

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

Financial Statements and Supplemental Schedules  
June 30, 2012 and 2011  
(With Independent Auditors' Report)



**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 statement of plan net position of the City of Atlanta, Georgia Firefighters' Pension Plan (the Plan) as of June 30, 2012, and the related statement of changes in plan net position for the year then ended. 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 and for the year ended June 30, 2011 were audited by other auditors whose report thereon, dated February 22, 2012, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 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 Plan'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the City of Atlanta, Georgia Firefighters' Pension Plan as of June 30, 2012, and the changes in its plan net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2013 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* and should be considered in assessing the results of our audit.



U.S. generally accepted accounting principles require that the information in the management's discussion and analysis, schedule of funding progress, and schedule of employer contributions on pages 3 – 6 and 20, respectively, 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.

Management has omitted prior year comparative management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG LLP

January 11, 2013

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

**Management's Discussion and Analysis (Unaudited)  
June 30, 2012 and 2011**

As management we offer readers of the Fire Fighters' Pension Plan ("the Plan") financial statements this narrative overview and analysis of the financial activities of the Plan for the year ended June 30, 2012. This overview compares the year ended June 30, 2012 with the year ended June 30, 2011. 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 Plan's Chief Financial Officer, a member of City Council, two representatives elected by the retired membership and three representatives elected by active City membership.

The objective of the Plan is to meet long-term benefit obligations through member and employer contributions and investment earnings. As a measure of progress against being able to provide for these future obligations, readers should consider the Plan's funded ratio. The funded ratio is the actuarially determined assets against liabilities. The Plan's funded ratio as of the July 1, 2011 actuary report is 69.76%.

**Financial Highlights**

- The assets of the Plan exceeded its liabilities at the close of 2012 by \$505.7 million. This amount represents the Plan's net position.
- The Plan's total net position decreased by \$3.9 million or 0.8% year over year.
- Net investment income declined by \$93.9 million compared to fiscal year 2011.
- Contributions received from employer and employees totaled \$26.0 million in 2012 as compared to \$28.5 million in fiscal year 2011.
- Benefit payments totaled \$37.3 million, an increase of \$2.2 million or 6.2% when compared with fiscal year 2011.

**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 Fund. The City's most recent CAFR for the year ended June 30, 2012 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, 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).

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

**Management's Discussion and Analysis (Unaudited)  
June 30, 2012 and 2011**

*Basic financial statements* are comprised of:

The *Statement of Plan Net Position* presents information on the assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating.

The *Statement of Changes in Plan Net Position* presents information showing how the Plan's net position changed during the most recent fiscal year. All changes in the net position is reported as soon as the underlying 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 Plan's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found following the notes the financial statements in this report.

**Financial Analysis**

As noted earlier, net position may serve over time as an indicator of financial stability. In the case of the Plan, assets exceeded liabilities by \$505.7 million at the close of the year ended June 30, 2012. Table 1 summarizes the major categories of assets, liabilities and net position.

**Table 1. Fire Fighters' Pension Plan Net Position, Year Ended June 30, 2012 and June 30, 2011 (Dollars in thousands):**

	<b>Years ended June 30</b>		<b>Change</b>	<b>% Change</b>
	<b><u>2012</u></b>	<b><u>2011</u></b>		
<b>Assets</b>				
Cash and cash equivalents	\$ 30,990	\$ 32,853	\$ (1,863)	-5.7%
Investments	474,286	485,877	\$ (11,591)	-2.4%
Due from brokers for securities sold	5,934	915	\$ 5,019	548.5%
Receivables	<u>2,852</u>	<u>3,049</u>	\$ (197)	<u>-6.5%</u>
Total assets	<u>\$ 514,062</u>	<u>\$ 522,694</u>	<u>\$ (8,632)</u>	<u>-1.7%</u>
<b>Liabilities</b>				
Due to other City funds	\$ 119	\$ 100	\$ 19	19.0%
Due to brokers for securities purchased	8,251	12,884	\$ (4,633)	-36.0%
Deferred revenue	<u>-</u>	<u>120</u>	\$ (120)	<u>-100.0%</u>
Total liabilities	<u>\$ 8,370</u>	<u>\$ 13,104</u>	<u>\$ (4,734)</u>	<u>-36.1%</u>
<b>Net Position Held in Trust for Pension Benefits</b>	<u>\$ 505,692</u>	<u>\$ 509,590</u>	<u>\$ (3,898)</u>	<u>-0.8%</u>

