



CITY OF ATLANTA, GEORGIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Year Ended December 31, 2005

Shirley Franklin

Mayor

Janice D. Davis

Chief Financial Officer

Notes to the Financial Statements-Continued

A. Risk Management, continued

The City participates in the State Subsequent Injury Trust Fund, a public entity managed by the State of Georgia. The pool is designed to provide the insurance coverage for employees who are hired with previous medical conditions. Historically, premiums have not been significant.

B. Employee Retirement Systems and Pension Plans

Pension Plans

The City maintains one agent multiple-employer defined benefit pension plan, entitled the General Employees' Pension Plan, two single-employer defined benefit pension plans, entitled the Firefighters' Pension Plan and the Police Officers' Pension Plan, and one single-employer defined contribution pension plan, entitled the General Employees' Defined Contribution Plan. The funding methods and determination of benefits payable were established by the legislative acts creating such plans, as amended, and in general, provide that the pension funds are to be accumulated from employee contributions, City contributions, and income from the investment of accumulated funds.

The plans are administered by separate boards of trustees which include an appointee of the Mayor, the Chief Financial Officer, a member of City Council, and members elected from active and retired employees.

Prior to July 1, 2001, all permanent employees of the City, excluding sworn personnel of the Police and Fire Departments and including employees of the Atlanta Independent School System (the "School System") who are not covered under the Teachers Retirement System of Georgia, were eligible to participate in the General Employees' Pension Plan. In addition, certain School System employees, employed prior to July 1, 1979, also participate in the City's General Employees' Pension Plan (the "Plan"). The City has no obligation to pay any costs related to retirement benefits of employees of the School System. The financial information herein relates only to City obligations for City employees.

Effective July 1, 2001, all new, permanent employees of the City, excluding sworn personnel of the Police and Fire Departments, are only eligible to participate in the newly created Defined Contribution Plan. During 2002 persons employed prior to July 1, 2001 were given the option of transferring to the Defined Contribution Plan. As of December 31, 2002, employees previously participating in the General Employees' Defined Benefit Plan did not have the option of transferring to the new Defined Contribution Plan. Sworn personnel of the Police and Fire Departments are eligible to participate in the Police Officers' and Firefighters' plans, respectively.

Effective September 1, 2005, classified employees currently in the Defined Contribution Plan have the one-time option of transferring to the General Employee's Pension Plan. Classified employees not covered by either the Police Officers or Firefighters' Pension Plans, hired after September 1, 2005 are required to become members of the General Employee's Pension Plan.

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

Complete financial statements for all Plans, except the General Employees' Defined Contribution Plan, can be obtained at the following address:

City of Atlanta
68 Mitchell Street, S.W.
Suite 1600
Atlanta, Georgia 30335

Separate financial statements have not been prepared for the General Employees' Defined Contribution Plan.

Defined Benefit Plans

The City's defined benefit plans provide retirement benefits based on the average of the highest 36 months earnings based on the following percentages:

- General employees – 2.5% * for each year of service to a maximum of 32 years.
- Firefighters – 3% * for each year of service to a maximum of 26.67 years.
- Police Officers – 3% for each year of service to a maximum of 26.67 years.

* For General employees increased from 2.0% for each year of service with no maximum years and for Firefighters increased from 2.0% for each year of service prior to March 31, 2001 plus 3% for each year of service subsequent to March 31, 2001 with no maximum years by Ordinance 05-O-1232, approved by City Council on September 6, 2005 and approved by the Mayor on September 12, 2005.

Normal retirement, after 10 * years of service, is available at age 60 for City employees and at age 55 for Police and Fire employees. In addition, City employees in the General employee Pension Fund, Police and Fire are eligible to retire after 30 years of service **, at any age. Cost-of-living increases are awarded annually, up to a 3% maximum increase. Partial vesting percentages based on years of creditable service and provisions for early retirement are included in the plans. Benefits also may be payable at termination, death, or disability.

