RESA
North Georgia RESA
Northeast Georgia RESA
Northwest Georgia RESA
Oconee RESA
Okefenokee RESA
Pioneer RESA
Southwest Georgia RESA
West Georgia RESA

Other

Achieve Academy
Amana Academy
Baconton Community Charter School
Baldwin County Board of Health
Board of Regents
Chancellor Beacon Academy
Charles Drew Charter School
Charter Conservatory for Liberal Arts and Technology, Inc.
Cooperative Extension Service
DeKalb Academy of Technology
DeKalb Path Academy
Department of Community Health
Department of Juvenile Justice
Department of Natural Resources
Fulton County DFACS
Fulton Science Academy Charter School
Georgia Association of Educators
Georgia Dept of Early Care and Learning
Georgia Dept of Economic Development
Georgia Dept of Education
Georgia Dept of Human Resources
Georgia Dept of Labor
Georgia Dept of Driver Services
Georgia Dept of Revenue
Georgia Dept of Technical and Adult Education
Georgia Student Finance Commission
Georgia High School Association
Georgia Magnet Charter School
Georgia Public Defender Council
Georgia Public Telecommunications
International Community Charter School
Lewis Academy of Excellence
Kidspeace Charter School
Kipp South Fulton Academy
Kipp Ways Academy
Neighborhood Charter School
Odyssey Charter School
Office of Planning and Budget
Secretary of State
The School for Integrated Academics and Technologies at Georgia, Inc.
South East Atlanta Charter Schools
Teachers Retirement System of Georgia
Tech High School
University Community Academy
Ware County Health Department

Teachers Retirement System of Georgia

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