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

**Management's Discussion and Analysis (Unaudited)  
June 30, 2012 and 2011**

The net position of the Plan decreased by \$3.9 million or 0.8% when compared to 2011. This is mainly attributable to the decline in net investment income resulting from unfavorable market conditions during fiscal year 2012. Total assets for the Plan declined by \$8.6 million or 1.7% compared to 2011. Total cash and investments decreased by \$13.5 million offset by a \$5.0 million increase in amounts due from brokers for securities sold. Investments represent 95.7% of total assets as of June 30, 2012 compared to 93.0% as of June 30, 2011. The Plan liabilities do not include future benefits payable to plan participants, but an actuarially determined estimate of this amount is in the Required Supplementary Information of this report.

**Table 2. Fire Fighters' Pension Plan Changes in Net Position, Year Ended June 30, 2012 and June 30, 2011 (Dollars in thousands):**

	<b>Years ended June 30</b>			
	<u><b>2012</b></u>	<u><b>2011</b></u>	<u><b>Change</b></u>	<u><b>% Change</b></u>
<b>Additions to Plan Net Position:</b>				
Investment income:				
Net appreciation (depreciation) in fair value of investments	\$ (324)	\$ 94,563	\$ (94,887)	-100.3%
Interest and dividends	\$ 10,283	\$ 8,989	\$ 1,294	14.4%
Securities lending income	\$ -	\$ 73	\$ (73)	-100.0%
Less:				
Investment expenses	\$ (2,522)	\$ (2,298)	\$ (224)	9.7%
Net investment income	\$ 7,437	\$ 101,327	\$ (93,890)	-92.7%
Employee contributions	\$ 4,891	\$ 3,570	\$ 1,321	37.0%
Employer contributions	\$ 21,092	\$ 24,912	\$ (3,820)	-15.3%
Other income	\$ 75	\$ -	\$ 75	100%
Total additions	<u>\$ 33,495</u>	<u>\$ 129,809</u>	<u>\$ (96,314)</u>	<u>-74.2%</u>
<b>Deductions from Plan Net Position:</b>				
Benefit payments	\$ 37,333	\$ 35,146	\$ 2,187	6.2%
Administrative fees, management fees, and other expenses	\$ 60	\$ 49	\$ 11	22.4%
Total deductions	<u>\$ 37,393</u>	<u>\$ 35,195</u>	<u>\$ 2,198</u>	<u>6.2%</u>
<b>Increase (decrease) in Net Position</b>				
<b>Held in Trust for Pension Benefits</b>	<u><b>\$ (3,898)</b></u>	<u><b>\$ 94,614</b></u>	<u><b>\$ (98,512)</b></u>	<u><b>-104.1%</b></u>
<b>Net Position Held in Trust for Pension Benefits</b>				
Beginning of year	\$ 509,590	\$ 414,976		
Increase (decrease)	\$ (3,898)	\$ 94,614		
End of year	<u><b>\$ 505,692</b></u>	<u><b>\$ 509,590</b></u>		

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

**Management's Discussion and Analysis (Unaudited)  
June 30, 2012 and 2011**

Total additions to the Plan net position declined by \$96.3 million or 74.2% compared to 2011. As mentioned earlier, this decrease is primarily attributed to the decrease in investment income. Net investment income was \$7.4 million for 2012, a decline of \$93.9 million compared to 2011. The investment portfolio is comprised of 70% equities and 30% fixed income investments as of June 30, 2012, which remains largely the same as the investment mix in 2011. The overall portfolio returned 2.18% for the 12 months ended June 30, 2012, compared with 25.63% for the same time period in 2011. The S&P 500 index rose 5.44% and 30.70%, respectively during the same time periods.

Employee contributions to the Plan increased by \$1.3 million or 37.0% to \$4.9 million mainly as a result of plan changes enacted during 2011 which required participants to contribute an additional 5% of pay to the Plan each year. Employer contributions decreased by \$3.8 million or 15.3% to \$21.1 million due to a lower actuarially determined required contribution (ARC) for fiscal 2012. Benefit payments increased by \$2.2 million or 6.2% to \$37.3 million. The increase in benefit payments is primarily the results of the increase in members receiving benefits (see table below).

