

**THE GENERAL RETIREMENT SYSTEM FOR
EMPLOYEES OF JEFFERSON COUNTY, ALABAMA**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

SEPTEMBER 30, 2015 AND 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The General Retirement System for Employees of Jefferson County is a governmental employee defined benefit retirement system established by Act 497, 1965 Regular Session of the Alabama Legislature. The Plan is governed by a five member Pension Board which provides retirement, disability, death and survivor benefits for its members. Management's discussion and analysis of the financial performance of the Plan provides an overview and analysis of financial activities for the fiscal year ended September 30, 2015.

The General Retirement System's fundamental financial objective is to meet long-term benefit obligations through employer and employee contributions and investment income.

Financial Highlights

Net assets held in trust by The General Retirement System, as reported on the *Statement of Plan Net Assets*, totaled \$1,031,304,210 as of September 30, 2015, the end of the plan fiscal year. During the fiscal year, net assets decreased 46,302,235, or 4%, reflecting economic and market conditions

The *Statement of Changes in Plan Net Assets* reflects an increase of \$12.8 million in additions to plan net assets. Of this amount, \$13.5 million represents member and employer contributions, \$.4 million in other income, and \$(1.1) million represents Investment Income less investment manager fees. Government Securities appreciated in value \$23 million for the fiscal year ending September 30, 2015 compared to appreciation in value of \$762 thousand for the fiscal year ending September 30, 2014. Corporate bonds depreciated \$3.6 million for the fiscal year ending September 30, 2015, compared to depreciation in value of \$266 thousand for the fiscal year ending September 30, 2014. Common stocks depreciated \$15 million for the fiscal year ending September 30, 2015 compared to appreciation in value of \$80 million for the fiscal year ending September 30, 2014. Foreign bonds depreciated \$2.8 million for the fiscal year ending September 30, 2015 compared to depreciation of \$57 thousand for the fiscal year ending September 30, 2014. Municipal bonds depreciated \$9 thousand for the fiscal year ending September 30, 2015 compared to appreciation of \$375 thousand for the fiscal year ending September 30, 2014. Other investments depreciated \$24.3 million for the fiscal year ending September 30, 2015 compared to \$2.7 million appreciation for the fiscal year ending September 30, 2014. Participant expenses increased \$840 thousand which is attributed to an increase in the number of retired members and active members separating employment and electing to withdraw their pension contributions.

The General Retirement System's actuary has indicated that the System is in sound financial condition based on the results of the actuarial valuation ending October 1, 2015, which was

conducted in accordance with actuarial principles. The rate of return on investments of (0.11%) on a market value basis, decreased compared to last year's return of 10.63%.


Overview of the Financial Statements

This Comprehensive Annual Financial Report includes the basic financial statements, accompanying notes, required supplementary information and supporting schedules. The *Statement of Plan Net Assets* provides a snapshot of account balances at the end of the fiscal year. This statement reports the assets available for future payments to County retirees and any current liabilities that are owed at the end of the year. These assets, less liabilities, represent the amount of funds that are available for future payments. The *Statement of Changes in Plan Net Assets* reports additions and deductions during the current year.

These statements provide standards regarding required disclosures and the full accrual method of accounting in compliance with the Governmental Accounting Standards Board. The General Retirement System complies with all material requirements of the pronouncements.

The financial statements report the resources available to pay benefits to retirees and other beneficiaries as of the end of fiscal year. Plan investments are reported at their fair market value as of the end of the fiscal year. Liabilities for benefits and refunds are recognized when due and payable according to the terms of the Plan. Revenue is reported in the financial statements when earned and expenses are reported when incurred regardless of when cash is received or paid. Investment gains and losses are reported on a trade-date basis and both realized and unrealized gains and losses on investments are presented. The notes to the financial statements are an integral part of the report. The notes communicate information that is essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. Supplementary information and supporting schedules serve to further enhance understanding of the overall financial picture.

This financial report is designed to provide the Pension Board and its members, Jefferson County Commission, System investment managers, and actuary, with an overview of The General Retirement System for Employees of Jefferson County's finances and to demonstrate the System's accountability for the fund under the Pension Board.



