

**CITY OF ATLANTA, GEORGIA
FIREFIGHTERS' PENSION PLAN**

Financial Statements and Supplemental Schedules
December 31, 2002 and 2001
(With Independent Auditors' Report Thereon)

**CITY OF ATLANTA, GEORGIA
FIREFIGHTERS' PENSION PLAN**

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the City of Atlanta, Georgia Firefighters' Pension Plan (the "Plan") as of and for the year ended December 31, 2002 as listed in the accompanying table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Plan as of December 31, 2001, were audited by other auditors whose report dated June 7, 2002 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Atlanta, Georgia Firefighters' Pension Plan's net assets held in trust for pension benefits as of December 31, 2002 and the changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The schedules of funding progress and employer contributions on page 12 are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We have applied to the schedules certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules.

Banks, Finley, White & Co.

November 20, 2003.

**CITY OF ATLANTA, GEORGIA
FIREFIGHTERS' PENSION PLAN**

Statements of Plan Net Assets
December 31, 2002 and 2001
(Dollars In thousands)

	<u>2002</u>	<u>2001</u>
ASSETS		
Cash and cash equivalent	\$ 30,293	5,564
Investments, at fair value:		
Equities	106,328	152,872
Obligations of the U.S. government and its agencies	46,447	30,328
Corporate bonds	46,528	47,910
Repurchase agreements	-	17,490
Collateralized mortgage obligations	<u>55,039</u>	<u>53,724</u>
Total Investments	<u>254,342</u>	<u>302,324</u>
Securities lending collateral investment pool	64,394	49,855
Contributions receivable from employees	121	62
Accrued interest receivables	1,491	-
Due from broker on securities sold	404	-
Other Assets	<u>542</u>	<u>-</u>
Total Assets	<u>351,587</u>	<u>357,805</u>
LIABILITIES		
Accounts payable	18	170
Other liabilities	121	91
Due to broker on securities purchased	3,573	-
Liability for securities lending agreement	<u>64,394</u>	<u>49,855</u>
Total Liabilities	<u>68,106</u>	<u>50,116</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (See Schedule of Funding Progress on page 12)	\$ <u>283,481</u>	<u>307,689</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF ATLANTA, GEORGIA
FIREFIGHTERS' PENSION PLAN**

Statements of Changes in Plan Net Assets
Years ended December 31, 2002 and 2001
(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
Additions to Plan net assets:		
Investment income:		
Net depreciation in fair value of investments	\$ (27,490)	(24,846)
Interest and dividends	9,389	29,493
Securities lending income	144	179
Less:		
Investment expenses	50	(1,112)
Securities lending expenses	<u>(50)</u>	<u>(63)</u>
Net Investment Income	(17,957)	3,651
Employee contributions	2,789	2,679
Employer contributions	9,525	9,438
Other income	<u>41</u>	<u>49</u>
Total Additions	<u>(5,602)</u>	<u>15,817</u>
Deductions from Plan net assets:		
Benefit payments	17,379	16,700
Refunds of contributions to terminated employees	139	71
Administrative fees, management fees, and other expenses	<u>1,088</u>	<u>462</u>
Total Deductions	<u>18,606</u>	<u>17,233</u>
Net (Decrease) Increase	(24,208)	(1,416)
Net assets held in trust for pension benefits:		
Beginning of year	<u>307,689</u>	<u>309,105</u>
END OF YEAR	<u>\$ 283,481</u>	<u>\$ 307,689</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF ATLANTA, GEORGIA
FIREFIGHTERS' PENSION PLAN**
Notes to Financial Statements
December 31, 2002 and 2001

Note 1 - Summary of Significant Accounting Policies

a. Overview of Plan and Related Government

The City of Atlanta, Georgia Firefighters' Pension Plan (the "Plan"), a single employer defined benefit pension plan, was established by a 1924 Act of the State of Georgia Legislature to provide retirement benefits for sworn personnel of the City of the Atlanta (the "City") Fire Department. Until 1983, the Georgia Legislature established all requirements and policies of the Plan. By a constitutional amendment, effective July 1983, control over the Plan transferred to the City under the principle of Home Rule.