**Table 3. Membership Data, Year Ended June 30, 2012 and June 30, 2011 (Dollars in thousands):**

Members:	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>% Change</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	1,001	924	77	8.3%
Current active employees:				
Fully vested	411	457	(46)	-10.1%
Partially vested	239	230	9	3.9%
Nonvested	234	179	55	30.7%
Total membership	<u>1,885</u>	<u>1,790</u>	<u>95</u>	<u>5.3%</u>

**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 Plan's Chief Financial Officer, 11100 City Hall Tower, 68 Mitchell St., SW, Atlanta, Georgia 30303.



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

Statements of Plan Net Position  
June 30, 2012 and 2011  
(Dollars in thousands)

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 30,990	\$ 46,732
Receivables:		
Contributions receivable from employer	1,186	1,566
Contributions receivable from employees	240	152
Accrued interest receivable	1,369	1,224
Due from brokers for securities sold	5,934	915
Other receivables	57	107
Total receivables	8,786	3,964
Investments:		
Equities	343,509	345,920
U.S. government and agency obligations	59,313	60,180
Corporate bonds	43,904	35,317
Other investments	27,560	30,581
Total investments	474,286	471,998
Total assets	514,062	522,694
<b>LIABILITIES</b>		
Deferred revenue	-	120
Due to brokers for securities purchased	8,251	12,884
Due to other City funds	119	100
Total liabilities	8,370	13,104
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS (See Schedule of Funding Progress on page 20)</b>		
	<b>\$ 505,692</b>	<b>\$ 509,590</b>

See accompanying notes to financial statements.

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

Statements of Changes in Plan Net Position  
For the Years Ended  
June 30, 2012 and 2011  
(Dollars in thousands)

	<b>2012</b>	<b>2011</b>
<b>Additions to Plan Net Position:</b>		
<b>Contributions:</b>		
Employee	4,891	3,570
Employer	21,092	24,912
Total contributions	25,983	28,482
Investment income:		
Net appreciation (depreciation) in fair value of investments	\$ (324)	\$ 94,563
Interest and dividends	10,283	8,989
Securities lending income	-	73
Less:		
Investment expenses	(2,522)	(2,298)
Net investment income	7,437	101,327
Other income	75	-
Total additions	33,495	129,809
<b>Deductions from Plan Net Position:</b>		
Benefit payments	37,333	35,146
Administrative fees, management fees, and other expenses	60	49
Total deductions	37,393	35,195
Net increase (decrease)	(3,898)	94,614
Net Position Held in Trust for Pension Benefits:		
Beginning of Year	509,590	414,976
End of year	<b>\$ 505,692</b>	<b>\$ 509,590</b>

See accompanying notes to financial statements.

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

Notes to Financial Statements  
June 30, 2012 and 2011

**Note 1 - Plan Description**

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Atlanta, Georgia, Code of Ordinances, Section 6 (Plan agreement) for more complete information.

*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 Comprehensive Annual Financial Report (CAFR) as part of the Pension Trust Fund. The City's most recent CAFR for the year ended June 30, 2012 should be read in conjunction with these financial statements.

*b. Amendments*

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 Fire Rescue Department are required to contribute to the Firefighters' Pension Plan (the "Plan"). The following brief description of the Plan is provided and was in effect until the dates of the Plan changes.

*1. Benefit Provisions*

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.

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

Notes to Financial Statements  
June 30, 2012 and 2011

**Notes to Financial Statements - Continued**

**Note 1 - Plan Description, Continued**

*2. Pension Plan Reform*

Amendments to Defined Benefit Plans

In June 2011, the City Council approved changes for the City's three separate defined benefit plans, effective on September 1, 2011 for new hires and November 1, 2011 for existing employees.

Beginning on November 1, 2011, Fire Rescue Department employees 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.)

Employees hired on or after September 1, 2011 who are sworn members of the fire 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 portion of this plan will include a 1% multiplier. The retirement age 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.