Frank C. Jones
Chairman



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INDEPENDENT AUDITORS' REPORT

Pension Board
The General Retirement System for
Employees of Jefferson County, Alabama
Birmingham, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of The General Retirement System for Employees of Jefferson County, Alabama, which comprise the statements of net assets available for benefits as of September 30, 2015 and 2014, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Plan'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 Plan'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 net assets available for benefits of The General Retirement System for Employees of Jefferson County, Alabama, as of September 30, 2015 and 2014, and the changes in its net assets available for benefits for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1-2, and the supplementary schedules of changes in the net pension liability and related ratios and employer contributions, on pages 18-19 be presented to supplement the financial statements. Such information, although not a required part of the financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 financial statements, and other knowledge we obtained during our audit of the 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 Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of reserve for contingent refunds and reserve for retirement and disability benefits on pages 20-21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

D. Piazza LaRocca Heeter & Co., LLC

January 25, 2016

**THE GENERAL RETIREMENT SYSTEM FOR
EMPLOYEES OF JEFFERSON COUNTY, ALABAMA**

**Statements of Plan Net Assets
For the Years Ended September 30, 2015 and 2014**

ASSETS	<u>2015</u>	<u>2014</u>
CASH AND SHORT-TERM INVESTMENTS	\$ 46,852,851	\$ 25,068,730
INVESTMENTS, AT FAIR VALUE		
Certificates of deposit	-	400,080
United States government securities	119,484,071	153,429,192
Mutual funds	23,714,149	520,602
Corporate bonds	127,075,508	127,424,328
Common stocks	620,369,000	673,359,068
Foreign bonds	32,666,402	32,602,304
Municipal bonds	8,938,835	7,215,949
Other investments	56,554,738	63,426,520
Total investments	<u>988,802,703</u>	<u>1,058,378,043</u>
RECEIVABLES		
Interest and dividends	2,873,767	3,399,711
Prepaid expense	-	20,000
Due from brokers	34,428,902	38,341,877
Pistol permit revenue receivable	74,840	82,278
Total receivables	<u>37,377,509</u>	<u>41,843,866</u>
Total assets	1,073,033,063	1,125,290,639
LIABILITIES		
Accounts payable	691,368	866,102
Due to brokers	41,037,424	46,818,092
Total liabilities	<u>41,728,792</u>	<u>47,684,194</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 15.)	<u>\$ 1,031,304,271</u>	<u>\$ 1,077,606,445</u>
NET ASSETS		
Reserve for contingent refunds	\$ 86,408,784	\$ 86,954,983
Reserve for retirement and disability benefits	944,895,487	990,651,462
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 1,031,304,271</u>	<u>\$ 1,077,606,445</u>

See accompanying independent auditors' report and notes to financial statements.

**THE GENERAL RETIREMENT SYSTEM FOR
EMPLOYEES OF JEFFERSON COUNTY, ALABAMA**

**Statements of Changes in Plan Net Assets
For the Years Ended September 30, 2015 and 2014**

ADDITIONS TO NET ASSETS ATTRIBUTED TO:	2015	2014
Investment income:		
Net appreciation in government securities	\$ 23,041,698	\$ 761,818
Net (depreciation) in corporate bonds	(3,607,126)	(266,442)
Net appreciation (depreciation) in common stocks	(15,084,417)	80,425,128
Net (depreciation) in foreign bonds	(2,785,655)	(57,190)
Net appreciation (depreciation) in other investments	(24,342,676)	2,716,026
Net appreciation (depreciation) in municipal bonds	(9,003)	374,525
Interest	12,600,715	12,495,698
Dividends	13,568,910	13,020,051
Less investment manager fees	3,382,446	109,469,614
	4,490,719	3,763,440
Total investment income	(1,108,273)	105,706,174
Contributions:		
Members	6,715,640	6,562,069
Employer	6,731,915	6,587,691
Total contributions	13,447,555	13,149,760
Other:		
Pistol permits	439,191	770,778
Total other	439,191	770,778
Total additions	\$ 12,778,473	\$ 119,626,712

See accompanying independent auditors' report and notes to financial statements.

