

**CITY OF ATLANTA, GEORGIA
POLICE OFFICERS' PENSION PLAN**

Financial Statements and Supplemental Schedules

June 30, 2014

(With Independent Auditors' Report)



**CITY OF ATLANTA, GEORGIA
POLICE OFFICERS' PENSION PLAN**

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Independent Auditors' Report

The Board of Trustees
City of Atlanta, Georgia
Police Officers' Pension Plan:

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Atlanta, Georgia Police Officers' Pension Plan (the Plan), which comprise the statement of fiduciary net position as of June 30, 2014, and the statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Atlanta, Georgia Police Officers’ Pension Plan as of June 30, 2014, and the changes in fiduciary net position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(a) to the basic financial statements, the Plan adopted, in 2014, Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management’s Discussion and Analysis on pages 3–6 and Required Supplementary Information on pages 22–26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 on our consideration of the Plan’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* in considering the Plan’s internal control over financial reporting and compliance.

KPMG LLP

Atlanta, GA
November 21, 2014

CITY OF ATLANTA, GEORGIA
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Management's Discussion and Analysis

June 30, 2014

(Unaudited)

As management we offer readers of the Police Officers' Pension Plan (the Plan) financial statements this narrative overview and analysis of the financial activities of the Plan for the year ended June 30, 2014. This overview compares the year ended June 30, 2014 with the year ended June 30, 2013. Readers are encouraged to read the notes to the financial statements in conjunction with the financial statements presented following this narrative.

The Plan is administered as a single employer plan by the Board of Trustees (the Board) which includes an appointee of the Mayor, the City's Chief Financial Officer, a member of City Council, two representatives elected by the retired membership and three representatives elected by active City membership.

Financial Highlights

- The assets of the Plan exceeded its liabilities at the close of 2014 by \$987.5 million. This amount represents the Plan's net position.
- The Plan's total net position increased by \$158.7 million or 19.1% over the net position at the beginning of the year.
- Net investment income increased by \$62.0 million compared to fiscal year 2013.
- Contributions received from employer and employees totaled \$41.4 million in 2014 as compared to \$37.7 million in fiscal year 2013.
- Benefit payments totaled \$53.3 million, an increase of \$2.0 million or 3.9% when compared with fiscal year 2013.

Fiduciary funds. The Plan is considered a fiduciary fund of the City of Atlanta, Georgia (City) and its financial statements are included in the City's Comprehensive Annual Financial Report (CAFR) as part of the Pension Trust Funds. The City's most recent CAFR for the year ended June 30, 2014 should be read in conjunction with these financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government, but over which the government maintains a meaningful degree of ongoing responsibility. The financial statements of fiduciary funds are presented using the economic resources measurement focus, or full accrual basis of accounting, similar to private sector businesses.

Directly following this discussion are the *basic financial statements*. The basic financial statements and required disclosures are prepared in accordance with accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB).

Basic financial statements are comprised of:

The *Statement of Fiduciary Net Position* presents information on the assets and liabilities, with the difference between the two reported as net position. The investments of the Plan in this statement are presented at fair value.

The *Statement of Changes in Fiduciary Net Position* presents information showing how the Plan's net position changed during the most recent fiscal year. All changes in the net position are reported as soon as the underlying

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Management's Discussion and Analysis

June 30, 2014

(Unaudited)

event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Changes would include investment income, employee and employer contributions to the plan, benefit payments to members, and administrative expenses.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the Plan's financial statements. The notes can be found following the financial statements in this report.

Required Supplementary Information. In addition to the basic financial statements, this report also presents certain *required supplementary information* concerning the changes in net pension liability, net pension liability, employer contributions, and the Plan's money-weighted rate of return. Required supplementary information can be found following the notes to the financial statements in this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of financial stability. In the case of the Plan, assets exceeded liabilities by \$987.5 million at the close of the year ended June 30, 2014. Table 1 summarizes the major categories of assets, liabilities and net position. Table 2 summarizes the changes in the Plan's net position for the years ended June 30, 2014 and 2013.