Beginning in fiscal year 2012 (July 1, 2011), is a cap on the maximum amount of the City's contribution to the Plan measured as a percentage of payroll. The City's annual contribution to the Plan may not exceed 35% of payroll of the participants in the City's three defined benefit plans. In the event that this 35% cap is reached, the City will fund any overage for the first 12 month period from its reserves. During that period, the City's management must agree on an alternative method to reduce the overage. If no alternative is reached, beginning in the second 12 month period, the City and the participants will equally split the cost of the overage, subject only to a provision that employee contributions may not increase more than 5%.

Beginning with the 2012 valuation the amortization period for the Unfunded Actuarial Accrued Liability (UAAL) was changed from a 30-year open period to a 30-year closed amortization period designed to eliminate the UAAL by July 1, 2042.

Amendments to Defined Contribution Plan

Employees hired on or after September 1, 2011 who are either sworn members of the fire department or the police department are required to participate in the mandatory defined

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

Notes to Financial Statements  
June 30, 2012 and 2011

**Notes to Financial Statements - Continued**

**Note 1 - Plan Description, Continued**

contribution component which includes a mandatory employee contribution of 3.75% of salary and be matched 100% by the City. Additionally, these employees may voluntarily contribute up to an additional 4.25% of salary which will also be 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.

*c. Membership*

The following schedule reflects membership for the Plan at July 1, 2011 (fiscal year 2012) and January 1, 2010 (fiscal year 2011), the date of the recent actuarial valuation:

Members:	2012	2011
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	1,001	924
Current active employees:		
Fully vested	411	457
Partially vested	239	230
Nonvested	234	179
Total membership	1,885	1,790

*d. Administration of the Plan*

The Plan is administered as a single-employer defined benefit pension 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. 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.

**Note 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

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

Notes to Financial Statements  
June 30, 2012 and 2011

**Notes to Financial Statements - Continued**

**Note 2 - Summary of Significant Accounting Policies, Continued**

the employees' salary and paid by the employer. Benefits and refunds are recognized as deductions from plan net position when due and payable.

*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*

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). Additionally, the Plan is authorized to invest in common stock provided that the cost of such investments do not exceed 55% of the net position of the Plan. 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.

The Plan's investments are reported 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.

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.

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

Notes to Financial Statements  
June 30, 2012 and 2011

**Notes to Financial Statements - Continued**

**Note 2 - 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 disclosures of contingent assets and liabilities and the additions to and deletions 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.

**Note 3 – Deposits and Investments**

*Investments in Employee Retirement Plans*

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, 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.

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 their funds in domestic equities, domestic fixed income securities 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.

*Investment Risk Disclosures*

**Interest Rate Risk.** Interest rate risk is the risk that changes in market rates will adversely affect the fair market 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.

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

Notes to Financial Statements  
June 30, 2012 and 2011

**Notes to Financial Statements - Continued**

**Note 3 – Deposits and Investments, continued**

**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, 2012 and 2011, the Plan had the following fixed income investments (Dollars in thousands), with the corresponding credit ratings and maturities.

<u>Type of Investments</u>	<u>Credit Rating</u>	<b>June 30, 2012</b>					<u>Fair Value</u>
		Maturity					
		<u>Under 1 year</u>	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>5 - 10 years</u>	<u>Over 10 Years</u>	
U.S. government agencies	AAA	\$ -	\$ 3,380	\$ 482	\$ 17,438	\$ 34,643	\$ 55,943
Corporate bonds	AA/A-	324	8,461	736	15,868	5,874	31,263
Corporate bonds	B+/BBB	584	1,380	956	8,100	1,621	12,641
Asset backed securities	AAA	-	7,947	4,615	1,676	-	14,238
Asset backed securities	AA+	-	314	-	-	-	314
Asset backed securities	NR	-	1,629	2,932	171	-	4,732
CMO's	AAA/A	-	-	-	-	6,023	6,023
CMO's	NR	-	-	-	-	2,253	2,253
State and local obligations	AAA/A	-	-	425	145	2,400	2,970
State and local obligations	NR	400	-	-	-	-	400
		<u>\$ 1,308</u>	<u>\$23,111</u>	<u>\$10,146</u>	<u>\$ 43,398</u>	<u>\$ 52,814</u>	<u>\$130,777</u>