**THE GENERAL RETIREMENT SYSTEM FOR
EMPLOYEES OF JEFFERSON COUNTY, ALABAMA**

**Statements of Changes in Plan Net Assets - Continued
For the Years Ended September 30, 2015 and 2014**

	2015	2014
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:		
Participant expenses:		
Benefits paid to participants and beneficiaries	\$ 57,020,620	\$ 55,458,219
Refunds of member contributions	858,465	1,506,557
Direct rollovers of employee contributions	54,030	125,151
Interest paid on refunds of member contributions	72,022	75,242
	58,005,137	57,165,169
Administrative expenses:		
Office expenses	608,100	639,678
Legal and consulting fees	206,281	121,129
Fiduciary bond	100,087	86,335
Other expenses	83,334	84,137
	997,802	931,279
Transfer to 415(m) plan	77,708	83,973
	59,080,647	58,180,421
CHANGE IN NET ASSETS	(46,302,174)	61,446,291
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	1,077,606,445	1,016,160,154
End of year	\$ 1,031,304,271	\$ 1,077,606,445

See accompanying independent auditors' report and notes to financial statements.

**THE GENERAL RETIREMENT SYSTEM
FOR EMPLOYEES OF JEFFERSON COUNTY, ALABAMA
Notes to Financial Statements
September 30, 2015 and 2014**

NOTE 1 - DESCRIPTION OF THE PLAN

The following description of The General Retirement System for Employees of Jefferson County, Alabama (the Plan) provides only general information. Participants should refer to Act No. 2013-415 for a more complete description of the Plan's provisions.

General

The Plan is a defined benefit plan covering substantially all civil service employees of Jefferson County, Alabama (the County). The Plan was established by Act No. 497 of the Regular Session of the Alabama legislature effective August 20, 1965, and as amended provides benefits to retired and disabled employees of the County.

The responsibility for making effective the provisions of Act 497 is vested in the Pension Board which consists of five members. Member Number One serves as the Chairman and is appointed by the Jefferson County Commission and shall have had more than ten years experience in an executive capacity in insurance or actuarial work. Member Number Two is appointed by the Jefferson County Judge of Probate and shall have had at least ten years experience in an executive capacity in investing or banking. Member Number Three is appointed by the Jefferson County Personnel Board. Member Number Four and Member Number Five are elected by the active members of the Retirement System. Each members' term of office is for three years.

Plan membership is mandatory for all classified full-time Jefferson County civil service employees upon commencement of employment. Employees whose employment is not subject to the Civil service system or those who are officers may elect to join. At September 30, 2015 and 2014, membership in the Plan consisted of the following:

	<u>2015</u>	<u>2014</u>
Current active members:		
Vested members	1,309	1,328
Nonvested members	<u>808</u>	<u>780</u>
	<u>2,117</u>	<u>2,108</u>
Retirees and beneficiaries currently receiving benefits	<u>2,249</u>	<u>2,235</u>
Terminated employees electing deferred benefits	<u>261</u>	<u>113</u>

Plan benefits are determined by various criteria including, but not limited to, age, years of service and basic average salary. Basic average salary is defined as the average salary for the highest consecutive 36-month period of employment, excluding overtime and longevity pay. Benefits are limited to a maximum of 75 percent of a member's basic average salary and vest after 10 years of paid service. Benefits are received in monthly payments over the remaining life of the member. Vested members, upon termination, for reasons other than retirement, death or disability, may elect to forego monthly benefit payments and receive a one-time payment of their retirement contributions and related interest. Benefits may be received under the following conditions:

**THE GENERAL RETIREMENT SYSTEM
FOR EMPLOYEES OF JEFFERSON COUNTY, ALABAMA
Notes to Financial Statements
September 30, 2015 and 2014**

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

Normal Retirement - A member may retire upon reaching age 55 with a total of 30 years of service of which at least 20 years are paid membership time with the County, or the member may retire regardless of age after completing 30 years of paid membership time with the County. Otherwise, the member must have attained age 60 with a minimum of 10 years of paid service.

Early Retirement – Any member who has completed 30 years of service, including 10 years of paid membership service, may elect to receive a Regular Early Retirement Benefit reduced by a percentage according to the member’s age on the birthday preceding retirement. Any member who has completed 25 years of paid membership service may elect to receive a 25-Year Early Retirement Benefit reduced by 7% for each year less than 30 years of paid membership.