Table 1. Police Officers' Pension Plan Net Position, as of June 30, 2014 and June 30, 2013 (dollars in thousands):

	June 30		Amount change	Percentage change
	2014	2013		
Assets				
Cash and deposits	\$ 74,523	75,996	(1,473)	(1.9)%
Receivables	6,199	5,867	332	5.7
Investments	911,688	754,949	156,739	20.8
Total assets	<u>992,410</u>	<u>836,812</u>	<u>155,598</u>	<u>18.6</u>
Liabilities				
Due to brokers for investments purchased	3,925	7,768	(3,843)	(49.5)
Other	978	229	749	327.1
Total liabilities	<u>4,903</u>	<u>7,997</u>	<u>(3,094)</u>	<u>(38.7)</u>
Net position restricted for pensions	<u>\$ 987,507</u>	<u>828,815</u>	<u>158,692</u>	<u>19.1%</u>

The net position of the Plan increased by \$158.7 million or 19.1% when compared to 2013. This is mainly attributable to the increase in net investment income resulting from improved market conditions during fiscal year 2014. Total assets for the Plan increased by \$155.6 million or 18.6% compared to 2013. Total cash and investments increased by \$155.3 million offset by a \$.7 million decrease in amounts due from brokers for securities sold. Investments represent 91.9% of total assets as of June 30, 2014 compared to 90.2% as of June 30,

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June 30, 2014

(Unaudited)

2013. The Plan liabilities do not include future benefits payable to plan participants, but an actuarially determined estimate of this amount is included in the Required Supplementary Information section of this report.

Table 2. Police Officers' Pension Plan Changes in Net Position, Year ended June 30, 2014 and June 30, 2013 (dollars in thousands):

	<u>June 30</u>		<u>Amount change</u>	<u>Percentage change</u>
	<u>2014</u>	<u>2013</u>		
Additions to plan net position:				
Investment income:				
Net appreciation in fair value of investments	\$ 156,987	96,713	60,274	62.3%
Interest and dividends	18,045	15,319	2,726	17.8
Less investment expenses	(3,840)	(2,819)	(1,021)	36.2
Net investment income	171,192	109,213	61,979	56.8
Employee contributions	11,232	11,157	75	0.7
Employer contributions	30,197	26,525	3,672	13.8
Other income	3	—	3	100.0
Total additions	212,624	146,895	65,729	44.7
Deductions from plan net position:				
Benefit payments	53,279	51,299	1,980	3.9
Administrative fees, management fees, and other expenses	653	327	326	99.7
Total deductions	53,932	51,626	2,306	4.5
Increase in net position restricted for pensions	\$ 158,692	95,269	63,423	66.6%
Net position restricted for pensions				
Beginning of year	\$ 828,815	733,546		
Increase	158,692	95,269		
End of year	\$ 987,507	828,815		

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(Unaudited)

Total additions to the Plan net position increased by \$65.7 million, or 44.7%, compared to fiscal 2013. As mentioned earlier, this increase is primarily attributed to the increase in net investment income. Net investment income was \$171.2 million for 2014, an increase of \$62.0 million compared to fiscal 2013. The investment portfolio is comprised of 81% equities, 18% fixed income, and 1% alternative investments as of June 30, 2014, compared to 74% equities and 26% fixed income investments at June 30, 2013. The overall portfolio returned 20.85% for the fiscal year ended June 30, 2014, compared with 15.26% for the same time period in 2013. The S&P 500 index rose 24.62% and 20.60%, respectively during the same time periods.

Employee contributions to the Plan remained relatively flat, increasing only 0.7% to \$11.2 million during 2014. Employer contributions increased by \$3.7 million, or 13.8%, to \$30.2 million due to a higher actuarially determined required contribution (ARC) for fiscal 2014. Benefit payments increased by \$2.0 million, or 3.9%, to \$53.3 million. The increase in benefit payments is primarily the result of increased payments to members.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Chief Financial Officer, 11100 City Hall Tower, 68 Mitchell St., SW, Atlanta, Georgia 30303.

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Statement of Fiduciary Net Position

June 30, 2014

(Dollars in thousands)

Assets:		
Cash and deposits	\$	74,523
Receivables:		
Contributions receivable from employer		1,654
Contributions receivable from employees		438
Due from brokers for investments sold		1,687
Investment income		2,353
Other		67
Total receivables		<u>6,199</u>
Investments:		
Domestic fixed income securities		155,139
Domestic equities		693,253
International fixed income securities		6,073
International equities		47,325
Alternative investments		9,898
Total investments		<u>911,688</u>
Total assets		<u>992,410</u>
Liabilities:		
Due to brokers for investments purchased		3,925
Other		978
Total liabilities		<u>4,903</u>
Net position restricted for pensions	\$	<u><u>987,507</u></u>

See accompanying notes to financial statements.

