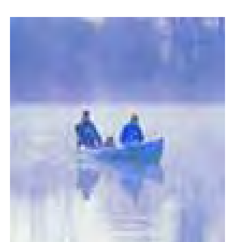
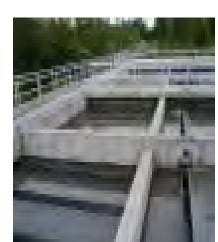
FULTON COUNTY, GEORGIA
WATER & SEWERAGE SYSTEM FUND

(A Fund of Fulton County, Georgia)

Financial Statements
And
Independent Auditors' Report

December 31, 2012 and 2011



FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

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December 31, 2012 and 2011

PJC GROUP, LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Water and Sewerage System Fund
Fulton County, Georgia

We have audited the accompanying financial statements of the business activities of the Water and Sewerage System Fund of Fulton County, Georgia, which comprise the statement of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the 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 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 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 audits 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 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 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 respective financial position of the business activities of the Water and Sewerage System Fund of Fulton County, Georgia as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Suite 2302, 260 Peachtree St. N.W. • Atlanta, Georgia 30303 • Phone: 404.659.3384 • Fax: 404.659.6863

Other Matters
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

PJC Group, LLC

Atlanta, Georgia
June 24, 2013

Management's Discussion and Analysis
(in thousands of dollars)
December 31, 2012

Within this section of the Fulton County Water and Sewerage System Fund (the "System") annual financial report, System management provides narrative discussion and analysis of the financial activities of the System for the fiscal years ended December 31, 2012 and 2011. The financial performance of the System is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. The System is the major enterprise fund of Fulton County, Georgia.

Financial Highlights

Total assets reported in the financial statements are \$1,497,085 for the fiscal year ended December 31, 2012. This compares to the previous year when total assets reported were \$1,532,699 representing a decrease of \$35,614, the primary components of which is depreciation on assets of approximately \$45 million offset by a reduction in previously capitalized bond issue costs of \$3,786.

System bonded debt of \$529,240 decreased by \$9,535 net of principal payments and amortization of bond premiums on the 2011 and remaining 2004 outstanding Water and Sewerage revenue bonds. Approximately \$40 million of the 2004 and the entire 1998 revenue bonds were refinanced in 2011 to attain debt service savings of over \$31 million over the next four years. A liability for contractual termination payments was recorded at December 31, 2012 of \$13,249, and all other liabilities decreased by \$2,061 from 2011.

System net position decreased by \$29,570 during 2012, as compared to 2011's decrease of \$30,329. An approximate \$10 million increase in operating income is attributed to slightly higher water sales and lower operating services, and slightly lower debt service costs due to the recent bond refunding provided an improved change in net position from 2011. Recognition of an unusual and infrequent contract termination payment of \$13,249 also decreased net position for 2012. Total net position at December 31, 2012 was \$955,745, of which \$39,482 is restricted for future debt service, and \$677,926 represents the net investment of capital assets in excess of the related debt to acquire these assets. Unrestricted net position available for system operations and improvements totaled \$238,337 as of December 31, 2012, a slight decrease of \$6,751 from December 31, 2011.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the System's basic financial statements. The basic financial statements include: (1) statements of net position, (2) statements of revenues, expenses and changes in net position, (3) statements of cash flows, and (4) notes to the financial statements.

Basic Financial Statements

The System's annual report includes three basic financial statements. These statements provide both long-term and short-term information about the overall status of the System. Financial reporting of the System uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of these basic statements is the *Statement of Net Position*. This statement presents information that includes all of the System assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

Basic Financial Statements (continued)

The second System statement is the *Statement of Revenues, Expenses and Changes in Net Position* which reports how the System net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The third System statement is the *Statement of Cash Flows* which reports how the System's cash position has changed during the current fiscal year.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the other basic financial statements.

Financial Analysis

The table below provides a summary of Water and Sewerage System fund net position (in thousands):

	2012	2011	2012-2011 Net change	% change	2010	2011-2010 Net change	% change
Assets:							
Current assets	$ 169,259	164,314	4,945	3	156,415	7,899	5
Restricted assets	108,563	124,094	(15,531)	(13)	134,700	(10,606)	(8)
Capital assets, net of depreciation	1,138,176	1,154,935	(16,759)	(1)	1,193,058	(38,123)	(3)
Other non current assets	81,087	89,356	(8,269)	(9)	84,365	4,991	6
Total assets	1,497,085	1,532,699	(35,614)	(2)	1,568,538	(35,839)	(2)
Deferred Outflows of Resources:							
Deferred charge on refunding of bonds	7,697	—	—	-	—	—	-
Total deferred outflows of resources	7,697	—	—	-	—	—	-
Liabilities:							
Current liabilities	24,324	12,794	11,530	90	20,719	(7,925)	(38)
Long-term liabilities	524,713	534,590	(9,877)	(2)	528,389	6,201	1
Total liabilities	549,037	547,384	1,653	-	549,108	(1,724)	-
Net postion:							
Net investment in capital assets	677,926	700,911	(22,985)	(3)	749,611	(48,700)	(6)
Restricted for debt retirement	39,482	39,316	166	-	39,078	238	1
Unrestricted	238,337	245,088	(6,751)	(3)	230,741	14,347	-
Total net position	955,745	985,315	(29,570)	(3)	1,019,430	(34,115)	(3)

The System's assets above decreased from depreciation on water and sewer infrastructure from development, for fiscal 2012.

Long-term liabilities increased slightly with offsetting increases in short term payables and reductions in scheduled principal. Net investment in capital assets also saw the decrease commensurate with the reduction in capital assets due to depreciation.