Investment policy

The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the Pension Board by a majority vote of its members. It is the policy of the Pension Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan’s investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board’s adopted asset allocation policy as of April 1, 2013.

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50%
International equity	10
Domestic fixed income	30
International fixed income	<u>10</u>
Total	<u>100%</u>

The following table represents the net pension liability as of September 30, 2015 (\$ thousands):

Total Pension Liability	\$ 970,676
Fiduciary Net Position	<u>(1,031,304)</u>
Net Pension Liability (Asset)	\$ <u>(60,628)</u>
Ratio of Fiduciary Net Position to Total Pension Liability	106.25%

**THE GENERAL RETIREMENT SYSTEM
FOR EMPLOYEES OF JEFFERSON COUNTY, ALABAMA
Notes to Financial Statements
September 30, 2015 and 2014**

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

The total pension liability was determined by an actuarial valuation as of September 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	4.25 – 7.25 percent, including inflation
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation.

Mortality rates are based on the RP – 2000 Combined Mortality Table with Projection Scale AA set forward one year for males for the period after service retirement and for dependent beneficiaries.

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an actuarial experience study for the period of October 1, 2004 – September 30, 2009.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which the best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
US Large Cap Growth	20.00%	6.65%
US Large Cap Value	20.00%	5.95%
US Small Cap Growth	3.75%	8.25%
US Small Cap Value	3.75%	6.55%
International Equity	7.50%	6.75%
US Fixed Income – Short	12.00%	1.75%
US Fixed Income – Intermediate	11.00%	2.15%
US Fixed Income – Long	12.00%	2.20%
International Fixed Income	<u>10.00%</u>	1.75%
Total	<u>100.00%</u>	

**THE GENERAL RETIREMENT SYSTEM
FOR EMPLOYEES OF JEFFERSON COUNTY, ALABAMA
Notes to Financial Statements
September 30, 2015 and 2014**

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to measure the discount rate assumed that plan member and Employer contributions will be made at the current contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the net pension liability (asset) of the System, calculated using the discount rate of 7.00 percent, as well as what the System's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate (\$ thousands):

	1% Decrease <u>(6.00%)</u>	Current Discount <u>Rate (7.00%)</u>	1% Increase <u>(8.00%)</u>
Plan's net pension liability (asset)	\$ 44,064	\$ (60,628)	\$ (149,625)

September 30, 2015 is the actuarial valuation date upon which the total pension liability (asset) is based. An expected total pension liability is determined as of September 30, 2015 using standard roll forward techniques. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of September 30, 2015, as shown in the following table (\$ thousands):

Total Pension Liability as of September 30, 2014	\$ 951,975
Entry Age Normal Cost for the year ended September 30, 2015	17,325
Interest	64,608
Actual Benefit Payments for the year ended September 30, 2015	<u>(58,006)</u>
Total Pension Liability as of September 30, 2015	<u>975,902</u>
Expected Actual Total Pension Liability as of September 30, 2015	970,676
Difference between Expected and Actual Experience (Gain)/Loss	<u>\$ (5,226)</u>

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**THE GENERAL RETIREMENT SYSTEM
FOR EMPLOYEES OF JEFFERSON COUNTY, ALABAMA
Notes to Financial Statements
September 30, 2015 and 2014**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Valuation and Income Recognition

Plan investments are stated at fair value. Quoted market prices are used for all investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized appreciation or depreciation is reflected in the financial statements, when applicable.

There were no investments in a single security at September 30, 2015 and 2014 that exceeded 5% of Plan net assets.

Reserves for Contingent Refunds and Retirement and Disability Benefits

Contingent refunds represent all contributions made by members into the Plan until refunded or transferred to the reserve for retirement and disability benefits. Such transfers occur when benefit payments equal or exceed the amount of member contributions or when a terminated employee has not requested a refund of his personal contributions within five years of termination.