The funding methods and determination of benefits payable were established by the 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.

The Plan is considered a fiduciary fund of the City and its financial statements are included in the City of Atlanta, Georgia's Annual Comprehensive Financial Report (CAFR) as part of the Pension Trust Fund. The latest available CAFR is as of and for the year ended December 31, 2002; that CAFR should be read in conjunction with these financial statements.

b. Basis of Accounting

The financial statements are prepared on the accrual basis of accounting whereby revenues are recognized as earned and expenses are recognized as the associated liabilities are incurred.

c. Investments

Investments, other than repurchase agreements, are carried at fair value based on quoted market prices and include any accrued interest. Repurchase agreements are valued at their amortized cost. 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.

No investment in any one organization represents 5% or more of the net assets held in trust for pension benefits at December 31, 2002 and 2001. There are no investments in loans or leases with parties related to the Plan.

Notes to Financial Statements - Continued

Note 1 - Summary of Significant Accounting Policies, continued

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 disclosure of contingent assets and liabilities 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.

Note 2 - Plan Description

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

a. *Benefit Provisions*

The Plan provides monthly retirement benefits that initially represent 2% for each year of credited service times the participants' final average three-year earnings. The Plan was amended, effective January 1, 1986, to exclude overtime pay in the computation of benefits. Retirement benefits are 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 beneficiaries would be entitled to three-fourths of the amount the deceased participant was receiving or would have been entitled to receive.

b. *Benefit Options*

- Normal Monthly Pension Benefit

An employee is eligible for a normal monthly pension benefit when he or she reaches the normal retirement age of 55 with 15 years of creditable service.

- Early Monthly Pension Benefit

An employee is eligible for an early monthly pension benefit after 15 years of creditable service. The monthly benefit is reduced to allow for the fact that it will be paid over a longer period of time.

- Reduced Monthly Pension Benefit

An employee is eligible for a reduced monthly pension benefit at age 50 with 25 years of service. The monthly benefit is reduced to allow for the fact that it will be paid over a longer period of time.

Notes to Financial Statements - Continued

Note 2 - Plan Description, continued

- General Disability Retirement

Disability benefits are calculated, if disabled in the line of duty, as 2% times 35 years times current average salary or, if otherwise disabled, as 2% times years of service times current average salary. Employees hired prior to January 1, 1986 have the option of having disability benefits calculated based on 50% of current average salary or accrued pension benefit, whichever is larger. Accrued pension benefit, in this case, is calculated in the same manner as the normal retirement benefit except that no reductions are made if minimum age or service requirements are not met. Participants becoming disabled while not in the line of duty must have at least five years of creditable service in order to receive benefits.

c. *Membership*

The following schedules reflects membership for the Plan at January 1, 2002, the date of the most recent actuarial valuation:

Members:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	742
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Current active employees:

Fully vested	459
Partially vested	283
Nonvested	<u>136</u>

Total Membership	<u><u>1,620</u></u>
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d. *Administration of the Plan*

The Plan is administered as a single-employer plan by the Board of Trustees 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. 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.

Notes to Financial Statements Continued

Note 3 - Cash, Cash Equivalents, and Investments

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. The bank balance of the Plan's cash, \$30,292,666 and \$2,662,183 at December 31, 2002 and 2001, respectively, was insured or collateralized with securities held by the Plan or by its agent in the Plan's name. The carrying value of this cash was \$30,293,000 and \$5,564,000 at December 31, 2002 and 2001, respectively.

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 I (a local government investment pool maintained by the State of Georgia). Additionally, the Plan is authorized to invest in common stock provided that the cost basis of such investments do not exceed 55% of the net assets of the Plan. The Plan invests in repurchase agreements only when they are collateralized by U.S. Government or agency obligations. Pledged collateral is held in safekeeping as indicated by the categories below.

The Plan also invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMOs), to maximize yields. These securities are based on cash flows from interest payments on underlying mortgages. Mortgage backed securities are sensitive to prepayments 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.

The Plan's investments are categorized below to give an indication of the level of collateral risk assumed by the Plan at December 31, 2002 and 2001. Category 1 represents investments that are insured or registered or for which the securities are held by the Plan's agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Plan's name. At December 31, 2002 and 2001, there were no investments classified in Categories 2 or 3.