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

Notes to Financial Statements  
June 30, 2012 and 2011

**Notes to Financial Statements - Continued**

**Note 3 – Deposits and Investments, continued**

<u>Type of Investments</u>	<u>Credit Rating</u>	<u>June 30, 2011</u>					<u>Fair Value</u>
		<u>Maturity</u>					
		<u>Under 1 year</u>	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>5 - 10 years</u>	<u>Over 10 Years</u>	
U.S. government agencies	AAA	\$ 12,278	\$ 6,017	\$ 3,235	\$ 9,262	\$ 27,565	\$ 58,357
Corporate bonds	AA/A-	847	2,546	5,247	8,349	5,248	22,237
Corporate bonds	B+/BBB	499	1,076	4,129	5,457	1,919	13,080
Asset backed securities	AAA	4,154	3,274	4,079	73	3,222	14,802
Asset backed securities	NR	-	489	1,729	2,148	-	4,366
CMO's	AAA	-	-	764	930	8,103	9,797
CMO's	NR	-	-	-	-	1,217	1,217
State and local obligations	AAA/A	-	-	-	-	1,823	1,823
		<u>\$ 17,778</u>	<u>\$13,402</u>	<u>\$ 19,183</u>	<u>\$ 26,219</u>	<u>\$ 49,097</u>	<u>\$125,679</u>

**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.

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. As a result, the Plan had no deposits or investments with custodial risks as of June 30, 2012 and 2011.

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, 2012 and 2011.

**Concentration Credit Risk.** Investments in any one issuer representing 5% or more of the net position held in trust for pension benefits at June 30, 2012 and 2011 are as follows (Dollars in thousands):

<u>Issuer</u>	<u>Investment Type</u>	<u>Total Investments</u>	
		<u>June 30, 2012</u>	<u>June 30, 2011</u>
FHLMC	Federal Agency Security	\$ 26,686	\$ 37,811
FNMA	Federal Agency Security	\$ 26,058	\$ -

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

Notes to Financial Statements  
June 30, 2012 and 2011

**Notes to Financial Statements - Continued**

**Note 3 – Deposits and Investments, continued**

**Foreign Currency Risk.** Foreign currency risk is the risk that changes in currency exchange rates could adversely affect an investments or deposits fair value. During fiscal year 2011, the Plan's investment policies were revised to allow domestic equities, domestic fixed income, cash equivalents, 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 at June 30, 2012 and 2011 (Dollars in thousands):

	<b>June 30, 2012</b>		
<b>Currency</b>	<b>Debt</b>	<b>Equity</b>	<b>Total</b>
Netherlands	\$ 438	\$ 1,802	\$ 2,240
Canada	888	665	1,553
Greece	-	657	657
United Kingdom	477	-	477
Australia	444	-	444
<b>Total Securities subject to Foreign Currency Risk</b>	<b>\$ 2,247</b>	<b>\$ 3,124</b>	<b>\$ 5,371</b>

	<b>June 30, 2011</b>		
<b>Currency</b>	<b>Debt</b>	<b>Equity</b>	<b>Total</b>
Canada	\$ -	\$ 51	\$ 51
France	-	2	2
Netherlands	-	3,887	3,887
Peru	253	20	273
<b>Total Securities subject to Foreign Currency Risk</b>	<b>\$ 253</b>	<b>\$ 3,960</b>	<b>\$ 4,213</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. 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% of collateral value.

Cash collateral is invested in overnight investments. As of June 30, 2012, the Plan has no significant credit risk exposure to borrowers. 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 or fail to pay the Plan for income distributions by the securities issuers while the securities are on loan.

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

Notes to Financial Statements  
June 30, 2012 and 2011

**Notes to Financial Statements – Continued**

**Note 3 – Deposits and Investments, continued**

There were no violations of legal or contractual provisions, borrower or lending agent default losses, and no recoveries of prior period losses during the year. There are 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 a corresponding amount recorded as a liability.

All securities loans can be terminated on demand by either the Plan or the borrower, with the borrower returning equivalent securities to the Plan within a specified period of time. There were no securities lending transactions outstanding as of the years ended June 30, 2012 and 2011.

**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 12% of base pay (or 13% if participant has covered beneficiary). The City's contribution percentage is the actuarially determined amount necessary to fund plan benefits after consideration of employee contributions.