Fair Value Measurements

The Plan adopted ASC 820, *Fair Value Measurements and Disclosures*, effective October 1, 2008. In accordance with ASC 820, fair value is defined as the price that the Plan would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Plan's own assumptions in determining the fair value of investments)

See note 4, Investments, for a summary of the inputs used as of September 30, 2015 in determining the fair value of the Plan's investments.

**THE GENERAL RETIREMENT SYSTEM
FOR EMPLOYEES OF JEFFERSON COUNTY, ALABAMA
Notes to Financial Statements
September 30, 2015 and 2014**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through January 25, 2016, which is the date the financial statements were available to be issued.

NOTE 3 - RELATED PARTY TRANSACTIONS

Certain Plan short-term investments are comprised of money market accounts managed by Regions Bank, the trustee as defined by the Plan; therefore, these transactions qualify as party-in-interest.

NOTE 4 - INVESTMENTS

The following table represents the fair value of investments by type at September 30, 2015:

Certificates of deposit	\$ -
United States government securities	119,484,071
Mutual funds	23,714,149
Corporate bonds	127,075,508
Common stocks	620,369,000
Foreign bonds	32,666,402
Municipal bonds	8,938,835
Other investments	<u>56,554,738</u>
Total	<u>\$ 988,802,703</u>

The following table represents the fair value of investments by type at September 30, 2014:

Certificates of deposit	\$ 400,080
United States government securities	153,429,192
Mutual funds	520,602
Corporate bonds	127,424,328
Common stocks	673,359,068
Foreign bonds	32,602,304
Municipal bonds	7,215,949
Other investments	<u>63,426,520</u>
Total	<u>\$ 1,058,378,043</u>

**THE GENERAL RETIREMENT SYSTEM
FOR EMPLOYEES OF JEFFERSON COUNTY, ALABAMA
Notes to Financial Statements
September 30, 2015 and 2014**

NOTE 4 - INVESTMENTS (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the pension trust fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the plan, and are held by either: a. the counterparty or b. the counterparty's trust department or agent but not in the Plan's name.

The Plan's investments are held by the bank's trust department. The investments are in the bank's name as nominee and designated to the Plan. These investments are insured for \$75,000,000 per incident.

Interest Rate Risk

As of September 30, 2015, the Plan had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Collateralized Mortgage Obligation	\$ 11,459,885	\$ 696,121	\$ 2,189,891	\$ 2,611,746	\$ 5,962,127
U.S. Government Securities	108,024,186	7,012,559	27,052,463	23,315,605	50,643,559
Corporate bonds	127,075,508	13,779,247	72,901,180	19,784,913	20,610,168
Foreign bonds	32,666,402	4,814,858	9,020,315	16,032,474	2,798,755
Municipal bonds	8,938,835	-	1,065,293	1,209,233	6,664,309
Total	<u>\$ 288,164,816</u>	<u>\$ 26,302,785</u>	<u>\$ 112,229,142</u>	<u>\$ 62,953,971</u>	<u>\$ 86,678,918</u>

The Plan's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Interest rate risk is controlled through diversification of portfolio management styles.

Credit Risk

Approved fixed income securities are to be selected from among U.S. Government and Federal Agency obligations, obligations of foreign governments and agencies, and securities rate "BBB-" or better by one of the recognized bond rating services at the time of purchase. Asset-backed securities, mortgage-backed securities, and CMOs are to be rated "AAA" at the time of purchase.

**THE GENERAL RETIREMENT SYSTEM
FOR EMPLOYEES OF JEFFERSON COUNTY, ALABAMA
Notes to Financial Statements
September 30, 2015 and 2014**

NOTE 4 - INVESTMENTS (Continued)

Concentration of Credit Risk

The General Retirement System for Employees of Jefferson County, Alabama does not have investments in any one issuer which represent 5 percent or more of the total fair value of all investments.