**CITY OF ATLANTA, GEORGIA
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Statement of Changes in Fiduciary Net Position

June 30, 2014

(Dollars in thousands)

Additions:	
Contributions:	
Employer	\$ 30,197
Employee	11,232
Total contributions	41,429
Investment income:	
Net appreciation in fair value of investments	156,987
Interest and dividends	18,045
Less investment expenses	(3,840)
Net investment income	171,192
Other	3
Total additions	212,624
Deductions:	
Benefit payments, including refunds of member contributions	53,279
Administrative expense	653
Total deductions	53,932
Net increase in net position	158,692
Net position restricted for pensions:	
Beginning of year	828,815
End of year	\$ 987,507

See accompanying notes to financial statements.

CITY OF ATLANTA, GEORGIA
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Notes to Financial Statements

June 30, 2014

(1) Plan Description

City of Atlanta, Georgia Police Officers' Pension Plan (the Plan) was established by a 1924 Act of the State of Georgia Legislature to provide retirement benefits for full-time sworn police officers of the City of Atlanta (the City) Police Department. Until 1983, the Georgia Legislature established all requirements and policies of the Plan. By a constitutional amendment, effective July 1983, control over all aspects of the Plan transferred to the City under the principle of Home Rule. The types of benefits offered by the Plan are: retirement, disability, and pre-retirement death benefits. The Plan is a single employer defined benefit pension plan. Participants should refer to the Atlanta, Georgia, Code of Ordinances, Section 6 (Plan agreement) for more complete information. Under the principle of Home Rule and the Atlanta Code of Ordinances, Section 6, the Board has the authority to establish and amend benefit terms and contributions.

(a) Administration of the Plan

The Plan is administered as a single-employer defined-benefit plan by the Board of Trustees of the City of Atlanta, Georgia Police Officers' Pension Board (the Board) which includes an appointee of The Mayor or his designee, the City's Chief Financial Officer, a member of City Council, two active employee representatives and one retired employee representative. All modifications to the plan must be supported by actuarial analysis and receive the recommendations of the City Attorney, the Chief Financial Officer, and the Board of Trustees. Each pension law modification must be adopted by at least two thirds vote of the City Council and approved by the Mayor.

(b) Contribution Requirements

Under the Georgia Legislature principle of Home Rule and the Atlanta Code of Ordinances, Section 6, the Pension Board has the authority to administer the Plan including establishing and amending contribution requirements. The funding methods and determination of benefits payable were established by the Atlanta Code of Ordinances, Section 6 legislative acts creating the Plan, as amended, and in general, provide that funds are to be accumulated from employee contributions, City contributions, and income from the investment of accumulated funds.

Sworn personnel employed by the Atlanta Police Department are required to contribute to the Plan. Employees must contribute either 8% of base pay, if hired after August 31, 2011, 12% of base pay if hired before September 1, 2011 without an eligible beneficiary, or 13% of base pay if hired before September 1, 2011 with an eligible beneficiary. Contribution requirements may be amended by City ordinance, but the employer contribution requirement is subject to State minimums.

On November 1, 2011, the sworn personnel of the Police Department participating in the Plan and hired before September 1, 2011, or after January 1, 1984, had an increase of 5% in their mandatory contributions into the Plan. The contribution is such that the new contribution is 12% of salary (without a designated beneficiary) or 13% of salary (with a designated beneficiary). Where an Actuarial Valuation anticipates that the City's annual required contribution (ARC) for the next fiscal year will exceed 35% of the total payroll, contributions may be increased, by no more than 5% of compensation, in order to fund the overage.

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June 30, 2014

Employees hired on or after September 1, 2011 who are sworn members of the Police Department are required to participate in a hybrid defined benefit plan with a mandatory defined contribution component (see discussion below regarding Amendments to the Defined Contribution Plan). The defined benefit portions of this plan include a 1% multiplier. The retirement age is increased to age 57 for participants in the Plan. Early Retirement Age is changed from any age (as long as vested) with penalty to age 52 for hires after September 1, 2011. Upon retirement, these participants will receive an annually calculated cost of living increase to their pension benefit that may not exceed 1% and is based upon the Consumer Price Index. Sick and vacation leave are no longer applied to retirement benefits for hires after September 1, 2011.

(c) ***Description of the Benefit Terms***

In June 2011, the City Council approved changes for the City's three defined benefit plans, effective on September 1, 2011 for new hires, and November 1, 2011 for existing employees. Currently sworn personnel employed by the Atlanta Police Department are required to contribute to the Plan.