* Decreased from 15 years of service by Ordinance 05-O-1232, adopted by City Council on September 6, 2005 and approved by the Mayor on September 12, 2005.

** The 30 and out provision was approved for General employees by Ordinance 05-O-1971, adopted by City Council on November 7, 2005 and approved by the Mayor on November 14, 2005. The same provision for Police was adopted by Ordinance 05-O-1731 adopted by City Council on October 17, 2005 and approved by the Mayor on October 25, 2005.

All modifications to the pension plans must be supported by actuarial analysis and receive the recommendations of the City Attorney, the Chief Financial Officer, and the boards of trustees of each plan. Each pension law modification must be adopted by at least two-thirds vote of City Council and approved by the Mayor.

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

In addition, the City has been given special constitutional authority by the State to supplement benefits for retired employees as long as such adjustments are funded by the City.

The City's practice is to have actuarial valuations of its defined benefit pension plans performed every two years by an enrolled actuary. The membership at the latest actuarial valuation date of January 1, 2005, in the three defined benefit plans and related current year payrolls are as follows (dollars in thousands):

	<u>General Employees</u>	<u>Firefighters</u>	<u>Police Officers</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,039	749	1,041	4,829
Current active employees				
Fully vested	2,122	482	576	3,180
Partially vested	826	238	531	1,595
Not vested	<u>580</u>	<u>181</u>	<u>531</u>	<u>1,292</u>
Total membership	<u>6,567</u>	<u>1,650</u>	<u>2,679</u>	<u>10,896</u>

The payroll and covered payroll for the year ended December 31, 2005 are as follows:

Total current year payroll	<u>\$185,560</u>	<u>\$45,625</u>	<u>\$77,840</u>	<u>\$309,025</u>
Total current year covered payroll	<u>\$157,665</u>	<u>\$38,774</u>	<u>\$70,973</u>	<u>\$267,412</u>

Funding Policy

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

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 unfunded actuarial accrued liability as a level percentage of future payrolls (over 45* years from January 1, 1979). The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the actuarial accrued liability.

* Amended from 40 years to 45 years by Ordinance 05-O-1232, adopted by City Council on September 6, 2005 and approved by the Mayor on September 12, 2005.

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

The required contribution percentages, developed in the most recent actuarial valuations for the plans, to cover pension liabilities and the actual 2005 contribution amounts are (dollars in thousands):

	<u>General Employees</u>	<u>Firefighters</u>	<u>Police Officers</u>
Normal cost	12.32%	19.48%	21.39%
Amortization of the unfunded actuarial accrued liability	<u>25.73%</u>	<u>27.71%</u>	<u>26.77%</u>
Total required contributions as a percentage of payroll	<u>38.05%</u>	<u>47.19%</u>	<u>48.16%</u>
2005 actual employee contributions			
Dollar amount	\$10,894	\$ 3,040	\$ 5,239
Percent of covered payroll	6.9%	7.8%	7.4%
2005 actual City contributions			
Dollar amount	\$36,204	\$11,119	\$18,099
Percent of covered payroll	22.9%	28.7%	25.5%

With respect to the General Employees' Pension Plan, which is a multiple-employer plan, the City's actuarially determined contribution required above is only that of the City's portion.

The actual City 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 its actuarially determined funding requirements.

The City's annual pension cost and net pension obligation for the current year and each of the two preceding years were as follows (dollars in thousands).