Management's Discussion and Analysis
(in thousands of dollars)
December 31, 2012

Financial Analysis (continued)

The table below provides a summary of changes in net position (in thousands):

Summary of Revenues, Expenses, and Changes in Net Position

	2012	2011	net change	change	2010	net change	change
Operating revenues:							
Water and sewerage charges	$ 120,060	118,990	1,070	1	120,317	(1,327)	(1)
Total Operating revenues	120,060	118,990	1,070	1	120,317	(1,327)	(1)
Operating expenses:							
Administrative and general	5,687	5,946	(259)	(4)	4,855	1,091	22
Depreciation and amortization	44,979	48,878	(3,899)	(8)	30,342	18,536	61
Personal services	20,693	20,059	634	3	19,771	288	1
Contractual services	24,132	24,777	(645)	(3)	25,056	(279)	(1)
Operating services	18,598	24,480	(5,882)	(24)	25,417	(937)	(4)
Total Operating expenses	114,089	124,140	(10,051)	(8)	105,441	18,699	18
Total Operating income	5,971	(5,150)	11,121	(216)	14,876	(20,026)	(135)
Nonoperating revenues (expenses):							
Gain (loss) on investment in joint venture	(1,929)	(1,626)	(303)	19	(2,085)	459	(22)
Interest income	666	610	56	9	1,277	(667)	(52)
Interest expense	(21,029)	(24,163)	3,134	(13)	(27,270)	3,107	(11)
Total nonoperating revenue(expense)	(22,292)	(25,179)	2,887	(11)	(28,078)	2,899	(10)
Change in net position before capital contributions	(16,321)	(30,329)	14,008	(46)	(13,202)	(17,127)	130
Capital contributions	—	—	—	—	—	—	
Change in net position	(16,321)	(30,329)	14,008	(46)	(13,202)	(17,127)	130
Extraordinary loss	(13,249)	—	(13,249)	—	—	—	—
Net position at beginning of year	985,315	1,019,430	(34,115)	(3)	1,032,632	(13,202)	(1)
Prior period adjustment	—	(3,786)	3,786	—	—	—	—
Beginning Net Position, as restated	985,315	1,015,644	(30,329)	(3)	1,032,632	(16,988)	(2)
Ending Net Position	$ 955,745	985,315	(29,570)	(3)	1,019,430	(34,115)	(3)

The System experienced a slight increase in water and sewer revenues in 2012 as compared to 2011. Rainfall totals impact customer usage for irrigation, which can affect overall system revenues year after year. Operating costs declined for 2012 to 2011, while other categories of cost were relatively constant to 2011. Interest costs decreased slightly with the refinancing of the System's outstanding 1998 and a portion of the 2004 revenue bonds, saving almost $31 million in debt service over the next several years. Interest income continues to lag with lower earnings rates available through capital markets for 2012. Depreciation and amortization have increased significantly from previous years, given the full capitalization of the Johns Creek Environmental Campus sewer treatment plant. Higher in service capital assets will continue to yield higher annual deprecation costs.

FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

Management's Discussion and Analysis
(in thousands of dollars)
December 31, 2012

Capital Assets

Capital asset balances and activity for 2012 and 2011 are shown below:

Water and Sewerage System fund: Capital assets not being depreciated:		January 1, 2012	Increases	Decreases	December 31, 2012
Land improvements	$	8,101	503	—	8,604
Construction in progress		5,139	789	(1,070)	4,858
Total capital assets not being depreciated		13,240	1,292	(1,070)	13,462
Capital assets being depreciated:					
Equipment		13,718	1,012	—	14,730
Water system		262,138	9,067	—	271,205
Sewer system		1,090,657	16,808	—	1,107,465
Intangible assets		169,006	—	—	169,006
Total capital assets being depreciated		1,535,519	26,887	—	1,562,406
Less accumulated depreciation for:					
Equipment		(12,958)	(262)	—	(13,220)
Water system		(67,865)	(10,487)	—	(78,352)
Sewer system		(283,784)	(27,785)	—	(311,569)
Intangible assets		(29,217)	(5,334)	—	(34,551)
Total accumulated depreciation		(393,824)	(43,868)	—	(437,692)
Net capital assets being depreciated		1,141,695	(16,981)	—	1,124,714
Net capital assets-Water & Sewerage System fund	$	1,154,935	(15,689)	(1,070)	1,138,176

Capital assets not being depreciated:		January 1, 2011	Increases	Decreases	December 31, 2011
Land improvements		6,664	1,437	—	8,101
Construction in progress	$	88,934	13,870	(97,665)	5,139
Total capital assets not being depreciated		95,598	15,307	(97,665)	13,240
Capital assets being depreciated:					
Equipment		13,335	383	—	13,718
Water system		219,307	42,831	—	262,138
Sewer system		1,041,176	49,481	—	1,090,657
Intangible assets		169,006	—	—	169,006
Total capital assets being depreciated		1,442,824	92,695	—	1,535,519
Less accumulated depreciation for:					
Equipment		(12,754)	(204)	—	(12,958)
Water system		(63,542)	(4,323)	—	(67,865)
Sewer system		(245,186)	(38,598)	—	(283,784)
Intangible assets		(23,882)	(5,335)	—	(29,217)
Total accumulated depreciation		(345,364)	(48,460)	—	(393,824)
Net capital assets being depreciated		1,097,460	44,235	—	1,141,695
Net capital assets-Water & Sewerage System fund	$	1,193,058	59,542	(97,665)	1,154,935

(in thousands of dollars)

Capital Assets (continued)

The primary change for 2012 and 2011 was investments made from bond proceeds for sewerage treatment facilities. No interest was allocated to capital projects during both years, and donated infrastructure of water and sewer lines from developers significantly since 2009 due to the economic downturn in new home construction.

Agreements with neighboring governments

The System is an equal equity partner in a joint-venture between the County and the City of Atlanta for the construction and operation of a water treatment facility in north Fulton County. The County and the City share equally the costs of construction of the plant, and each is entitled to receive 50% of the total water supply treated by the plant or 50% of the plant's capacity, whichever is greater. The System incurred operating costs of $6.1 million and $6.8 million for 2012 and 2011, respectively, for water produced at this facility. The net value of this joint venture is $81,087 and $80,547 as of December 31, 2012 and 2011, respectively.

