



CITY OF ATLANTA, GEORGIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Six Months Ended June 30, 2006

**Shirley Franklin
Mayor**

**Janice D. Davis
Chief Financial Officer**

Notes to the Financial Statements-Continued

A. Risk Management, continued

Changes in the balances of claims liabilities for workers' compensation, health/dental insurance and general claims liabilities during the year ended December 31, 2005 and the six months ended June 30, 2006 were as follows (in thousands):

	Beginning of period	Period claims and changes in estimates	Claim payments	End of period
Workers' compensation:				
2005	\$ 32,436	13,226	(6,603)	39,059
2006	\$ 39,059	6,850	(2,041)	43,868
Health and Dental claims:				
2005	\$ -	36,277	(32,323)	3,954
2006	\$ 3,954	20,805	(20,388)	4,371
General claims liability:				
2005	\$ 15,699	1,763	(2,836)	14,626
2006	\$ 14,626	19,129	(4,695)	29,060

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 of the respective plans.

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continue

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 and retirees.

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 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 and certain non-classified employees pay grade 18 and below enrolled in the Defined Contribution Plan had a one-time option of transferring to the General Employee's Pension Plan. Classified employees and certain non-classified 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 Employee's Pension Plan.

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 the percentage increased from 2.0% to 2.5% for each year of service with no maximum years and for Firefighters the percentage increased from 2.0% to 3.0% for each year of service prior to March 31, 2001 plus 3% for each year of service subsequent to

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

March 31, 2001 with no maximum years based on ordinances approved by City Council on September 6, 2005 and signed by the Mayor on September 12, 2005.

Normal retirement, after 10 years of service (decreased from 15 years of service by City Council on September 6, 2005 and approved by the Mayor on September 12, 2005.), 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.

The 30 and out provision was approved for General employees by City Council on November 7, 2005 and approved by the Mayor on November 14, 2005. The same provision for Police was 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.

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 period 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 June 30, 2006 are as follows:

Total current period payroll	<u>\$76,839</u>	<u>\$26,377</u>	<u>\$41,314</u>	<u>\$144,530</u>
Total current period covered payroll	<u>\$71,673</u>	<u>\$23,694</u>	<u>\$39,911</u>	<u>\$135,278</u>

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

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. For the six months ended June 30, 2006, the amortization period used in computing the annual required contribution was at a rate that approximated the 14 years remaining on the 40 year amortization adopted in 1978. The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the actuarial accrued liability.

On September 6, 2005, the City Council passed an ordinance extending the amortization period from 14 years to 19 years which was signed by the Mayor on September 12, 2005.

The required contribution percentages, developed in the most recent (January 1, 2005) actuarial valuations for the plans, to cover pension liabilities and the actual 2006 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>
2006 actual employee contributions			
Dollar amount	\$3,175	\$ 1,826	\$ 2,651
Percent of covered payroll	4.4%	7.7%	6.6%
2006 actual City contributions			
Dollar amount	\$29,890	\$10,547	\$15,687
Percent of covered payroll	41.7%	44.5%	39.3%

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.

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

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 six months ended June 30, 2006 and each of the two preceding years were as follows (dollars in thousands).

<u>Plan/Period</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
General Employees			
2004 (Year Ended)	\$37,084	100%	\$ -
2005 (Year Ended)	51,773	100%	-
2006 (Six Months Ended)	29,799	100%	-
Firefighters			
2004 (Year Ended)	\$17,452	100%	\$ -
2005 (Year Ended)	14,040	100%	-
2006 (Six Months Ended)	8,120	100%	-
Police Officers			
2004 (Year Ended)	\$30,459	100%	\$ -
2005 (Year Ended)	25,271	100%	-
2006 (Six Months Ended)	15,221	100%	-

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, effective with the January 1, 2006 actuarial report is to be amortized over a period of 19 years as a level percentage of estimated future payroll, with a remaining amortization period of 17 years, in accordance with State of Georgia guidelines. (See comment above regarding approval of this change by the City Council). 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:

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

	<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%

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 June 30, 2006:

	<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

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.

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

Effective September 1, 2005, classified employees and certain non-classified employees pay grade 18 and below then enrolled in the Defined Contribution Plan had the one-time option of transferring to the General Employee's Pension Plan. Classified employees and certain non-classified 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 Employee's Pension Plan.

As of June 30, 2006 there were 2,092 participants in the Defined Contribution Plan. The covered payroll for employees in the Plan was \$42,356,000. Employee contributions for the six months ended June 30, 2006 were \$2,524,000 and employer contributions were \$2,517,000 or 6% of covered payroll.

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.

