

**CITY OF ATLANTA, GEORGIA  
GENERAL EMPLOYEES' PENSION PLAN**

Financial Statements and Supplemental Schedules

June 30, 2014

(With Independent Auditors' Report Thereon)



**CITY OF ATLANTA, GEORGIA  
GENERAL EMPLOYEES' PENSION PLAN**

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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the City of Atlanta, Georgia General Employees' 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 General Employees' 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 3-7 and the schedule of investment returns on page 25 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, Georgia  
November 21, 2014

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Management's Discussion and Analysis

June 30, 2014

(Unaudited)

As management we offer readers of the General Employees' 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 an agent multiple-employer, defined-benefit plan by the Board of Trustees (the Board), which includes an appointee of the Mayor, the City's Chief Financial Officer, a member of the City Council, a member of the Atlanta Board of Education (School System), two representatives elected by the retired membership (City and School System) and four representatives elected by active City and School System membership.

**Financial Highlights**

- At June 30, 2014, the assets of the Plan exceeded its liabilities by \$1.3 billion.
- The total net position increased by \$144.8 million over the net position at the beginning of the year.
- Net investment income was \$209.6 million, an increase of \$46.1 million compared to fiscal year 2013.
- Contributions received from employer and employees totaled \$109.1 million as compared to \$100.7 million in fiscal year 2013.
- Benefit payments totaled \$164.2 million, an increase of \$2.8 million or 1.7% when compared with fiscal year 2013.

**Fiduciary funds.** The Plan is considered a fiduciary fund of the City of Atlanta, Georgia (City). The City's most recent Comprehensive Annual Financial Report (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. The additions include contributions and investment income, which

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(Unaudited)

includes the net increase (decrease) in the fair value of investments. The deductions include benefit payments 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 money-weighted rate of return. Required supplementary information can be found following the notes 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 \$1.3 billion 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 year ended June 30, 2014.

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

	<b>June 30</b>		<b>Amount Change</b>	<b>Percentage change</b>
	<b>2014</b>	<b>2013</b>		
<b>Assets:</b>				
Cash and cash equivalents	\$ 79,694	85,950	(6,256)	(7.3)%
Investments	1,191,816	1,029,979	161,837	15.7
Securities lending collateral	178,848	—	178,848	100.0
Due from brokers for securities sold	296	835	(539)	(64.6)
Receivables	6,687	14,623	(7,936)	(54.3)
Total assets	<u>1,457,341</u>	<u>1,131,387</u>	<u>325,954</u>	<u>28.8%</u>
<b>Liabilities:</b>				
Accounts payable	1,984	963	1,021	106.0%
Due to brokers for securities purchased	1,821	486	1,335	274.7
Liability for securities lending agreement	178,848	—	178,848	100.0
Total liabilities	<u>182,653</u>	<u>1,449</u>	<u>181,204</u>	<u>12,505.5%</u>
Net position restricted for pensions	<u>\$ 1,274,688</u>	<u>1,129,938</u>	<u>144,750</u>	<u>12.8%</u>

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June 30, 2014

(Unaudited)

The net position of the Plan increased by \$144.8 million or 12.8% when compared to the beginning balance at July 1, 2013. This is mainly attributable to an increase in net investment income, which was related to improved investment market performance for fiscal year 2014. Total assets for the Plan increased by \$326.0 million or 28.8% compared to 2013. Total cash and investments increased by \$155.6 million offset by a \$539 thousand decrease in amounts due from brokers for securities sold. Cash and investments represent 87% of total assets as of June 30, 2014 compared to 98.6% as of June 30, 2013. The decrease is primarily the result of the Plan having added \$178.8 million to Securities Lending during fiscal year 2014. 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 section of this report.