The actuarially determined annual required contribution amount is the sum of the annual normal cost (determined under the entry age normal actuarial cost method) and the amortization of the UAAL as a level percentage of future payrolls. The actuarial cost method used for funding purposes and to calculate the actuarial accrued liability is the Entry Age Normal Cost Method. This method is one of the approved methods for such plans in Georgia, and provides for contributions estimated to be a level percentage of future payrolls. Effective July 2, 2011, the amortization period for the unfunded actuarial accrued liability was changed from a 30-year open period to a 30-year closed period.

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

Notes to Financial Statements  
June 30, 2012 and 2011

**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 the years ended June 30, 2012 and June 30, 2011 and the actual contributions made are as follows (Dollars in thousands):

	2012	2011
Normal cost	24.96%	27.72%
Amortization of the unfunded actuarial accrued liability	29.76%	30.15%
Total required contributions as a percentage of covered payroll	54.72%	57.87%
 Actual employee contributions:		
Dollar amount	\$ 4,891	\$ 3,463
Percent of covered payroll	12.39%	8.06%
 Actual employer contributions:		
Dollar amount	\$ 21,092	\$ 24,912
Percent of covered payroll	53.42%	57.98%

The annual covered payroll for the Firefighters' was \$39,482,000 and \$42,963,000 for the years ended June 30, 2012 and 2011, 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**

*Employer*

Employer contributions receivable represent Annual Required Contributions owed but not yet remitted to the Plan by the City. Total contributions receivable from the employer were \$1,186,000 and \$1,566,000 as of June 30, 2012 and 2011, respectively.

*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

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

Notes to Financial Statements  
June 30, 2012 and 2011

**Notes to Financial Statements - Continued**

**Note 6 - Contributions Receivable, continued**

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 \$240,000 and \$152,000 as of June 30, 2012 and 2011, respectively.

**Note 7 – 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 August 17, 2004 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 has been amended since receiving the 2004 determination letter, and the City believes that those amendments do not adversely affect the qualified status of the Plan. The IRS's 2004 determination was subject to the adoption of an amendment to the City Charter and the correction of additional plan language in order to bring the plan into compliance with current IRC provisions. These required changes were accomplished through an amendment to the City of Atlanta Charter and an ordinance correcting the language of the Plan of which both were adopted by the Atlanta City Council on December 6, 2010. Additionally, a current Application for Determination was submitted to the IRS for consideration on January 31, 2011.

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

Required Supplementary Information

**Schedule of Funding Progress**  
June 30, 2012 and 2011  
(Unaudited)  
(Dollars in thousands)

Actuarial valuation date	Actuarial valuation assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/c
January 1, 2006	\$ 334,290	\$ 557,706	\$ 223,416	59.90%	\$ 36,440	613.11%
January 1, 2007	\$ 371,456	\$ 577,271	\$ 205,815	64.30%	\$ 45,686	450.50%
January 1, 2008	\$ 340,075	\$ 652,816	\$ 312,741	52.09%	\$ 45,561	686.42%
January 1, 2009	\$ 408,090	\$ 708,347	\$ 300,257	57.61%	\$ 43,275	693.83%
January 1, 2010	\$ 422,791	\$ 699,175	\$ 276,384	60.47%	\$ 43,910	629.43%
January 1, 2011	\$ 481,640	\$ 732,357	\$ 250,717	65.77%	\$ 42,963	583.56%
July 1, 2011	\$ 509,590	\$ 730,535	\$ 220,945	69.76%	\$ 39,482	559.61%

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

Year Ended	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
2007	\$ 27,502	\$ 27,502	100.00%
2008	\$ 26,373	\$ 26,373	100.00%
2009	\$ 28,752	\$ 28,752	100.00%
2010	\$ 25,865	\$ 25,865	100.00%
2011	\$ 24,912	\$ 24,912	100.00%
2012	\$ 21,092	\$ 21,092	100.00%

See accompanying notes to required supplementary schedules and accompanying independent Auditors' report.

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

Required Supplementary Information

Notes to Required Supplementary Schedules  
June 30, 2012 and 2011  
(Unaudited)

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 from the actuarial valuations for the most recent two-year period is as follows:

Valuation date	July 1, 2011	January 1, 2011
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	30 years	30 years
Asset valuation method	Market value	Market value
Investment rate of return	7.75%	7.75%
Projected salary increases inflation	4.00%	4.00%
Postretirement benefit increases	3.00%	3.00%