The following is a summary of the inputs used as of September 30, 2015 in valuing the Plan's investments carried at fair value:

	<u>September 30, 2015</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Certificate of deposit	\$ -	\$ -	\$ -	\$ -
United States government				
Securities	119,484,071	-	119,484,071	-
Mutual funds- bond funds	23,714,149	23,714,149	-	-
Corporate bonds	127,075,508	-	127,075,508	-
Common stocks:				
Technology	93,708,607	93,708,607	-	-
Consumer goods	81,661,901	81,661,901	-	-
Healthcare	85,582,656	85,582,656	-	-
Financial	77,221,518	77,221,518	-	-
Industrial goods	62,371,057	62,371,057	-	-
Utilities	7,397,460	7,397,460	-	-
Services	112,613,385	112,613,385	-	-
Basic materials	28,591,964	28,591,964	-	-
Foreign	71,220,452	71,220,452	-	-
Foreign bonds	32,666,402	-	32,666,402	-
Municipal bond	8,938,835	-	8,938,835	-
Other investments	<u>56,554,738</u>	<u>56,554,738</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 988,802,703</u>	<u>\$ 700,637,887</u>	<u>\$ 288,164,816</u>	<u>\$ -</u>

**THE GENERAL RETIREMENT SYSTEM
FOR EMPLOYEES OF JEFFERSON COUNTY, ALABAMA
Notes to Financial Statements
September 30, 2015 and 2014**

NOTE 4 - INVESTMENTS (Continued)

The following is a summary of the inputs used as of September 30, 2014 in valuing the Plan's investments carried at fair value:

	<u>September 30, 2014</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Certificate of deposit	\$ 400,080	\$ 400,080	\$ -	\$ -
United States government				
Securities	153,429,192	-	153,429,192	-
Mutual funds- bond funds	520,602	520,602	-	-
Corporate bonds	127,424,328	-	127,424,328	-
Common stocks:				
Technology	108,855,682	108,855,682	-	-
Consumer goods	75,889,558	75,889,558	-	-
Healthcare	90,833,269	90,833,269	-	-
Financial	81,700,471	81,700,471	-	-
Industrial goods	46,404,137	46,404,137	-	-
Utilities	7,313,947	7,313,947	-	-
Services	107,054,302	107,054,302	-	-
Basic materials	52,533,804	52,533,804	-	-
Foreign	102,773,898	102,773,898	-	-
Foreign bonds	32,602,304	-	32,602,304	-
Municipal bond	7,215,949	-	7,215,949	-
Other investments	<u>63,426,520</u>	<u>63,426,520</u>	<u>-</u>	<u>-</u>
 Total investments	 <u>\$ 1,058,378,043</u>	 <u>\$ 737,706,270</u>	 <u>\$ 320,671,773</u>	 <u>\$ -</u>

**THE GENERAL RETIREMENT SYSTEM
FOR EMPLOYEES OF JEFFERSON COUNTY, ALABAMA
Notes to Financial Statements
September 30, 2014 and 2013**

NOTE 4 - INVESTMENTS (Continued)

The following is a summary of significant valuation techniques for assets and liabilities measured at fair value on a recurring basis:

Level 1 measurements

Certificates of deposit: Comprise actively traded, savings certificates issued by a bank. Valuation is based on unadjusted quoted prices for similar or identical assets in active markets that the Plan can access.

Treasury bills: Comprise actively traded, short term debt obligations backed by the U.S. government. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Plan can access.

Equity securities: Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Plan can access.

Level 2 measurements

Fixed income securities:

Foreign government: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Corporate, including privately placed: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. Also included are privately placed securities valued using a discounted cash flow model that is widely accepted in the financial services industry and uses market observable inputs and inputs derived principally from, or corroborated by, observable market data. The primary inputs to the discounted cash flow model include an interest rate yield curve, as well as published credit spreads for similar assets in markets that are not active that incorporate the credit quality and industry sector of the issuer.

Municipal: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

U.S. Government Obligations: Comprise financial debt instruments backed by the U.S. government. For example, mortgage backed securities, treasury bills, and collateralized mortgage obligations. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credits spreads.