Table 2. General Employees' Pension Plan Changes in Net Position, Years ended June 30, 2014 and 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	\$ 194,400	146,171	48,229	33.0%
Interest and dividends	19,459	20,894	(1,435)	(6.9)
Less:				
Investment expenses	(4,292)	(3,537)	(755)	21.3
Net investment income	<u>209,567</u>	<u>163,528</u>	<u>46,039</u>	<u>28.2%</u>
Employer contributions:				
City of Atlanta	42,145	38,694	3,451	8.9%
Atlanta Board of Education	48,000	43,013	4,987	11.6
Employee contributions	18,920	19,011	(91)	(0.5)
Other income	172	79	93	117.7
Total additions	<u>318,804</u>	<u>264,325</u>	<u>54,479</u>	<u>20.6%</u>
Deductions from plan net position:				
Benefit payments	164,238	161,439	2,799	1.7%
Administrative fees, management fees, and other expenses	9,816	717	9,099	1,269.0
Total deductions	<u>174,054</u>	<u>162,156</u>	<u>11,898</u>	<u>7.3%</u>
Increase in net position restricted for pensions	<u>\$ 144,750</u>	<u>102,169</u>	<u>42,581</u>	<u>41.7%</u>

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Management's Discussion and Analysis

June 30, 2014

(Unaudited)

	<b>2014</b>	<b>2013</b>
Net position restricted for pensions:		
Beginning of year	\$ 1,129,938	1,027,769
Increase	144,750	102,169
End of year	\$ 1,274,688	1,129,938

Total additions to the Plan net position increased by \$54.5 million or 20.6% compared to 2013. As mentioned earlier, this increase is primarily attributed to the increase in net investment income and improved market performance during fiscal year 2014. Net investment income was \$209.6 million for 2014, an increase of \$46.0 million, or 28.2% compared to 2013. The investment portfolio comprises 87.1% equities, 11.8% fixed income, and 1.1% alternative investments as of June 30, 2014, compared to 78.9% equities and 1.1% fixed income investments as the investment mix in 2013. The overall portfolio returned 16.8% for the fiscal year ended June 30, 2014, compared with 16.7% 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 flat at \$19.0 million mainly as a result of plan changes enacted during 2011, and consistent Plan participation. Employer contributions were \$90.1 million, an increase of \$8.4 million, or 10.3% primarily due to increased contributions by the School Board. Benefit payments increased by \$2.8 million or 1.7% to \$164.2 million. The increase in benefit payments is primarily the result of the increase in pension payments and increased cost of living adjustments.

**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:

Cash and deposits	\$ 79,694
Securities lending cash collateral	178,848
Total cash	258,542

Receivables:

Contributions receivable from employers	2,548
Contributions receivable from employees	643
Due from brokers for investments sold	296
Investment income	1,649
Other	1,847
Total receivables	6,983

Investments:

Domestic fixed income securities	140,294
Domestic equities	938,251
International equities	99,665
Alternative investments:	
Limited partnerships	13,606
Total investments	1,191,816
Total assets	1,457,341

Liabilities:

Due to brokers for investments purchased	1,821
Collateral payable for securities lending	178,848
Accounts payable	1,984
Total liabilities	182,653
Net position restricted for pensions	\$ 1,274,688

See accompanying notes to financial statements.

**CITY OF ATLANTA, GEORGIA  
GENERAL EMPLOYEES' PENSION PLAN**

Statement of Changes in Fiduciary Net Position

June 30, 2014

(Dollars in thousands)

Additions:	
Contributions:	
Employer	\$ 90,145
Employee	18,920
Total contributions	109,065
Investment income:	
Net appreciation in fair value of investments	194,400
Interest and dividends	19,459
Less investment expenses, other than from securities lending	(4,292)
Net investment income	209,567
Other	172
Total additions	318,804
Deductions:	
Benefit payments, including refunds of member contributions	164,238
Administrative expense	9,816
Total deductions	174,054
Net increase in net position	144,750
Net position restricted for pensions:	
Beginning of year	1,129,938
End of year	\$ 1,274,688

See accompanying notes to financial statements.