The System has paid approximately $167 million in prior years for the purchase of wastewater treatment capacity from neighboring systems, and capitalized the costs up to a 40 year period as required by accounting pronouncements, or shorter periods if contractually stated. These costs are shown as intangible assets within the capital asset section on the financial statements of the Water and Sewerage System fund, and are being amortized using the straight-line method. Amortization of these intangible assets, approximately $5.3 million for 2012 and 2011, is classified as an operating cost on the Statement of Revenues, Expenses and Changes in Fund Net Position-Proprietary funds.

Long term liabilities

This chart displays the System's long-term liabilities as of December 31, 2012. Scheduled bond payments represent the primary change in debt as shown below. A portion of the 2004 and the entire outstanding 1998 revenue bonds were refinanced in 2011, yielding over $31 million in present value savings for system customers. Detailed analysis of System debt is contained within the footnotes.

Issue year	Interest rate range	Final Maturity Date	Outstanding balance	Annual principal installments	Purpose
Business-type activities:					
2011 Water and Sewerage	4.75-5.25	2027	283,966	4,920-20,320	Water/Sewer facilities
2004 Water and Sewerage	3.5-5.25	2034	251,194	155-36,935	Water/Sewer facilities
			$ 535,160		

Contacting the System's Financial Management

This financial report is designed to provide a general overview of the System finances, comply with finance-related laws and regulations and demonstrate commitment to public accountability. If you have questions about this report or would like to request additional information, contact the County's Finance Department, 141 Pryor Street, Suite 7001, Atlanta, Georgia, 30303.

FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

Statements of Net Position

December 31, 2012 and 2011

(In thousands of dollars)

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents (note 2)	$	112,463	52,694
Investments (note 2)		44,986	103,437
Interest receivable		—	8
Customer receivables, net of allowance for doubtful accounts (note 3)		7,203	3,954
Due from other governments, net of allowance for doubtful accounts (note 3)		4,607	4,221
Total current assets		169,259	164,314
Restricted assets (note 1):			
Cash and cash equivalents (note 2)		17,315	42,704
Investments (note 2)		91,157	81,363
Interest receivable		91	27
Total restricted assets		108,563	124,094
Non-current assets:			
Investment in joint venture (note 4)		81,087	80,547
Capital Assets:			
Nondepreciable capital assets		13,462	13,240
Depreciable capital assets, net of accumulated depreciation (note 6)		1,124,714	1,141,695
Other assets		—	8,809
Total non-current assets		1,219,263	1,244,291
Total assets		1,497,085	1,532,699
Deferred Outflows of Resources			
Deferred charge on refunding of bonds (note 5)		7,697	—
Total deferred outflows of resources		7,697	—

See accompanying notes to financial statements. (continued)

Liabilities and Net Position	2012	2011
Liabilities:		
Current liabilities:		
Accounts payable	15,468	3,047
Accrued liabilities and payroll payable	751	602
Total current liabilities payable from unrestricted assets	16,219	3,649
Liabilities payable from restricted assets:		
Contracts and other payables	1,718	3,023
Revenue bonds payable – current portion (note 7)	5,920	5,655
Unearned revenue	467	467
Total liabilities payable from restricted assets	8,105	9,145
Total current liabilities	24,324	12,794
Noncurrent liabilities:		
Revenue bonds payable (note 7)	523,320	533,120
Accrued liabilities	1,393	1,470
Total noncurrent liabilities	524,713	534,590
Total liabilities	549,037	547,384
Net Position:		
Net investment in capital assets	677,926	700,911
Restricted for debt retirement	39,482	39,316
Unrestricted	238,337	245,088
Total Net Position	$ 955,745	985,315

See accompanying notes to financial statements.

FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2012 and 2011

(In thousands of dollars)

		2012	2011
Operating revenues:			
Water and Sewerage charges		120,060	118,990
Total operating revenues		120,060	118,990
Operating expenses:			
Administrative and general		5,687	5,946
Depreciation and amortization		44,979	48,878
Personal services		20,693	20,059
Contractual services		24,132	24,777
Operating services		18,598	24,480
Total operating expenses		114,089	124,140
Operating income		5,971	(5,150)
Non-operating revenues (expenses):			
Loss on investment in joint venture		(1,929)	(1,626)
Interest income		666	610
Interest expense		(21,029)	(24,163)
Total non-operating expenses		(22,292)	(25,179)
Change in net position		(16,321)	(30,329)
Extraordinary loss-(note 12)		(13,249)	—
Net position at beginning of year		985,315	1,019,430
Prior period adjustment (note 13)		—	(3,786)
Net position at beginning of year, as restated		985,315	1,015,644
Net position at end of year	$	955,745	985,315

See accompanying notes to financial statements.

FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

Statements of Cash Flows

Years ended December 31, 2012 and 2011

(In thousands of dollars)

		2012	2011
Cash flows from operating activities:			
Receipts from customers and users	$	116,425	120,329
Payments to suppliers		(50,551)	(56,572)
Payments to employees		(20,620)	(20,181)
Net cash provided by operating activities		45,254	43,576
Cash flows from capital and related financing activities:			
Principal and interest payments on revenue bonds		(30,564)	(315,949)
Proceeds from issuance of revenue bonds		—	289,074
Payments for other assets		—	(4,459)
Principal and interest payments on notes payable		—	(67)
Purchases of capital assets		(27,131)	(14,152)
Net cash provided by (used in) capital and related financing activities		(57,695)	(45,553)
Investing activities:			
Purchase of investments		(136,143)	(184,614)
Purchase of investments in joint venture		(2,487)	—
Proceeds from sale of investments		184,811	186,391
Interest received on investments		640	449
Net cash (used in) provided by investing activities		46,821	2,226
Net change in cash and cash equivalents		34,380	249
Cash and cash equivalents at beginning of year		95,398	95,149
Cash and cash equivalents at end of year	$	129,778	95,398
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	5,971	(5,150)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		44,979	48,878
Changes in assets and liabilities:			
Customer receivables - net		(3,249)	1,585
Change in due from other governments - net		(386)	(246)
Accounts payable		(679)	(1,486)
Accrued liabilities		(77)	(123)
Contractual and other liabilities		(1,305)	118
Net cash provided by operating activities	$	45,254	43,576
Non-cash transactions:			
Unrealized gain (loss) on investments	$	27	186
Gain (loss) on investment in joint venture		(1,929)	(1,626)
Construction in progress not capitalized		—	3,916

(1) Summary of Significant Accounting Policies

(a) Description of the System

The Fulton County, Georgia Water and Sewerage System Fund (the "System") accounts for the provision of water and sewerage services to individuals, organizations, and other governmental units within Fulton County (the "County"), except for those areas of the County serviced by the City of Atlanta. Additionally, the System sells water and treatment plant capacity to neighboring jurisdictions at contractually established rates. All revenues from sources applicable to such services and all expenses incurred in the provision of such services are recorded in the accounts of the System.