Prior to the change approved in June 2011, the Plan provided monthly retirement benefits that initially represent 3% for each year of credited service times the participants' final average three-year earnings (limited to 80% of the average). Retirement benefits were adjusted annually based on the change in the consumer price index, limited to 3% per year. Upon the death of a vested participant who has beneficiary coverage, his or her eligible beneficiary(ies) would be entitled to three fourths of the amount the deceased participant was receiving or would have been entitled to receive. Below are the terms the Plan has established to receive benefits.

Normal retirement age:	Age 65 with at least five years of service
	Age 57 with at least 15 years of service
	Age 55 with at least 15 years of service (hired before September 1, 2011)
	Age 55 with at least 10 years of service (hired before July 1, 2010)
	Any age with at least 30 years of service

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For early retirement there is an adjustment of the retirement benefit being reduced by .5% for each month by which the participant's early retirement age precedes normal retirement age (for employees hired after August 31, 2011). The retirement benefit is reduced by 0.5% for each of the first 60 months and by 0.25% for each additional month by which the participant's early retirement age precedes the normal retirement age (for employees hired before September 1, 2011).

Early retirement age:	Age 47 with at least 15 years of service (hired after August 31, 2011)
	Any age with at least 15 years of service (hired during the period July 1, 2010 through August 31, 2011)
	Any age with at least 10 years of service (hired before July 1, 2010)

For participants who incur a catastrophic injury in the line of duty, the basic pension formula is 100% of the top salary for the grade and position occupied by the participant at the time of disability.

For a service-connected disability for participants hired before 1986, the basic pension formula is the greater of 70% of the top salary for the employee's grade and position occupied by the participant at the time of disability or basic pension formula, offset by worker's compensation payments such that the combination of payments does not exceed 100% of the participant's salary at the time of disability.

For participants hired on or after January 1, 1986, the basic pension formula is the greater of 50% of average monthly earnings at the time of disability or basic pension formula, offset by worker's compensation payments such that the combination of payments does not exceed 75% of the participant's salary at the time of disability (payable until the earlier of recovery from disability or normal retirement age).

**CITY OF ATLANTA, GEORGIA
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Notes to Financial Statements

June 30, 2014

Pre-retirement death benefit:	75% of the basic pension formula (payable to the eligible beneficiary upon death not in the line-of-duty).
	100% of base pay offset by worker's compensation or other payments (payable to the eligible beneficiary for first two years after death in the line-of-duty).
	75% of the larger of the basic pension formula or 70% of top salary for the employee's grade (payable to the eligible beneficiary beginning two years after death in the line-of-duty).
	75% of the basic pension formula (payable to the eligible beneficiary beginning two years after death in the line-of-duty if the employee was covered by the 1986 amendment).

The Plan is considered a fiduciary fund of the City and its financial statements are included in the City of Atlanta, Georgia's Comprehensive Annual Financial Report (CAFR) as part of the Pension Trust Funds. The City's most recent CAFR for the year ended June 30, 2014 should be read in conjunction with these financial statements.

Amendments to Defined Contribution Plan

Employees hired on or after September 1, 2011 who are either sworn members of the police department or fire department are required to participate in the mandatory defined contribution component which includes a mandatory employee contribution of 3.75% of salary which is matched 100% by the City. Additionally, these employees may voluntarily contribute up to an additional 4.25% of salary which is also matched 100% by the City. Employees vest in the amount of the City's contributions at a rate of 20% per year and become fully vested in the City's contribution after 5 years of participation.

(d) Plan Membership

As of June 30, 2014, participation in the Plan was as follows:

Inactive plan members or beneficiaries currently receiving benefits	1,405
Inactive plan members entitled to, but not yet receiving benefits	30
Active plan members	2,021
	3,456
	3,456

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Notes to Financial Statements

June 30, 2014

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as additions to plan net position in the period in which withheld from the employees' salary and paid by the employer. Benefits and refunds are recognized as deductions from plan net position when due and payable.

Effective during fiscal year 2014, GASB Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25 was implemented. This Statement establishes new financial reporting standards for state and local governmental pension plans that are administered through a trust or similar arrangement. This statement resulted in changes to the actuarial calculation of total and net pension liability and the related note disclosures and required supplementary information. The implementation did not impact the recorded amounts in the financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement will be effective for the Plan sponsor in fiscal year 2015.