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Notes to Financial Statements

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**(1) Plan Description**

City of Atlanta, Georgia General Employees' Pension Plan (the Plan) was established by a 1924 Act of the State of Georgia Legislature to provide retirement benefits for full-time permanent employees of the City of Atlanta (the City), excluding sworn personnel of the Police and Fire Departments, and the employees of the Atlanta Board of Education (the School System) who are not covered under the Teachers Retirement System of Georgia. 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 an agent multiple-employer defined benefit pension plan with two employers participating in the plan at June 30, 2014. Participants should refer to the Atlanta, Georgia, Code of Ordinances, Part 1, 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.

Effective September 1, 2005, classified employees and certain nonclassified employees, pay grade 18 and below enrolled in the Defined Contribution Plan had the one-time option of transferring to the General Employees' Pension Plan. Classified employees and certain nonclassified employees pay grade 18 and below not covered by either the Police Officers' or Firefighters' Pension Plans, hired after September 1, 2005 are required to become members of the General Employees' Pension Plan.

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 and School System contributions, and income from the investment of accumulated funds.

The Plan is included as a fiduciary fund in the City of Atlanta, Georgia 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.

**(a) Administration of the Plan**

The Plan is administered as an agent multiple-employer defined benefit pension plan by the Board of Trustees (the Board). Board membership includes The Mayor or his designee, the City's Chief Financial Officer, a member of the City Council, two active City employee representatives, one retired City representative, one active School System representative, and one retired School System 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 – The City**

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

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June 30, 2014

were established by the Atlanta Code of Ordinances, Part 1, 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.

Employees hired on or after September 1, 2011 who are below pay grade 19 or its equivalent are required to participate in a hybrid defined benefit plan with a mandatory defined contribution component. The defined benefit portion of this plan includes a 1% multiplier, 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.

Beginning on November 1, 2011, 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 fund in which they participate. The contribution is such that the new contribution is 12% of salary (without a designated beneficiary) or 13% of salary (with a designated beneficiary).

Beginning in fiscal year 2012, there 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 coverage, subject only to a provision that employee contributions may not increase more than 5%. Contribution requirements may be amended by the Board under the authority of the City ordinance, but the employer contribution requirement is subject to State minimums.

**(c) Contribution requirements – School System**

Employee contributions for the School System are:

Unmarried employees without dependents	7% of base salary
Unmarried employees with dependent minor children	8% of base salary
Married employees	8% of base salary

Employer contributions for the School Systems changed in 2014 as a result of the Atlanta Board of Education adopted resolution (Report 13/14-01177) dated June 2, 2014, to the funding policy. The fiscal year 2015 contribution under the prior policy was based on a level percent of payroll amortization method using a closed amortization period with 12.5 years remaining as of July 1, 2013. The new policy increases the prior year's contribution 3.0% annually until the Plan is fully funded.

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**(d) Description of the benefit terms – The City**

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.

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.

The retirement age increased to age 62 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 employees hired after September 1, 2011. Below are the terms the Plan has established to receive benefits.

**Normal Pension:**

Hired before July 1, 2010:

Age 65 or Age 60 after completing five years of service.

Monthly benefit is 2.5% of average monthly salary for each year of credited service.

Hired between July 1, 2010 and October 31, 2011:

Age 65 or Age 60 after completing 10 years of service.

Monthly benefit is 2.0% of average monthly salary for each year of credited service.

Hired after October 31, 2011:

Age 65 or Age 62 after completing 15 years of service.

Monthly benefit is 1.0% of average monthly salary for each year of credited service.

This amount cannot be less than \$12 per month for each of service, capped at 80% of average monthly salary.

The average monthly salary hired before November 1, 2011, is the average of the highest consecutive 36 months of salary. For those employees hired after October 31, 2011, the average monthly salary is the average of the highest consecutive 120 months of salary.

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**Early Pension:**

Hired before July 1, 2010

Five years of credited service.

Hired between July 1, 2010 and October 31, 2011

Ten years of credited service.

Hired after October 31, 2011

Age 52 and 15 years credited service.