<u>Plan/Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
General Employees			
2003	\$ 30,615	100%	\$ -
2004	37,084	100%	-
2005	51,773	71.6%	-
Firefighters			
2003	9,681	100%	-
2004	17,452	100%	-
2005	14,040	85.3%	-
Police Officers			
2003	15,062	100%	-
2004	30,459	100%	-
2005	25,271	75.0%	-

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

The City uses the results of its biennial actuarial valuations of its pension plans to determine the two succeeding years' contributions requirements. 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 payroll. The unfunded actuarial accrued liability for funding purposes is amortized over a closed period of 45* years from January 1, 1979 as a level percentage of estimated future payroll, in accordance with State of Georgia guidelines. The net pension obligation could not be distributed to the various proprietary funds and is thus all recorded as long-term debt in the government-wide financial statements. Other actuarial assumptions used to perform the most recent (January 1, 2005) calculations for funding purposes are:

	<u>General Employees</u>	<u>Firefighters</u>	<u>Police Officers</u>
Rate of return on investments	8%	8%	8%
Projected salary increases for			
Inflation	4.5%	2.5%	2.5%
Merit or seniority and Productivity	.75 – 4.5%	4.5%	4.5%
Post-retirement benefit increases	3%	2.5%	2.5%

* Amended from 40 years to 45 years by Ordinance 05-O-1232, adopted by City Council on September 6, 2005 and approved by the Mayor on September 12, 2005.

The following schedule (derived from the most recent actuarial valuation reports) reflects accounting policies, liabilities, and funding provisions for the City's three plans as of December 31, 2005:

	<u>General Employees</u>	<u>Firefighters</u>	<u>Police Officers</u>
Basis of accounting	Accrual	Accrual	Accrual
Asset valuation			
Reporting	Fair Value	Fair Value	Fair Value
Actuarial valuation	Fair Value	Fair Value	Fair Value
Internal loans	None	None	None
Non-governmental individual investment in excess of 5% of net assets	None	None	None

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

Defined Contribution Plan

The City's General Employees' Defined Contribution Plan provides funds at retirement for employees of the City and in the event of death, to provide funds for their beneficiaries, through an arrangement by which contributions are made to the Plan by employees and the City. The current mandatory contribution requirement of the City is 6% of employee payroll. Employees also make a pretax contribution of 6% plus have the option to contribute amounts up to the amount legally limited for retirement contributions. All modifications to the Plan, including contribution requirements, must receive the recommendations of the City Attorney, the Chief Financial Officer, and the board of trustees of the plan. Each pension law modification must be adopted by at least two-thirds vote of the City Council and approved by the Mayor.

All new employees, hired after July 1, 2001, who previously would have been enrolled in the General Employees' Defined Benefit Plan, were enrolled in the General Employees' Defined Contribution Plan. During 2002, persons employed prior to July 1, 2001 were given the option to transfer to the Defined Contribution Plan.

Effective September 1, 2005, classified employees currently in the Defined Contribution Plan have the one-time option of transferring to the General Employee's Pension Plan. Classified employees not covered by either the Police Officers or Firefighters' Pension Plans, hired after September 1, 2005 are required to become members of the General Employee's Pension Plan.

As of December 31, 2005 there were 3,760 participants in the Defined Contribution Plan. The covered payroll for employees in the Plan was \$70,379,875. Employee contributions for the year ended December 31, 2005 were \$4,048,985 and employer contributions were \$3,882,700 or 5.8% and 5.5% of covered payroll, respectively.

The Defined Contribution Plan uses the accrual basis of accounting. Investments are reported at fair value, based on quoted market prices and there were no nongovernmental individual investments that exceeded 5% of the net assets of the Plan.

Postretirement Benefits

In accordance with a City ordinance, the City provides certain health/dental care for retired employees, their dependents, and their beneficiaries. The City also provides life insurance for retired employees and their dependents. These benefits are funded on a pay-as-you-go basis. Substantially all employees may become eligible for these benefits if they reach retirement age, as defined, or are totally disabled while working for the City. Currently, 3,916 retirees meet the eligibility requirements. The City contributes 79% of the premium cost for the median priced health care coverage and contributes \$4.05 per thousand of the premium cost for a retiree's life insurance coverage in amounts ranging from \$1,000 to \$10,000. The City does not contribute to the cost of dependent life insurance. The cost of retiree health/dental care and life insurance benefits is recognized as premiums and self-insurance claims are paid to the private insurers and such costs totaled \$26,674,289 in 2005. The City's contribution to this cost was \$ 20,578,637.