REQUIRED SUPPLEMENTARY INFORMATION

**THE GENERAL RETIREMENT SYSTEM FOR
EMPLOYEES OF JEFFERSON COUNTY, ALABAMA**

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Net Pension Liability and Related Ratios

(\$ in Thousands)

	2015
Total pension liability	
Service cost	\$ 17,325
Interest	64,608
Difference between expected and actual experience	(5,226)
Benefit payments	(57,021)
Refunds of contributions	(985)
Net change in total pension liability	18,701
Total pension liability - beginning	951,975
Total pension liability - ending (a)	\$ 970,676
Plan net position	
Contributions - employer	\$ 6,732
Contributions - member	6,716
Contributions - other	439
Net investment income	(1,107)
Benefit payments	(57,021)
Administrative expense	(998)
Refunds of contributions	(985)
Other	(78)
Net change in plan net position	(46,302)
Plan net position - beginning	1,077,606
Plan net position - ending (b)	\$ 1,031,304
Net pension liability (asset) - ending (a) - (b)	\$ (60,628)
Ratio of plan net position to total pension liability	106.25%
Covered-employee payroll	\$ 112,200
Net pension liability as a percentage of covered-employee payroll	-54.04%

See accompanying independent auditors' report.

**THE GENERAL RETIREMENT SYSTEM FOR
EMPLOYEES OF JEFFERSON COUNTY, ALABAMA**

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions

(\$ in Thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined employer contribution	\$ 6,732	\$ 6,587	\$ 6,851	\$ 7,744	\$ 8,923	\$ 9,297	\$ 9,657	\$ 9,860	\$ 9,407	\$ 9,028	\$ 8,992
Actual employer contributions	<u>6,732</u>	<u>6,587</u>	<u>6,851</u>	<u>7,744</u>	<u>8,923</u>	<u>9,297</u>	<u>9,657</u>	<u>9,860</u>	<u>9,407</u>	<u>9,028</u>	<u>8,992</u>
Annual contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered -employee payroll	\$ 112,200	\$ 109,783	\$ 114,183	\$ 129,067	\$ 148,717	\$ 154,950	\$ 160,950	\$ 164,333	\$ 156,783	\$ 150,467	\$ 149,867
Actual contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

Notes to Required Supplementary Information

Actuarial cost method	Entry age
Amortization method	Level percent, open
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.25 - 7.25 percent
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

Valuation Date - The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, one year prior to the end of the fiscal year in which contributions are reported.

Changes of assumptions - In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the UP94 Mortality Table, which was used prior to In 2010, rates of withdrawal, retirement, disability and mortality were adusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

Changes of benefit terms - None.

See accompanying independent auditors' report.

SUPPLEMENTAL SCHEDULES

**THE GENERAL RETIREMENT SYSTEM FOR
EMPLOYEES OF JEFFERSON COUNTY, ALABAMA**

**SCHEDULES OF RESERVE FOR CONTINGENT REFUNDS
For the Years Ended September 30, 2015 and 2014**

	2015	2014
Additions:		
Member contributions	\$ 6,715,640	\$ 6,562,069
Deductions:		
Transfers to reserve for retirement and disability benefits	6,349,344	7,019,214
Refunds of member contributions	912,495	1,506,557
	7,261,839	8,525,771
Net (decrease)	(546,199)	(1,963,702)
Balance - beginning of year	86,954,983	88,918,685
Balance - end of year	\$ 86,408,784	\$ 86,954,983

See accompanying independent auditors' report.

**THE GENERAL RETIREMENT SYSTEM FOR
EMPLOYEES OF JEFFERSON COUNTY, ALABAMA**

**SCHEDULES OF RESERVE FOR RETIREMENT AND DISABILITY BENEFITS
For the Years Ended September 30, 2015 and 2014**

	2015	2014
Additions:		
Investment income	\$ 21,678,906	\$ 21,752,309
Net appreciation (depreciation) in fair value of investments	(22,787,179)	83,953,865
Employer contributions	6,731,915	6,587,691
Transfers from reserve for contingent refunds	6,349,344	7,019,214
Pistol permits	439,191	770,778
	12,412,177	120,083,857
Deductions:		
Benefits paid to participants and beneficiaries	57,020,620	55,458,219
Direct rollovers of employee contributions	54,030	125,151
Transfer to 415(m) plan	77,708	83,973
Interest paid on refunds of member contributions	72,022	75,242
Administrative expenses	997,802	931,279
	58,222,182	56,673,864
Net increase (decrease)	(45,810,005)	63,409,993
Balance - beginning of year	990,651,462	927,241,469
Balance - end of year	\$ 944,841,457	\$ 990,651,462

See accompanying independent auditors' report.