The monthly benefit for employees hired before November 1, 2011, is reduced by one half of 1% per month for the first 60 months and by one quarter of 1% per month for the remaining months by which age at retirement is less than 60. More favorable early retirement adjustments may apply to participants in prior plans. Unreduced early retirement is available with 30 years of credited service. For employees hired after October 31, 2011, the monthly benefit amount is reduced by one half of 1% per month before age 62.

**Disability:**

Service requirement:

Five years of credited service for non-job-related disability. None for job related disability.

Normal pension based on service accrued and final average salary at disability, payable immediately; cannot be less than 50% of average monthly salary. This amount is payable until attainment of normal retirement age at which time the benefit is recalculated to include years while disabled as years of service.

**(e) Description of the benefit terms – School System**

The major provisions of the Plan for the School System are as stated below.

*Normal Pension:* a participant may retire at age 65 or age 60 after completing 15 years of service. The monthly benefit is 2.5% of the average monthly salary for each year of credited service. This amount cannot be less than \$17 per month for each year of service, and is capped at 80% of average monthly salary. Average monthly salary is defined as the highest average monthly base compensation over any 36-month period.

*Early Pension:* a participant must have 5 years of credited service. The normal pension monthly amount is reduced by one half of 1% per month for the first 60 months and one quarter of 1% per month for the remaining months by which age at retirement is less than 60. Unreduced early retirement is available with 30 years of credited service.

*Disability:* a participant must have 5 years of credited service for nonjob-related disability. For job-related disability there is no service requirement. Normal pension is based on service accrued and final average salary at disability, payable immediately; cannot be less than 50% of the average

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monthly salary. This amount is paid until attainment of normal retirement age at which time the benefit is recalculated to value years while disabled as years of service.

**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.

**(f) Plan Membership**

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

	<b>The City</b>	<b>School System</b>
Inactive plan members or beneficiaries currently receiving benefits	3,875	2,151
Inactive plan members entitled to, but not yet receiving benefits	167	50
Active plan members	2,822	653
	6,864	2,854

**(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 when due, based on statutory requirements. 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.

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June 30, 2014

**(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 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. 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 statement of plan net position date. Investment income is recognized on the accrual basis as earned by the Plan.

**(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.

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Notes to Financial Statements

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**(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, establishing the investment policy and carrying out the policy on behalf of the Plan.

The Plan's investments are managed by various investment managers under contract with the Board who have discretionary authority over the assets managed by them and within the Plan's investment guidelines as 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 Code 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, 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 are included in the Plan investment objectives: Domestic Equities, International Equities, Domestic Fixed Income, International Fixed Income and Alternative Investments.

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The General Employees' 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 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:			
Large cap	27.5%	32.5%	37.5%
Mid cap	2.5	7.5	12.5
Small cap	5.0	10.0	15.0
International equity:			
Developed	10.0	15.0	20.0
Emerging markets equity	—	5.0	10.0
Total equity	<u>45.0%</u>	<u>70.0%</u>	<u>95.0%</u>
Alternative investments	<u>—%</u>	<u>5.0%</u>	<u>5.0%</u>
Total alternative investments	<u>—%</u>	<u>5.0%</u>	<u>5.0%</u>
Fixed income			
Core	13.5%	18.5%	23.5%
Global	1.5	6.5	11.5
Total fixed income	<u>15.0%</u>	<u>25.0%</u>	<u>35.0%</u>

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's cash and cash equivalents are comprised of daily cash balances above day-to-day needs and funds set aside for portfolio strategy reasons. Short term investments may be placed in: 1) issues of the U.S. Treasury, federal agencies and federal government sponsored enterprises with maturity of less than two years, 2) repurchase agreements immediately collateralized by the U.S. Treasury or Federal agency, or 3) domestic corporate bonds, debentures and notes rated at least A by Moody's or Standard & Poor's with a maturity of thirty (30) days or less.