(b) Cash and Cash Equivalents

The Plan considers all highly liquid debt securities with an original maturity of three months or less when purchased to be cash equivalents.

(c) Investments

The Plan's investments are stated at fair value. Quoted market prices are used to value all investments in equities based on closing prices on the U.S. national securities exchange. Securities traded on the open market for which no sale was reported on that date are valued at the most recent quoted bid price.

Estimated fair values provided by third party vendors are used to value U.S. government notes, corporate bonds, mutual funds and U.S. government and agency guaranteed bonds, if not traded in an active market. Partnership investments are valued based on the net asset value of the partnership, without further adjustment. Net asset value is based upon the fair value of the underlying investments. Information provided by partnerships regarding the methods they use to value the underlying investments of the partnership and any restrictions on or illiquidity of the interests of partnerships are considered in determining fair value.

The net appreciation (depreciation) in the fair value of investments held by the Plan is recorded as an increase (decrease) to investment income based on the valuation of investments as of the balance sheet date. Investment income is recognized on the accrual basis as earned by the Plan.

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June 30, 2014

(d) Use of Estimates

Management of the Plan has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosures of contingent assets and liabilities and the additions to and deductions from net position to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(3) Pension Plan Investments

The Plan investments are made within the Public Retirement Systems Investment Authority Law of the Georgia Code (O.C.G.A. 47-20-80). The Board has been granted the authority by City Ordinance to establish and amend the Plan investment policy. The Board is responsible for making all decisions with regard to the administration of the Plan, including the management of Plan assets, and for carrying out the investment policy on behalf of the Plan.

The Plan's investments are managed by various investment managers under contracts with the Plan who have discretionary authority over the assets managed by them and within the Plan's investment guidelines, established by the Board. The investments are held in trust by the Plan's custodian in the Plan's name. These assets are held exclusively for the purpose of providing benefits to members of the plan and their beneficiaries.

State of Georgia and City statutes authorize the Plan to invest in U.S. government obligations, U.S. government agency obligations, State of Georgia obligations, obligations of a corporation of the U.S. government and the Georgia Fund 1 (a government investment pool maintained by the State of Georgia), and alternative investments. The Plan invests in repurchase agreements only when they are collateralized by U.S. government or agency obligations. The Plan is also authorized to invest in collateralized mortgage obligations (CMOs) to maximize yields. These securities are based on cash flows from interest payments on underlying mortgages. CMOs are sensitive to prepayment by mortgagees, which may result from a decline in interest rates. For example, if interest rates decline and mortgagees refinance their mortgages, thereby prepaying the mortgages underlying these securities, the cash flows from interest payments are reduced and the value of these securities declines. Likewise, if mortgagees pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated.

In the development of a current asset allocation plan, the Board reviews the long-term performance and risk characteristics of various asset classes, balancing the risks and rewards of market behavior, and reviewing state legislation regarding investments options. The below asset classes were selected to achieve the plan objectives: Domestic Equities, International Equities, Domestic Fixed Income, Alternative Investments, and cash equivalents.

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June 30, 2014

The Police Officers' Pension Fund Investment Policy was revised during the fiscal year. The policy may be amended by the Board by a majority vote of its members. The recent change added alternative investments as an investment option. Below is the asset allocation target assets mix.

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Domestic equity:			
All/Flex Cap	5%	7%	10%
Large Cap	25	30	35
Mid Cap	10	15	20
Small Cap	4	9	14
International equity	4	9	14
Total equity	<u>48%</u>	<u>70%</u>	<u>93%</u>
Alternative investments	<u>—%</u>	<u>5%</u>	<u>5%</u>
Total alternative investments	<u>—%</u>	<u>5%</u>	<u>5%</u>
Fixed income:			
Core	10%	14%	19%
Intermediate	5	10	15
Cash equivalents	—	1	2
Total fixed income and cash equivalents	<u>15%</u>	<u>25%</u>	<u>36%</u>

Identified below are the investment types that are authorized by the Board for the Plan. The investment policy also identifies certain provisions that address interest rate risk, credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk.

The Plan, by policy, is to invest the Plan funds in domestic equities, domestic fixed income securities, international equities, international fixed income, alternative investments, and cash equivalents. These instruments consist of common and preferred stock, obligations of the U.S. government and agencies (GNMA, FHLMC, and FNMA securities and CMO's), corporate bonds, and certificates of deposit. The Plan has strict limitations on the amounts managers are allowed to invest in any one issuer in all classes of securities. The Plan also invests in repurchase agreements which must be fully collateralized by U.S. government or agency guaranteed securities.