	2002 (in thousands)	
	Risk Category 1	Carrying Value
Categorized Investments:		
Equities	\$ 92,221	92,221
U.S. Government and agency obligations	6,364	6,364
Corporate bonds	37,598	37,598
Repurchase agreements	-	-
Collateralized mortgage obligations	55,039	55,039
Total Categorized Investments	\$ 191,222	191,222

Notes to Financial Statements - Continued

Note 3 - Cash, Cash Equivalents, and Investments, continued

	2002 (in thousands)	
	Risk Category 1	Carrying Value
Investments Not Categorized:		
Held by broker-dealers under securities lending arrangements with cash collateral:		
Equities		14,107
U.S. Government and agency obligations		40,083
Corporate bonds		8,930
Securities lending short-term collateral investments		64,394
Total		\$ 318,736

	2001 (in thousands)	
	Risk Category 1	Carrying Value
Equities	\$ 142,361	\$ 142,361
U.S. Government and agency obligations	1,020	1,020
Corporate bonds	39,194	39,194
Repurchase agreements	17,490	17,490
Collateralized mortgage obligations	53,724	53,724
Total categorized investments	\$ 253,789	253,789

Investments Not Categorized:		
Held by broker-dealers under securities lending arrangements with cash collateral:		
Equities		10,511
U.S. Government and agency obligations		29,308
Corporate bonds		8,716
Securities lending short-term collateral investments		49,855
Total		\$ 352,179

The following is a reconciliation of the carrying amounts of investments as shown above to the amounts shown on the balances sheets at December 31, 2002 and 2001 (in thousands of dollars):

	2002	2001
Investments	\$ 254,342	\$ 302,324
Securities lending short-term collateral investment	64,394	49,855
	\$ 318,736	\$ 352,179

Notes to Financial Statements - Continued

Note 3 - Cash, Cash Equivalents, and Investments, continued

Securities Lending

State statutes and Board of Trustees policies permit the Plan's 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. The Plan's custodians lend securities of the type on loan at year-end for collateral in the form of cash or other securities of 102%. Securities loaned at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial credit risks; securities collateral are classified according to the category for the collateral.

Cash collateral is invested in overnight investments. At year end the Plan has no significant credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. The contract with the Plan's custodian requires it to indemnify the Plan if the borrowers fail to return the securities and if the collateral is inadequate to replace the securities loaned or fail to pay the Plan for income distributions by the securities' issuers while the securities are on loan.

There were no violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year. There are no income distributions owed on the securities loaned. The Plan records the cash received as collateral under securities lending agreements and the investments purchased with that cash as securities lending short-term collateral investment pool with corresponding amount recorded as a liability.

Note 4 - Funding Policy

The City's funding policy is to contribute a percentage of the Plan's covered employee payroll as developed in the actuarial valuation for the Plan. Active participants are required to contribute 7% of base pay (8% if participant has a covered beneficiary). The City's contribution percentage is the actuarially determined amount necessary to fund plan benefits after consideration of employee contributions. The City makes an additional contribution of 1% of payroll, which effectively decreases the employee's required contribution percentage to 6% (or 7% if participant has a covered beneficiary), but has no effect on the overall required contributions. The City is not obligated to continue the 1% supplemental contribution for any specified period of time.

The actuarially determined contribution amount is the sum of the annual normal cost and the amortization of the unfunded actuarial accrued liability as a level percentage of future payrolls (over 40 years from January 1, 1979). The actuarial cost method used for funding purposes is the Entry Age Normal Cost Method. This method is one of the approved methods for such plans in the State of Georgia, and provides for contributions based on a level percentage of future payroll. The unfunded actuarial accrued liability for funding purposes is amortized on a closed basis over a period established by State of Georgia guidelines. The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the actuarial accrued liability.