The System is considered an enterprise fund of the County, and the accompanying financial statements present only the statements of net position, revenues, expenses and changes in net position, and cash flows of the System; they are not intended to present fairly the government-wide statement of net position and changes in net position of Fulton County, Georgia in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Each year, the County publishes a Comprehensive Annual Financial Report ("CAFR"), which includes the System and all of the County's other funds. The latest available CAFR, at the date of this report, is as of and for the year ended December 31, 2012; the CAFR should be read in conjunction with these financial statements.

In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the System has elected not to apply any Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989 to its enterprise fund. The focus for proprietary fund measurement is upon determination of operating income, changes in net position and cash flow. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and deprecation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The generally accepted accounting principles applicable are those similar to business in the private sector.

(b) Basis of Presentation

As required by various County ordinances and bond indentures, the financial activities of the System are accounted for in separate accounts established by such ordinances or indentures; each such account is considered a separate accounting entity and presented in the accompanying financial statements as a single enterprise fund.

(1) Summary of Significant Accounting Policies (continued)

(c) Investments

Investments are recorded at fair value based on quoted current market values. Interest income on investments is accrued as earned.

(d) Capital Assets

Capital assets are recorded at cost or estimated historical cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

Normal maintenance and repairs are charged to expense as incurred. Major improvements to existing facilities are capitalized. Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period.

The estimated useful lives of the principal classes of assets are as follows:

Classification	Years
System improvements	25-50
Equipment and other	7-12

Donated assets are recorded at their estimated fair market value when received as an addition to capital assets.

Direct costs such as planning, engineering, and construction management are capitalized as incurred in construction projects. Indirect administrative costs are expensed in the period in which they occur.

(e) Bond Premiums or Discounts/Debt Issuance Costs

Bond premiums or discounts are deferred and amortized over the term of the debt. Bond debt issuance costs are expenses as incurred to comply with new Governmental Accounting Reporting Requirement Statement No. 65. Bond premiums or discounts are also now presented separate from the face value of the outstanding debt, and classified as Deferred Outflows of Financial Resources.

(1) Summary of Significant Accounting Policies (continued)

(f) Restricted Assets

Certain proceeds of revenue bonds, as well as resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because their use is limited by bond covenants.

(g) Other Liabilities

System employees are granted annual leave and sick leave in varying amounts. In the event of termination, an employee is reimbursed for an accumulated annual leave up to a maximum of 360 hours. Exempt employees are not eligible to receive compensatory time. Employees are not reimbursed for accumulated sick leave if terminated prior to retirement. Therefore, accrued sick leave is not reported in the accompanying financial statements. Upon retirement, accumulated sick leave may be counted as creditable service for pension benefit purposes. Liabilities for compensated absences other than sick leave are all considered long-term obligations of the System. Accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees.

(h) Interfund Transactions

Quasi-external transactions between the System and other funds and component units of the County are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to the System are recorded as expenses by the System. Services provided by the System to other funds are accounted for in a like fashion.

(i) Restricted Net Position

Restrictions of Net Position are presented consistent with requirements of GASB Statement No. 34 and 63 and various bond covenants of the System.

(j) Statement of Cash Flows

For purposes of the statements of cash flows, the System considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(k) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(1) Summary of Significant Accounting Policies (continued)

(l) Risk Management

The System is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System participates in a County-wide risk management program for all funds of Fulton County, Georgia. Pursuant to this risk management program, the County is self-insured for workers' compensation, unemployment, long-term disability, auto liability, and general liability and fully self-insured for employee medical claims. The County pays such claims as they become due and makes appropriate provision for the accrual of claims liabilities, including incurred but unreported losses. The System funds its estimated portion of the County's risk management activities via quasi-external transactions.

(2) Cash, Cash Equivalents, and Investments

The following is a summary of the carrying amounts of cash, cash equivalents, and investments of the System (in thousands of dollars):

	December 31,	
	2012	2011
Unrestricted:		
Cash and cash equivalents	$ 112,463	52,694
Investments	44,986	103,437
Restricted:		
Cash and cash equivalents	17,315	42,704
Investments	91,157	81,363
	$ 265,921	280,198

Fulton County uses a centralized cash disbursement account for all of its funds including those of the Water and Sewerage System Fund. Although cash applicable to a particular fund is segregated for financial reporting purposes, the corresponding portion of the centralized bank account balance cannot be identified. The bank balances (county-wide) were covered by federal depository insurance or by collateral held by the County's agent in its name.

Interest Rate Risk

State of Georgia statutes authorize the County to invest in direct obligations of the U.S. government, obligations insured or guaranteed by the U.S. government or a U.S. government agency, obligations of any corporation of the U.S. government, prime bankers' acceptances, obligations of the State of Georgia or other states, certain collateralized repurchase agreements, certain obligations of other political subdivisions of the State of Georgia, certain certificates of deposit, and the Georgia Fund-1 state investment pool.