The Plan maintains cash to meet its immediate liquidity needs. Cash not immediately needed is invested in either short-term or long-term investment securities as directed by management.

**CITY OF ATLANTA, GEORGIA
POLICE OFFICERS' PENSION PLAN**

Notes to Financial Statements

June 30, 2014

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 21.37%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(a) Investment Risk Disclosures

Interest Rate Risk. Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. The Plan has no specific policy to address interest rate risk.

Credit Risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating to each investment by a nationally recognized statistical rating organization. The Plan has no specific policy to address credit risk.

As of June 30, 2014, the Plan had the following fixed income investments (dollars in thousands), with the corresponding credit ratings and maturities.

Type of Investments	Credit Rating	June 30, 2014					Fair value
		Maturity					
		Under 1 year	1 – 3 years	3 – 5 years	5 – 10 years	Over 10 years	
U.S. government agencies	AA/A+	\$ —	8,394	—	6,138	546	15,078
U.S. government agencies	AA-	—	2,088	2,239	—	—	4,327
U.S. government agencies	NR	—	—	—	643	238	881
U.S. government agencies	NR-AGY	—	1,820	1,841	7,295	41,429	52,385
Corporate bonds	AA/A0	3,286	7,956	12,800	17,034	3,203	44,279
Corporate bonds	B+/BBB	229	1,122	2,006	6,830	4,218	14,405
Asset backed securities	AAA	—	2,755	1,044	1,695	—	5,494
Asset backed securities	AA/AA+	—	—	1,588	—	—	1,588
Asset backed securities	NR	—	1,506	1,653	594	—	3,753
CMO's	AAA/A	—	—	—	—	5,819	5,819
CMO's	NR	—	—	—	—	2,643	2,643
State and local obligations	AAA/A	—	—	2,687	—	4,557	7,244
State and local obligations	AA	—	141	681	—	—	822
State and local obligations	NR	—	625	—	—	—	625
Other fixed income	NR	—	642	983	244	—	1,869
		\$ 3,515	27,049	27,522	40,473	62,653	161,212

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risks for investments, is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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The City requires that uninsured collected balances held in trust by the City for the Plan plus accrued interest in depository accounts be collateralized and that the market value of collateralized pledged securities must be at least 110% of the deposit balances, and 102% of collateral value for repurchase agreements. The Plan had no deposits or investments with custodial risks as of June 30, 2014.

All investments of the Plan are either held by the Plan or by the counterparty in the Plan's name; therefore, the Plan's investments had no custodial risks as of June 30, 2014.

Concentration Credit Risk. Investments in any one organization representing 5% or more of the net position restricted for pensions at June 30, 2014 are as follows (dollars in thousands):

Issuer	Investment type	Fair value
Collective	Equity index fund	\$ 164,220
Artisan Partners	Equities	42,949

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates could adversely affect an investment's or deposits fair value. During fiscal year 2014, the Plan's investment policies were revised to allow domestic equities, domestic fixed income, cash equivalents, alternative investments, and foreign equity securities.

Although all of the foreign equity securities are American Depository Receipts (ADR's), this does not eliminate the foreign currency risk involved in purchasing foreign securities.

The following table provides the value in U.S. dollars by foreign currency denominations and investment type for the Plan investments denominated in foreign currencies as of June 30, 2014 (dollars in thousands):

Currency	June 30, 2014		
	Fixed income	Equities	Total
Australia	\$ 170	—	170
Canada	2,651	—	2,651
China	—	1,713	1,713
France	277	—	277
Israel	—	2,381	2,381
Netherlands	729	—	729
Peru	—	283	283
United Kingdom	996	—	996
	\$ 4,823	4,377	9,200

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(b) *Securities Lending*

State statutes and Board of Trustees policies permit the Plan to lend its securities to broker dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. As of June 30, 2014, the Plan has no credit risk exposure to securities lending.

(c) *Alternative Investments*

The Board has authorized the Plan to invest in alternative investments. During fiscal year 2013, the Plan made a capital commitment of \$15 million to a limited partnership. As of June 30, 2014, the Plan had an alternative investment in a limited partnership totaling \$9,898,000. As part of the partnership agreement, the Plan may not voluntarily withdraw from the partnership prior to its dissolution, and no limited partnership interest is redeemable or repurchasable by the partnership at the option of the Plan.