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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 19.26%. 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	AAA	\$ 2	1,687	4,461	8,450	47,333	61,933
Corporate bonds	AA/A-	4,817	6,652	7,215	7,039	3,988	29,711
Corporate bonds	B+/BBB	546	1,291	4,315	4,941	5,912	17,005
Mutual bonds	NR	10,533	—	—	—	—	10,533
Automobile loan receivables	A+/AAA	—	48	—	321	—	369
Automobile loan receivables	NR	—	1,407	1,418	—	—	2,825
Credit card receivables	AAA	—	739	1,049	—	—	1,788
Asset back securities	AAA/A	—	33	32	173	158	396
Asset back securities	NR	—	415	—	—	704	1,119
Corporate CMO's	AAA/A+	—	—	56	—	2,793	2,849
Corporate CMO's	BBB/B-	—	—	—	—	172	172
Corporate CMO's	NR	—	—	24	196	914	1,134
CMO's	AAA/A-	—	—	170	164	5,088	5,422
CMO's	BBB/B+	—	—	—	113	544	657
CMO's	NR	—	—	—	—	906	906
State and local obligations	AAA/AA-	—	—	—	1,514	1,961	3,475
		\$ 15,898	12,272	18,740	22,911	70,473	140,294

**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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June 30, 2014

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, 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 of 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 (in thousands):

<u>Issuer</u>	<u>Investment type</u>	<u>Fair value</u>
Vanguard	Domestic Equities	\$ 178,359
Ishares Select Dividend ETF	Domestic Equities	165,886
Rhumblin	Domestic Equities	82,819
Northern Trust	Domestic Equities	80,588
Artisan Funds	International Equities	76,442
Johnston International Equity Group	Domestic Equities	65,061

**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 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.

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June 30, 2014

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, 2014 (dollars in thousands):

<u>Currency</u>	<u>June 30, 2014</u> <u>Equity</u>
Bermuda	\$ 8,283
Canada	1,785
Cayman Islands	286
Germany	577
Guernsey, CI	5
Ireland	5,184
Japan	1,235
Liberia	254
Luxembourg	24
Panama	466
Singapore	458
Switzerland	642
United Kingdom	2,358
Total securities subject to foreign currency risk	\$ <u><u>21,557</u></u>

**(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. At June 30, 2014, the Plan had funds under a securities lending agreement with a market value of outstanding loans of \$174,767,000 and collateral of \$178,848,000 which consisted of cash, collateral investment, and noncash loans. There were no violations of legal or contractual provisions, borrower or lending agent default losses during the year.

**(c) *Alternative Investments***

In 2013, the Board authorized the Plan to invest in alternative investments. During 2013, the Plan made a capital commitment of \$28 million to a limited partnership. As of June 30, 2014, the Plan had an alternative investment in a limited partnership totaling \$13,606,000. 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 purchasable by the partnership at the option of the plan.

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June 30, 2014

**(4) Contributions Required and Contributions Made**

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

	<b>June 30, 2014</b>	
	<b>The City</b>	<b>School System</b>
Service cost	5.89%	17.25%
Amortization of the unfunded actuarial accrued liability	39.65	241.16
Total required contributions as a percentage of covered payroll	45.54%	258.41%
2014 actual employee contributions:		
Dollar amount	\$ 17,366	1,554
Percent of covered payroll	11.95%	6.78%
2014 actual employer contributions:		
Dollar amount	\$ 42,145	48,000
Percent of covered payroll	28.99%	209.48%

The annual covered payroll for the City was \$145,367,000 for the year ended June 30, 2014. The annual covered payroll for the School System was \$22,914,000 for the year ended 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. Total contributions receivable from the City was \$2,548,000 as of June 30, 2014.

**(b) Employees**

Contributions receivable from employees include amounts withheld from employees pay but not yet remitted to the Plan. 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. Employees are eligible to make "back" contributions, which are applicable to such service periods. 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. Total contributions receivable from employees was \$643,000 at June 30, 2014.

**CITY OF ATLANTA, GEORGIA**  
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Notes to Financial Statements

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.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

(See Accompanying Independent Auditors' Report)

**CITY OF ATLANTA, GEORGIA  
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Required Supplementary Information

Schedule of Investment Returns

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	19.26%	17.55%	0.93%	19.69%	12.92%	(9.56)%

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.