(in thousands of dollars)

(2) Cash, Cash Equivalents, and Investments (continued)

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. As of December 31, 2012 and 2011, the System had the following investments:

		December 31, 2012		
Fixed Income:	Fair Value	to 3 months	4-12 months	1-5yrs
US Agency Obligations	$ 128,487	-	44,986	83,501
Fixed Income subtotal	128,487	-	44,986	83,501
Money Market funds	24,660			
Total cash equivalents and investments	$ 153,147			

		December 31, 2011		
Fixed Income:	Fair Value	to 3 months	4-12 months	1-5yrs
US Agency Obligations	$ 86,338	32,936	-	53,402
Fixed Income subtotal	86,338	32,936	-	53,402
Money Market funds	9,380			
Bankers acceptances	131,399			
Total cash equivalents and investments	$ 227,117			

In accordance with its investment policy and bond covenants, the Water and Sewerage System fund manages its exposure to the risk of declines in fair values of investment by limiting the maturities of its investments to a maximum of five years for all debt service and debt service reserve accounts, and three years for investments held in the construction funds.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the System's deposits may not be recovered. The System limits its exposure to custodial credit risk by requiring all deposits to be collateralized in accordance with state law.

Credit Quality Risk

Credit Quality Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The US Agency obligations totaling $128,487 as of December 31, 2012 and $86,338 as of December 31, 2011 are rated AA. The money market funds and bankers' acceptances are not rated but are collateralized at 102%.

(3) Allowances for Doubtful Accounts

Allowances for doubtful accounts at December 31, 2012 and 2011 are as follows (in thousands of dollars):

	2012	2011
Customer receivables	$ 5,987	6,499
Due from other governments	$ -0-	1,251

(4) Investment in Joint Venture

Atlanta-Fulton County Water Resources Commission - The Atlanta-Fulton County Water Resource Commission is a joint venture between the County and the City of Atlanta for the construction and operation of a water treatment facility in north Fulton County. The County and the City share equally the costs of construction of the plant, and each is entitled to receive 50% of the total water supply treated by the plant or 50% of the plant's capacity, whichever is greater. The costs of operation of the plant were borne pro rata by the City and the County on the basis of water delivered to each party. The County incurred charges of approximately $6.1 million and $6.8 million in 2012 and 2011 respectively, for water produced at this facility, which is classified as an operating cost to the Fulton County Water & Sewerage System.

The Atlanta Fulton County Water Resources Commission is governed by a seven-member management commission, three members of the Commission are appointed by the City, three are appointed by the County, and one independent member is elected by the vote of the other members. Both the City and County approve the annual budget of the Commission.

At December 31, 2012 and 2011, the County's share of the depreciated cost of the facility is shown as "Investment in joint venture" in the accompanying statement of net position.

Complete financial statements for the Atlanta-Fulton County Water Resource Commission can be obtained from the following respective administrative office:

Atlanta-Fulton County Water Resource Commission
9750 Spruill Road
Alpharetta, Georgia 30022

(in thousands of dollars)

(5) Other Assets

Cost-Sharing Arrangements

The County paid $58 million with neighboring Cobb County, Georgia in 2003 for the purchase of long-term wastewater treatment capacity at the R.L Sutton wastewater treatment plant and the adjoining underground conveyance system. In November 2007 the County incurred $99.9 million in similar capital costs through facilities owned by the City of Atlanta. The County will share in the cost of annual capital improvements at these facilities on a pro rata basis, and incurred an additional $10.8 million for the Cobb County facility during 2008. These costs appear as "Intangible Assets" and are included within the capital asset disclosure section of the Water and Sewerage System fund. These assets are being depreciated over 28 years for the Atlanta facilities and 40 years for the Cobb County facilities. Straight line depreciation of these intangible assets approximates $5.3 million for 2012 and 2011, is classified as an operating cost on the Statement of Revenues, Expenses and Changes in Fund Net Position-Proprietary funds. Amounts remaining are $134.5 million and $139.8 million as of December 31, 2012 and 2011.

All other assets represent unamortized bond issuance costs of $8,809 as of December 31, 2011 originally recorded as $12,595, of which $3,786 was charged as a new accounting pronouncement implementation, then was reclassified in the 2012 financial statements as a Deferred charge on refunding of bonds, a Deferred Outflow of Resources, and is $7,697 at December 31, 2012.

(6) Capital Assets

The following charts display capital asset balances and activity for 2012 and 2011.

Water and Sewerage System fund:		January 1, 2012	Increases	Decreases	December 31, 2012
Capital assets not being depreciated:					
Land improvements	$	8,101	503	—	8,604
Construction in progress		5,139	789	(1,070)	4,858
Total capital assets not being depreciated		13,240	1,292	(1,070)	13,462
Capital assets being depreciated:					
Equipment		13,718	1,012	—	14,730
Water system		262,138	9,067	—	271,205
Sewer system		1,090,657	16,808	—	1,107,465
Intangible assets		169,006	—	—	169,006
Total capital assets being depreciated		1,535,519	26,887	—	1,562,406
Less accumulated depreciation for:					
Equipment		(12,958)	(262)	—	(13,220)
Water system		(67,865)	(10,487)	—	(78,352)
Sewer system		(283,784)	(27,785)	—	(311,569)
Intangible assets		(29,217)	(5,334)	—	(34,551)
Total accumulated depreciation		(393,824)	(43,868)	—	(437,692)
Net capital assets being depreciated		1,141,695	(16,981)	—	1,124,714
Net capital assets-Water & Sewerage System fund	$	1,154,935	(15,689)	(1,070)	1,138,176

(in thousands of dollars)

(6) Capital Assets (continued)

Water and Sewerage System fund:		January 1, 2011	Increases	Decreases	December 31, 2011
Capital assets not being depreciated:					
Land improvements	$	6,664	1,437	—	8,101
Construction in progress		88,934	13,870	(97,665)	5,139
Total capital assets not being depreciated		95,598	15,307	(97,665)	13,240
Capital assets being depreciated:					
Equipment		13,335	383	—	13,718
Water system		219,307	42,831	—	262,138
Sewer system		1,041,176	49,481	—	1,090,657
Intangible assets		169,006	—	—	169,006
Total capital assets being depreciated		1,442,824	92,695	—	1,535,519
Less accumulated depreciation for:					
Equipment		(12,754)	(204)	—	(12,958)
Water system		(63,542)	(4,323)	—	(67,865)
Sewer system		(245,186)	(38,598)	—	(283,784)
Intangible assets		(23,882)	(5,335)	—	(29,217)
Total accumulated depreciation		(345,364)	(48,460)	—	(393,824)
Net capital assets being depreciated		1,097,460	44,235	—	1,141,695
Net capital assets-Water & Sewerage System fund	$	1,193,058	59,542	(97,665)	1,154,935

No interest was required to be capitalized from borrowings related to water and sewerage system construction projects in 2012 or 2011. No material capital contributions were received in 2012 or in 2011. Construction in progress costs of $3,916 were expensed in 2011, none in 2012, based on an analysis of the future life of these costs for designs, drawings, and other engineering costs previously accumulated.