Condensed financial statement information for the Defined Contribution Plan for the six months ended June 30, 2006 is shown below (in thousands):

Current assets:	
Investments	\$ 28,352
Total assets	<u>\$ 28,352</u>
Current liabilities:	
Accounts payable	15
Due to other funds	569
Total current liabilities	<u>\$ 584</u>
Additions:	
Employer contributions	2,517
Employee contributions	2,524
Refunds and other	87
Investment income (loss)	(128)
Total additions	<u>5,000</u>
Deductions:	
Administrative expenses	833
Total deductions:	<u>833</u>
Change in Net Assets held in trust for pension benefits	4,167
Net Assets held in trust for pension benefits:	
Beginning of period	<u>23,601</u>
End of period	<u>\$ 27,768</u>

Notes to the Financial Statements - Continued

B. Employee Retirement Systems and Pension Plans, continued

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, 4,411 retirees meet the eligibility requirements. The City contributes 79% of the premium cost for the median priced health care coverage, 75% of the premium cost for dental coverage and contributes \$3.68 per thousand of the premium cost for a retiree's life insurance coverage in amounts ranging from \$5,000 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 \$17,203,703 for the six months ended June 30, 2006. The City's contribution to this cost was \$13,932,807.

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.

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%
01/01/05	783,446	1,724,147	45.4%	940,700	198,031	475.0%
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%
01/01/05	325,630	445,777	73.0%	120,147	38,774	309.9%
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	99.6%
01/01/05	444,460	658,861	67.5%	214,401	70,973	302.1%

The City uses the results of its actuarial valuations of its pension plans to determine contribution 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, effective with the January 1, 2006 actuarial report is to be amortized over a closed period of 45 years from January 1, 1979 with a remaining amortization period of 19 years, as a level percentage of estimated future payroll. On September 6, 2005, the City Council passed an ordinance amending the amortization period from 40 years to 45 years which was signed by the Mayor on September 12, 2005. 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%

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
June 30, 2006
(In Thousands)

	Pension Trust Funds				Totals
	General Employees' Defined Benefit	General Employees' Defined Contribution	Firefighters'	Police Officers'	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 51,215	\$ -	\$ 42,116	\$ 19,884	\$ 113,215
Investments:					
Equities	376,551	28,352	193,149	299,441	897,493
U. S. government and agency obligations	213,687	-	112,921	184,115	510,723
Corporate bonds	91,181	-	41,368	28,018	160,567
Other	60,309	-	-	-	60,309
Total Investments	<u>741,728</u>	<u>28,352</u>	<u>347,438</u>	<u>511,574</u>	<u>1,629,092</u>
Securities lending collateral investment pool	153,364	-	60,831	58,657	272,852
Due from brokers for securities sold	15,068	-	2,834	5,531	23,433
Other receivables	5,199	-	1,662	1,944	8,805
Due from other funds	10,054	-	4,273	13,131	27,458
 Total assets	 <u>\$ 976,628</u>	 <u>\$ 28,352</u>	 <u>\$ 459,154</u>	 <u>\$ 610,721</u>	 <u>\$ 2,074,855</u>
 LIABILITIES AND NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Current liabilities:					
Accounts payable	\$ 1,093	\$ 15	\$ -	\$ 208	\$ 1,316
Due to brokers for securities purchased	30,156	-	25,421	17,134	72,711
Due to other funds	17,148	569	580	190	18,487
Liability for securities lending agreement	153,363	-	60,831	58,657	272,851
Total current liabilities	<u>201,760</u>	<u>584</u>	<u>86,832</u>	<u>76,189</u>	<u>365,365</u>
Net Assets Held in Trust for Pension Benefits:	<u>\$ 774,868</u>	<u>\$ 27,768</u>	<u>\$ 372,322</u>	<u>\$ 534,532</u>	<u>\$ 1,709,490</u>

CITY OF ATLANTA, GEORGIA
Pension Trust Funds

Combining Statement of Changes in Plan Net Assets
For the Six Months Ended June 30, 2006
(In Thousands)

	Pension Trust Funds				
	General Employees' Defined Benefit	General Employees' Defined Contribution	Firefighters'	Police Officers'	Totals
Additions:					
Employer contributions	\$ 29,890	\$ 2,517	\$ 10,547	\$ 15,687	\$ 58,641
Employee contributions	3,175	2,524	1,826	2,651	10,176
Refunds and other	153	87	-	-	240
Investment income:					
Net appreciation in fair value of investments	(9,108)	(440)	4,731	9,336	4,519
Investment income	11,112	312	5,495	4,213	21,132
Securities lending income	82	-	89	-	171
Less: Investment expenses	(1,613)	-	(591)	(1,000)	(3,204)
Net investment income	473	(128)	9,724	12,549	22,618
Total additions	33,691	5,000	22,097	30,887	91,675
Deductions:					
Benefit payments	33,009	-	12,686	18,142	63,837
Refunds	1,196	-	44	111	1,351
Administrative expenses	487	833	1,175	970	3,465
Total deductions	34,692	833	13,905	19,223	68,653
Net increase in net assets held in trust for pension benefits	(1,001)	4,167	8,192	11,664	23,022
Net assets held in trust for pension benefits:					
Beginning of period	775,869	23,601	364,130	522,868	1,686,468
End of period	\$ 774,868	\$ 27,768	\$ 372,322	\$ 534,532	\$ 1,709,490