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

Deferred Compensation Plan

The City has adopted a deferred compensation plan in accordance with the 1997 revisions of Section 457 of the Internal Revenue Code. The plan, available to all City employees, allows an employee to voluntarily defer up to 25% of his/her gross compensation, not to exceed certain limits per year. Each participant selects one of three providers to administer the investment of the deferred funds. Administrative costs of the plan are deducted from the participants' accounts. The plan assets are held in custodial accounts for the exclusive benefit of the plan participants and their beneficiaries, and are therefore not included in the City's financial statements.

C. Commitments and Contingent Liabilities

Litigation

The City is subject to various suits and proceedings arising in the ordinary conduct of its affairs and has been named as defendant in numerous lawsuits. The City has accrued amounts related to litigation where an outcome unfavorable to the City is probable and the amount can be reasonably estimated. The City has been named as defendant in several other suits and actions claiming personal and property damages. In the opinion of the City Attorney, all suits and actions now pending, or likely to be filed, will be resolved without a material effect on the financial position of the City.

Grants from Governments

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Internal Revenue Service Notification

The Internal Revenue Service has notified the City that its Water and Wastewater Revenue Bonds, Series 1999A were selected for review because of transactions during 2000 between a former broker who handled investment of the bond proceeds and the bank that provided the investment agreements. The City is cooperating with the IRS in its investigation and expects that the tax-exempt status of the bonds will be preserved.

Construction and Commitments

At December 31, 2005, the total estimated costs on committed projects are \$666,470,000 and \$122,451,000 for the Department of Aviation and Department of Watershed Management, respectively

CITY OF ATLANTA, GEORGIA

Required Supplementary Information

**Schedule of Funding Progress
(Amounts in thousands)**

<u>Plan/ Valuation Date</u>	<u>Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Percentage Funded</u>	<u>Unfunded Accrued Liabilities</u>	<u>Current Year Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
General Employees						
01/01/00	\$ 703,381	\$ 920,409	76.4%	\$ 217,028	\$ 177,754	122.1%
01/01/02	726,180	1,059,876	68.5%	333,096	175,752	189.5%
01/01/04	681,159	1,110,501	61.3%	429,342	160,767	267.1%
Firefighters						
01/01/00	289,054	322,370	89.7%	33,316	38,797	85.9%
01/01/02	326,620	370,291	88.2%	43,671	39,447	110.7%
01/01/04	321,908	417,092	77.2%	95,184	38,303	248.5%
Police Officers						
01/01/00	384,083	419,439	91.6%	35,356	67,330	52.5%
01/01/02	448,676	541,209	82.9%	92,533	68,056	135.9%
01/01/04	440,212	617,501	71.3%	177,289	177,829	280.2%

The City uses the results of its biennial actuarial valuations of its pension plans to determine the two succeeding years' contributions requirements. The actuarial cost method used for funding purposes and to calculate the actuarial liability is the Entry Age Normal Cost Method. The unfunded actuarial accrued liability for funding purposes is amortized over a closed period of 45* years from January, 1979 as a level percentage of estimated future payroll. The actuarial value of assets is determined, for the General Employees' Pension Plan, using the market value, and for the Police Officers' and Firefighters' Pension Plans, using a smoothed five years averaged market value. Other actuarial assumptions used to perform the most recent calculations for funding purposes are:

	<u>General Employees</u>	<u>Firefighters</u>	<u>Police Officers</u>
Rate of return on investments	8%	8%	8%
Projected salary increases for			
Inflation	4.5%	2.5%	2.3%
Merit of seniority and productivity	.75 – 4.5%	4.5%	4.5%
Post-retirement benefit increases	3%	2.5%	2.5%

* Amended from 40 years to 45 years by Ordinance 05-O-1232, adopted by City Council on September 6, 2005 and approved by the Mayor on September 12, 2005.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

PENSION TRUST FUNDS

General Employee's Defined Benefits Pension Fund – To account for the operations of the defined benefits pension plan covering general officers and employees of the City.