(4) Contributions Required and Contributions Made

The required contribution percentages developed in the most recent actuarial valuation for the Plan for the year ended June 30, 2014 and the actual contributions made are as follows (dollars in thousands):

Service cost		24.29%
Amortization of the unfunded actuarial accrued liability		19.19
Total required contributions as a percentage of covered payroll		43.48%
Actual employee contributions:		
Dollar amount	\$	11,232
Percent of covered payroll		12.23%
Actual employer contributions:		
Dollar amount	\$	30,197
Percent of covered payroll		32.88%

The annual covered payroll for the City Police was \$91,840,000 as of June 30, 2014. The actual employer contributions shown above include amounts used to fund retiree supplemental cost of living increases and other minimum benefits. These amounts are components of the City's contributions for purposes of meeting actuarially determined funding requirements.

(5) Contributions Receivable

(a) *Employer*

Employer contributions receivable represents Annual Required Contributions owed but not yet remitted to the Plan by the City. Total contributions receivable from the employer was \$1,654,000 as of June 30, 2014.

**CITY OF ATLANTA, GEORGIA
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June 30, 2014

(b) Employees

Employees may receive credit for years of service from employment with certain state and local governmental agencies as well as prior employment with the City, upon payment to the Plan of an amount, as defined in the 1927 Act, as amended, representing contributions applicable to such service period. These contributions may be paid over a future period, even after retirement. In addition, 1962 and 1978 amendments to the Plan increased pension benefits and the related employee contribution rates. Active employees may retroactively increase their contribution rates from the date of employment in order to receive the maximum increased benefits available under the 1962 and 1978 amendments. These “back contributions” may also be paid over a future period. Contributions from employees include amounts withheld from employees’ pay but not yet remitted to the Plan. Total contributions receivable from employees were \$438,000 as of June 30, 2014.

(6) Tax Status

The Plan and its trust are intended to be qualified under Sections 401(a) and 501(c) of the Internal Revenue Code (IRC) such that they are not subject to tax under federal income tax laws. The Internal Revenue Service (IRS) issued a favorable determination letter on February 11, 2013 with respect to the Plan, in which the IRS stated that the Plan, as then designed, was in compliance with the applicable requirements of the IRC. The Plan sponsor in conjunction with consultation with external legal counsel, on May 15, 2014, filed a request for relief under the IRS Voluntary Correction Program for certain untimely amendments to the Plan documents and tax compliance issues involving interest calculations to Plan participants. The Plan sponsor anticipates review of these filings will be favorable for continued qualification for tax exemption.

(7) Net Pension Liability of the City

The components of the net pension liability at June 30, 2014 were as follows:

Total pension liability	\$	1,270,494
Fiduciary net position		987,507
Net pension liability	\$	282,987
Fiduciary net position as a percentage of total pension liability		77.73%

(a) Actuarial assumptions

The total pension liability was determined by the actuarial valuation as of July 1, 2013, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation		2.25%
Salary increases		4%
Investment rate of return		7.41%, net of pension plan investment expense, including inflation

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Mortality rates were based on the sex-distinct rates set forth in the RP-2000 Mortality Table projected to 2015 by Scale AA, as published by the Internal Revenue Service (IRS) for purposes of Internal Revenue Code (IRC) Section 430; future generational improvements in mortality have not been reflected.

The Plan provides for an annual cost-of-living adjustment based on the CPI limited to 1% per year for employees hired after August 31, 2011, or 3% per year for employees hired before September 1, 2011.

There were no actuarial assumptions made based on an experience study.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset class	Target allocation	Expected long-term real rate
Domestic equity	7%	6.01%
Domestic large-cap equity	30	6.91
Domestic mid-cap equity	15	8.91
Domestic small-cap equity	9	5.01
International equity	9	3.31
Fixed income and cash equivalents	25	0.81
Alternative investments	5	7.51
	<u>100%</u>	

(b) Discount Rate

A discount rate of 7.5% was applied in the measurement of the total pension liability as of June 30, 2013. The prior year discount rate was 7.75%. In the Plan's roll-forward from July 1, 2013 to the end of fiscal year 2014, the discount rate was further reduced to 7.41%. The rate reflects rates closer to current economic conditions. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the employer contributions will be made at the rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Notes to Financial Statements

June 30, 2014

(c) *Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.41%, as well as what the Plan net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.41%) or 1-percentage-point higher (8.41%) than the current rate (dollars in thousands):