(7) Revenue Bonds Payable – Long-term liabilities

On September 7, 2011, the Fulton County Water and Sewerage system issued $251.8 million in refunding bonds with an average interest rate of 3.24 percent to advance refund $39.2 million of outstanding 2004 System revenue bonds and fully refund $251.1 million of 1998 outstanding system revenue bonds. Approximately $43.9 million of bond proceeds were used to acquire securities to deposit into an irrevocable trust with an escrow agent to advance refund the 2004 refunded bonds, and the remaining proceeds were used to pay bondholders of the 1998 outstanding bonds as well as costs of issuance. This refunding decreases total debt service payments over the next four years by $31.2 million resulting in an economic gain of $29.5 million. The revenue bonds considered defeased totaled $43.9 million as of December 31, 2012.

(7) Revenue Bonds Payable – Long-term liabilities (continued)

The System issues revenue bonds whereby it pledges income derived from the System to pay debt service. Revenue bonds outstanding, net of unamortized premiums of $36,395 and $40,275 at December 31, 2012 and 2011, respectively, are as follows (in thousands of dollars):

Issue	rate range	date	and issued	2012	2011
Series 2011	4.75-5.25%	2027	251,770	278,866	288,042
Less current portion				(5,100)	(5,500)
Series 2004	3.5-5.25%	2034	287,000	250,374	250,733
Less current portion				(820)	(155)
				523,320	533,120

The revenue bond indenture contains significant limitations and restrictions on annual debt service requirements, maintenance of and flow of money through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverage ratios. The System's management believes that it is in compliance with all significant financial limitations and restrictions at December 31, 2012 and 2011.

This chart displays the System's long-term liabilities and related activity for 2012 and 2011.

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012	Due within One year
Water & Sewerage Revenue Bonds	$ 498,500	—	(5,655)	492,845	5,920
Less deferred charges, net	40,275	—	(3,880)	36,395	
Total Water & Sewerage Revenue Bonds	538,775	—	(9,535)	529,240	
Other Long-Term Liabilities	1,470	772	(849)	1,393	
Total System long term liabilities	$ 540,245	772	(10,384)	530,633	5,920

	Balance January 1, 2011	Increases	Decreases	Balance December 31, 2011	Due within One year
Water & Sewerage Revenue Bonds	$ 537,260	251,770	(290,530)	498,500	5,655
Less deferred charges, net	1,696	38,579	—	40,275	
Total Water & Sewerage Revenue Bonds	538,956	290,349	(290,530)	538,775	
Note Payable	52		(52)	—	
Other Long-Term Liabilities	1,593	762	(885)	1,470	
Total System long term liabilities	$ 540,601	291,111	(291,467)	540,245	5,655

(7) Revenue Bonds Payable – Long-term liabilities (continued)

Aggregate annual debt service requirements on the System's revenue bonds are as follows (in thousands of dollars):

December 31	Principal	Interest	Total
2013	$ 5,920	24,628	30,548
2014	4,920	24,345	29,265
2015	14,650	24,159	38,809
2016	15,325	23,486	38,811
2017	16,090	22,720	38,810
2018-2022	93,210	100,842	194,052
2023-2027	118,855	75,194	194,049
2028-2032	151,795	42,275	194,070
2033-2037	72,080	5,553	77,633
Total	492,845	343,202	836,047
Deferred charges/premiums	36,395	(36,395)	-
Total	529,240	306,807	836,047

(8) Retirement Plans

(a) County Pension Plan

Employees of the Water and Sewerage System are employees of Fulton County and receive all benefits accorded other County employees. Retirement benefits are governed by statutes enacted by the State of Georgia and the County. The County maintains for eligible employees the Fulton County Employees Retirement System Pension Plan (the "Plan"), a single-employer defined benefit retirement plan. The Plan was created effective September 1, 1991, as successor to four separate County-maintained pension plans, for all eligible employees of Fulton County. Prior to the establishment of the Plan, the employees of the System were participants in one of two predecessor plans, the General Employees' Pension Plan or the Employees' Pension Plan. Employees who did not elect to participate in the Plan will continue to be eligible for the same benefits of the prior plan in which they participated; however, participation is a condition of employment for new employees as of September 1, 1991. Complete Plan financial statements can be obtained at the following address:

Fulton County Finance Department
141 Pryor Street, N.W., Suite 7001
Atlanta, Georgia 30303

(8) Retirement Plans-(continued)

(a) County Pension Plan

The funding method and determination of benefits payable are provided in or authorized by various acts of the Georgia Legislature and statutes enacted by the County under home rule powers granted by the State. The Plan generally provides that funds to provide retirement benefits are to be accumulated from employee and County contributions and income from the investment of accumulated funds. Should the accumulated funds be insufficient to meet and pay the benefits when due, Fulton County shall be required to make up any deficiency.

The Plan provides monthly retirement benefits that represent 2.25% of the participants' monthly earnings (the average of the highest three 12-month periods of employment) for the first five years of creditable service and then 2.5% thereafter. The Plan awards cost-of-living increases annually, up to a 3% maximum. Benefits also may be payable at termination, death, or disability.