General Employees' Defined Contribution Pension Fund – To account for the operation of the defined contribution pension plan covering general officers and employees of the City.

Firefighter's Pension Fund – To account for the operations of the defined benefit pension plan covering fire fighting employees of the City.

Police Officer's Pension Fund – To account for the operations of the defined benefit pension plan covering sworn police employees of the City.

Agency Fund – To account for various taxes, bond deposits and other receipts held in escrow for individuals, outside organizations, other governments or other funds.

CITY OF ATLANTA, GEORGIA
Pension Trust Funds

Combining Statement of Plan Net Assets
December 31, 2005
(In Thousands)

	Pension Trust Funds				Totals
	General Employees' Defined Benefit	General Employees' Defined Contribution	Firefighters'	Police Officers'	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 43,813	\$ -	\$ 45,114	\$ 22,549	\$ 111,476
Investments:					
Equities	448,886	23,601	190,476	298,157	961,120
U. S. government and agency obligations	202,941	-	105,026	169,304	477,271
Corporate bonds	89,279	-	43,473	30,651	163,403
Total Investments	741,106	23,601	338,975	498,112	1,601,794
Securities lending collateral investment pool	140,702	-	36,526	40,999	218,227
Other receivables	7,973	-	1,586	8,161	17,720
Due from other funds	20,737	-	4,099	9,430	34,266
Total assets	<u>\$ 954,331</u>	<u>\$ 23,601</u>	<u>\$ 426,300</u>	<u>\$ 579,251</u>	<u>\$ 1,983,483</u>
LIABILITIES AND NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Current liabilities:					
Accounts payable	\$ 3,364	\$ -	\$ 22,572	\$ 15,384	\$ 41,320
Due to other funds	34,396	-	3,072	-	37,468
Liability for securities lending agreement	140,702	-	36,526	40,999	218,227
Total current liabilities	<u>178,462</u>	<u>-</u>	<u>62,170</u>	<u>56,383</u>	<u>297,015</u>
Net Assets Held in Trust for Pension Benefits:	<u>\$ 775,869</u>	<u>\$ 23,601</u>	<u>\$ 364,130</u>	<u>\$ 522,868</u>	<u>\$ 1,686,468</u>

CITY OF ATLANTA, GEORGIA
Pension Trust Funds

Combining Statement of Changes in Plan Net Assets
For the Year Ended December 31, 2005
(In Thousands)

	Pension Trust Funds				
	General Employees' Defined Benefit	General Employees' Defined Contribution	Firefighters'	Police Officers'	Totals
Additions:					
Employer contributions	\$ 51,780	\$ 3,883	\$ 14,000	\$ 25,271	\$ 94,934
Employee contributions	12,748	4,049	3,071	5,305	25,173
Refunds and other	477	239	67	142	925
Investment income:					
Net appreciation in					
fair value of investments	14,292	-	8,249	22,416	44,957
Investment income	19,789	804	9,763	8,379	38,735
Securities lending income	206	-	101	-	307
Less: Investment expenses	(2,646)	-	(1,207)	(1,020)	(4,873)
Securities lending expenses	-	-	(11)	-	(11)
Net investment income	31,641	804	16,895	29,775	79,115
Total additions	96,646	8,975	34,033	60,493	200,147
Deductions:					
Benefit payments	59,482	1,303	19,895	27,824	108,504
Refunds	2,038	270	43	423	2,774
Administrative expenses	361	-	356	360	1,077
Total deductions	61,881	1,573	20,294	28,607	112,355
Net increase in net assets held in trust for pension benefits	34,765	7,402	13,739	31,886	87,792
Net assets held in trust for pension benefits:					
Beginning of year	741,104	16,199	350,391	490,982	1,598,676
End of year	\$ 775,869	\$ 23,601	\$ 364,130	\$ 522,868	\$ 1,686,468