	1% Decrease (6.41)%	Current discount rate (7.41)%	1% Increase (8.41)%
Total pension liability	\$ 1,448,432	1,270,494	1,125,745
Less fiduciary net position	987,507	987,507	987,507
Net pension liability	\$ 460,925	282,987	138,238

(d) *Actual Valuation Date*

The total pension liability is based on July 1, 2013 actuarial valuation. An expected total pension liability is determined as of June 30, 2014 using standard roll-forward techniques. The roll forward calculation adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
(See Accompanying Independent Auditor's Report)

CITY OF ATLANTA, GEORGIA
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Required Supplementary Information
Schedule of Changes in Net Pension Liability

June 30, 2014

(Unaudited)

(Dollars in thousands)

Total pension liability:		
Service cost	\$	23,302
Interest		170,229
Changes of benefit terms		—
Differences between expected and actual experiences		—
Changes of assumptions		(40,172)
Benefit payments, including refunds of member contributions		(53,279)
		100,080
Net change in total pension liability		100,080
Total pension liability – beginning		1,170,414
Total pension liability – ending		1,270,494
Plan fiduciary net position:		
Contributions – employer		30,197
Contributions – employee		11,232
Net investment income		171,192
Other income		3
Benefit payments, including member refunds		(53,279)
Administrative expenses		(653)
		158,692
Net change in plan fiduciary net position		158,692
Plan fiduciary net position – beginning		828,815
Plan fiduciary net position – ending		987,507
Plan net pension liability – ending	\$	282,987

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

**CITY OF ATLANTA, GEORGIA
POLICE OFFICERS' PENSION PLAN**

Required Supplementary Information

Schedule of Net Pension Liability

June 30, 2014

(Unaudited)

(Dollars in thousands)

Total pension liability	\$ 1,270,494
Plan fiduciary net position	<u>987,507</u>
Net pension liability	<u>\$ 282,987</u>

Plan fiduciary net position as a percentage of the total pension liability 77.73%

Covered-employee payroll \$ 91,840

Net pension liability as a percentage of covered-employee payroll 308.13%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

**CITY OF ATLANTA, GEORGIA
POLICE OFFICERS' PENSION PLAN**

Required Supplementary Information

Schedule of Employer Contributions

Year ended June 30, 2014

(Unaudited)

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>*12/31/2005</u>
Actuarially determined contribution	\$ 30,197	26,525	33,748	19,568	40,422	41,213	44,434	45,229	15,687	25,271
Contributions in relation to the actuarially determined contribution	<u>30,197</u>	<u>26,525</u>	<u>33,748</u>	<u>19,568</u>	<u>40,422</u>	<u>41,213</u>	<u>44,434</u>	<u>45,229</u>	<u>15,687</u>	<u>25,271</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Covered-employee payroll	\$ 91,840	88,297	73,688	83,551	78,519	82,030	84,015	77,168	73,515	70,973
Contributions as a percentage of covered-employee payroll	32.88%	30.04%	45.80%	23.42%	51.48%	50.24%	52.89%	58.61%	21.34%	35.61%

Notes to schedule

* Represents a change in fiscal year from December 31 to June 30, thus a six month timeframe.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

**CITY OF ATLANTA, GEORGIA
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Required Supplementary Information

Schedule of Investment Returns

Year ended June 30, 2014

(Unaudited)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual money-weighted rate of return, net of investment expense	21.37%	15.73%	0.99%	21.30%	12.07%	(13.15)%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

CITY OF ATLANTA, GEORGIA
POLICE OFFICERS' PENSION PLAN

Notes to Required Supplementary Information

Year ended June 30, 2014

(Unaudited)

(1) Schedule of Changes in Net Pension Liability

The total pension liability contained in this schedule was provided by the Plan's actuary, Southern Actuarial Services. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Plan.

(2) Schedule of Employer Contributions

The actuarially determined contributions and comparison to those contributions actually made are presented in the schedule.

(3) Actuarial Methods and Assumptions

Changes of assumptions: The assumed interest (or discount) rate was decreased from 7.75% per annum to 7.41% per annum. The mortality basis was changed from the RP-2000 Mortality Table, projected to 2007 by Scale AA, to the RP 2000 Mortality Table, projected to 2015 by Scale AA.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Valuation date	July 1, 2013
Actuarial cost method	Entry age
Amortization method	Level percentage, closed
Remaining amortization period	28 years
Asset valuation method	Market value
Inflation rate	2.25%
Salary increases	4.00%
Investment rate of return	7.41%