The County's contribution is the actuarially determined amount necessary to fund benefits, less employee contributions. The actuarially determined contribution amount is the sum of the annual normal cost and the amortization of the unfunded actuarial accrued liability over the years remaining in the allowable funding period. The actuarial cost method used for funding purposes is the entry age normal cost method. This is one of the approved methods for such plans in Georgia and provides for contributions based on a level percentage of future payrolls. The unfunded actuarial accrued liability is amortized on a closed basis over a period established by State of Georgia guidelines.

The required contribution percentages developed in the most recent actuarial valuations for the Plan, and the actual contributions made for 2012 and 2011 are as follows (in thousands of dollars):

		2012	2011
Total required employer contributions:			
Dollar amount	$	51,199	45,049
Percent of covered payroll		120.01%	91.42%
Actual employer contributions:			
Dollar amount	$	46,065	42,299
Percent of covered payroll		108.08%	85.84%

Employee contribution rates are established in accordance with pension law. During 2012 and 2011, actual countywide employee contributions were $2,827 and $3,225, respectively. These contributions represented 6.63% and 6.54% of covered payroll in 2012 and 2011, respectively. As of June 16, 1999, this Defined Benefit plan was closed to new participants as the County adopted a new Defined Contribution plan under the IRS 401(A) provision for governmental entities. All active participants in the Fulton County Employees' Retirement System have the option to remain in their current defined benefit plan or elect to participate in the defined contribution plan.

(8) Retirement Plans-(continued)

The Plan's annual pension cost and net pension obligation (asset) for the current year were as follows (in thousands of dollars):

		2012	2011
Annual required contribution	$	51,199	45,049
Interest on net pension obligation		(3,762)	(3,862)
Adjustment to annual required contribution		3,883	3,320
Annual pension cost		51,320	44,507
Contributions made with interest		(47,750)	43,857
Decrease in net pension obligation (asset)		3,570	650
Net pension obligation (asset) beginning of year		(47,621)	(48,271)
Net pension obligation (asset) end of year	$	(44,051)	(47,621)

Modifications to the actuarial changes for the January 1, 2013 valuation were approved by the Fulton County Employees Retirement System in January 2013, and include the following. The investment return assumption was additionally lowered to 7.8% from 7.9%. The salary increase assumption was reduced for 2013 from 2% to 0%, 2014 was reduced from 4% to 2%. A new mortality table was added for disabled participants, specifically the RP-2000 Disabled Annuitants Table, still projected to 2019 using Scale AA. Retirement rates for non-Public Safety participants were updated to 26.5% in each year after reaching eligibility for unreduced benefits, with 100% retirement age at age 70. Early retirement rates begin with 8.25% at age 50, grading to 12.00% by age 64. Retirement rates for Public Safety participants were updated to 60% in the first year of eligibility for unreduced benefits and 40% per year thereafter, with 100% retirement at age 65. Early retirement rates begin with 12.55% at age 50, grading to 23.75% by 64. Also, with the addition of assumed early retirement rates, it is now assumed that 80% of participants who retire with reduced benefits take the annuity. Withdrawal and disability rates for participates were revised to reflect experience between 2007 and 2011. The 6.5% load on compensation for vacation pay was reduced to 5.5%, while the 1.50% load on compensation for sick leave was reduced to 1.00%. The combined impact of these assumption changes was a decrease in the ARC of $2.6 million. Also effective January 2013 the Board approved shortening the period for experience gains and losses from 30 years to 25 years, which increased the ARC by $3.1 million.

Actuarial changes for the January 1, 2012 valuation included three changes from the January 1, 2011 actuarial study. Salary increase assumptions for 2012 were decreased to 0.0% from 2.0%, but remain at 2% for 2013 and 2014, and 4% thereafter. Also, the assumed rate of asset return was reduced from 8.0% to 7.9%, and updated mortality tables for actives, disabled, and non-disabled inactives migrated from the 1994 Group Annuity Mortality Tables to the RP-2000 Combined Mortality Tables. These total changes in assumptions along with market conditions increased the actuarial accrued liability from $1,567,306 as of 1/1/2011 to $1,604,463 as of January 1, 2012, an increase of $37,157, or 2.3%.

(in thousands of dollars)

(8) Retirement Plans-(continued)

As of the most recent valuation date of January 1, 2013, Plan funded status was as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
$1,082,180	$1,577,865	$495,685	68.6%	$42,622	1163.0%

Fulton County Employees' Retirement System
Schedule of Employer Contributions
Six-Year Trend Information

Year Ended	Annual Required Contribution	Employer Contributions	Percentage Contributed
December 31, 2007	$ 38,895	37,909	97.5%
December 31, 2008	33,836	32,857	97.1
December 31, 2009	43,008	38,602	89.8
December 31, 2010	36,639	37,326	101.9
December 31, 2011	45,049	42,299	93.9
December 31, 2012	51,199	45,936	89.7

Schedule of Funding Progress (including effects of plan modifications)

Actuarial valuation date	Actuarial value of assets (a)	Entry age normal Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (Asset) (UAAL) (b – a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ([b – a]/c)
December 31, 2006	$ 1,116,451	1,331,658	215,207	83.8%	98,882	217.6%
December 31, 2007	$ 1,193,724	1,383,842	190,118	86.3%	80,266	236.9%
December 31, 2008	1,175,299	1,441,124	265,825	81.6	78,184	340.0
December 31, 2009	1,149,786	1,478,136	328,350	77.8	67,184	488.7
December 31, 2010	1,144,371	1,567,306	422,935	73.0	57,888	730.6
December 31, 2011	1,104,779	1,604,463	499,684	68.9	49,277	1,014.0
December 31, 2012	1,082,180	1,577,865	495,685	68.6	42,622	1,163.0

(b) Defined Contribution Plan

The Fulton County Defined Contribution Pension Plan was established in June 1999 to provide retirement benefits for new employees, appointees and other County officials, as the defined benefit plan was closed. Mass Mutual serves as an independent administrator of the plan. At December 31, 2012, the plan had 4,597 total participants, of which 4,264 are active who contributed 6% of their pensionable earnings, approximately $10,679 during 2012. The County also contributed $14,239 which was 8% of their pensionable earnings throughout the year. Participants fully vest the matched contributions over a five-year period. Plan provisions and contribution requirements are established by and may be amended by the County Board of Commissioners within the scope of all applicable laws.