Notes to Financial Statements - Continued

Note 5 - Contributions Required and Contributions Made

The required contribution percentages developed in the most recent actuarial valuation for the Plan for 2002 and 2001 and the actual contributions made are as follows (dollars in thousands):

	<u>2002</u>	<u>2001</u>
Normal Cost	22.1 %	17.8 %
Amortization of the unfunded actuarial accrued liability	<u>9.1</u>	<u>5.5</u>
Total required contributions as a percentage of payroll	<u>31.2 %</u>	<u>23.3 %</u>
Actual employee contributions:		
Dollar amount	\$ 2,789	\$ 2,679
Percent of covered payroll	6.9 %	6.9 %
Actual employer contributions:		
Dollar amount	\$ 9,525	\$ 9,438
Percent of covered payroll	24.1 %	24.3 %

The annual covered payroll for the City was \$39,460,650 and \$38,797,000 for the years ended December 31, 2002 and 2001, respectively. 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.

Notes 6 - Contributions Receivable from Employees

Employees may receive credit for service for previous employment with certain state and local governmental agencies including previous employment with the City, upon payment to the Plan of an amount, as defined in the 1924 Act, as amended, representing contributions applicable to such service period. These contributions may be paid over a future period, even after retirement. In addition, 1964 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 1964 and 1978 amendments. These "back contributions" may also be paid over a future period.

Contributions receivable from employees were for these back contributions \$121,170 and \$62,000 at December 31, 2002 and 2001, respectively.

Notes to the Financial Statements- Continued

Note 7 - Contingencies

The Internal Revenue Service (IRS) has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code (IRC) and is therefore not subject to tax under present federal income tax laws. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualifications. The Plan obtained its latest determination letter on May 19, 1998, in which the IRS stated that the Plan, as then designed, was in compliance with the applicable requirements of the IRC. The Plan has been amended as well as there have been changes in the IRC since the date of the last determination letter. The IRS is currently conducting a review of the Plan and has cited some areas where the plan may not be in compliance with the current IRC. The City and the Plan's tax counsel are reviewing the IRS findings along with Plan documents and applicable City Code authorizing the Plan to resolve the compliance issues with the IRS.

**CITY OF ATLANTA, GEORGIA
FIREFIGHTERS' PENSION PLAN**

Required Supplementary Information

**Schedule of Funding Progress
(Unaudited)
(Dollars in thousands)**

<u>Actuarial valuation Date</u>	<u>Value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll (b-a)/c)</u>
January 1, 1998	\$ 223,575	\$ 297,349	\$ 73,774	75.2 %	\$ 34,679	212.7 %
January 1, 2000	\$ 289,954	\$ 322,370	\$ 32,416	89.7 %	\$ 38,797	83.6 %
January 1, 2002	\$ 326,620	\$ 370,291	\$ 43,671	88.2 %	\$ 39,460	110.6 %

**Schedule of Employer Contributions
(Unaudited)
(Dollars in thousands)**

<u>Year</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
1995	\$ 9,015	\$ 9,015	100.0 %
1996	\$ 9,537	\$ 9,537	100.0 %
1997	\$ 10,276	\$ 10,276	100.0 %
1998	\$ 10,554	\$ 10,554	100.0 %
1999	\$ 9,066	\$ 9,066	100.0 %
2000	\$ 10,616	\$ 10,616	100.0 %
2001	\$ 9,438	\$ 9,438	100.0 %
2002	\$ 8,943	\$ 9,525	106.5 %

**CITY OF ATLANTA, GEORGIA
FIREFIGHTERS' PENSION PLAN**

Required Supplementary Information

Notes to Schedule of Funding Progress and
Schedule of Employer and Other Contributions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

The actuarial accrued liability is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employee of their beneficiaries. Benefits under the Plan are based on employee compensation. The accumulated plan benefits for active employees are based on their average compensation and credited service ending on the date as of which the benefit information is presented (the valuation date). Benefits payable under all circumstances - retirement, death, disability, and termination of employment - are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Entry age normal
Amortization method	Level percentage closed Over a closed period of 40 years from January 1, 1979 as a level percentage of estimated future payroll.
Remaining amortization period	16 years
Asset valuation period	Smoothed 5 year averaged market
Investment rate of return	8.0%
Projected salary increases	5% due to inflation 0.7% - 4.5% for merit or seniority
Postretirement benefit increases	3%