(9) Deferred Compensation Plan

The County has adopted a deferred compensation plan (the "Plan") in accordance with the 2001 revisions of Section 457 of the Internal Revenue Code. The Plan, available to all Fulton County employees, allows an employee to voluntarily defer receipt of up to 25% of gross compensation, not to exceed $15,000. These are based on the new provisions of the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA). The Plan assets are held in custodial accounts for the exclusive benefit of the Plan participants and their beneficiaries and, therefore, the plan assets and liabilities are not recorded on the financial statements of the County. Valic, ICMA, Nationwide, and MetLife independently managed assets of the plan throughout 2012.

(10) Other Postemployment Benefits

The County provides certain health care and life insurance benefits for retired employees assigned to the System through an independent third party administrator, in which all of the County's employees may become eligible for these benefits if they reach normal retirement age while working for the County. Fulton County contributes 75-90% of the premium cost for health care coverage, based upon the plan chosen by the participant, and contributes 100% of the premium cost for $10,000 of life insurance coverage for those employees retiring after December 1, 1988. The County pays 75% of the life insurance premiums for those persons who retired prior to December 1, 1988. The total cost to provide retiree health care and life insurance benefits are paid through a County internal service fund. In accordance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the County's annual other postemployment benefit (OBEB) cost is calculated based on the Annual Required Contribution of the employer (ARC) which is required to be actuarially determined on a biannual basis.

Specific information regarding the County's OPEB liability and actuarially determined estimates are shown within the County's 2012 Comprehensive Annual Financial Report. The obligation to employees is a County-wide obligation, and not specific to the obligations of the System, but offered to County employees assigned to System operations.

In 2009 Fulton County government contributed $2,185 to an irrevocable trust fund dedicated to pay for future OPEB claims against the unfunded accrued actuarial liability of $1,795,309. No contribution was made subsequently, but the plan has earned $848 since inception. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of future events. Examples include assumptions of future employment, mortality, and health care cost trends. Amounts determined regarding annual required contributions are subject to revision as results are compared with past expectations and new estimates are made about future trends. The schedule of funding progress presents the sixth year of implementation of GASB 45.

(in thousands of dollars)

(10) Other Postemployment Benefits (continued)

The County's annual OPEB cost and net OPEB liability for the year ended December 31, 2012:

Annual required contribution (ARC) for other postemployment benefits (OPEB)	90,746
Interest on annual required contribution	10,933
Adjustment to the ARC	(10,862)
Annual OPEB cost/Annual required contribution	90,817
Annual employer contributions made on claims	(27,327)
Change in net OPEB obligation	63,490
Net OPEB obligation - January 1	273,323
Net OPEB obligation - December 31	$ 336,813

As of the most recent valuation date of January 1, 2013, the OPEB Plan funded status was as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
$3,023	$1,798,332	$1,795,309	0.002%	$226,479	794.0%

Other Post-Employment Benefits Required Supplementary Information

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Entry age normal Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (Asset) (UAAL) (b – a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ([b – a]/c)
December 31, 2007	$ -	1,075,768	1,075,768	0.00%	247,868	434%
December 31, 2008	-	1,075,768	1,075,768	0.00	247,868	434
December 31, 2009	2,225	941,944	939,719	0.00	214,743	437
December 31, 2010	2,492	941,944	939,719	0.00	214,743	437
December 31, 2011	2,689	1,509,799	1,507,110	0.00	224,189	673
December 31, 2012	3,023	1,798,332	1,795,309	0.00	226,479	794

These are liabilities of the County, and not of the Water and Sewerage System. Once separated, these payments or other post-employment benefits are made from the County's internal service fund for retiree health care.

(in thousands of dollars)

(10) Other Postemployment Benefits (continued)

Actuarial Assumptions for the Other Postemployment Benefit plan are noted below:

Cost Method	Attained Age Normal method
Actuarial Asset Valuation Method	Not applicable
Assumed Investment Rate of Return	4.0%
Healthcare Cost Trend Rate	8.0% in 2013 to 5.0% in 2015 and thereafter
Inflation Rate	3.0%
Estimated Salary increases	4.0%
Amortization Method	Level, 30 years, open period
Latest valuation date	January 1, 2013

(11) Contingencies

The System is a defendant in a number of legal actions in the nature of claims for alleged damages to persons and property, civil rights violations, and other similar types of actions arising in the course of normal System operations. In the opinion of System management, there are no suits pending or unasserted claims that would have a material adverse effect on the accompanying financial statements. System improvement commitments total approximately $18,681 and $15,535 as of December 31, 2012 and 2011, respectively.

(12) Subsequent Events & Extraordinary Item

The System issued 2013 Fulton County Water and Sewerage System revenue bonds to refinance all outstanding 2004 Fulton County Water and Sewerage System revenue bonds, which yielded significant savings to the Water and Sewerage system.

In January 2013, the Water and Sewerage System paid $13,249 to a private sewer treatment plant operator for requisite payments to terminate a contractual agreement. This termination results from a comprehensive analysis of sewer flow capacity with new sewer infrastructure placed in service in the last few years, and a determination was made to consolidate sewer flows into the System's larger sewer treatment plant. This termination payment is accrued as a liability at December 31, 2012, and is regarded as both unusual and infrequent to the operations of the System.

(13) Restatement of 2011 Net Position and Fund Balance

In conformity with GAAP, as set forth in the Statement of Governmental Accounting Standards No. 65 "Items Previously Recognized as Assets and Liabilities," the Water and Sewerage System fund recorded the effect of removing unamortized bond issue costs from the statement of net position and treating them as if they had been expensed in the year incurred. This lowered the December 31, 2011 net position of the System by $3,786, originally reported as $989,101 and now amended to $985,315.