

# **FULTON COUNTY, GEORGIA WATER & SEWERAGE SYSTEM FUND**

**(A Fund of Fulton County, Georgia)**

**Financial Statements  
And  
Independent Auditors' Report**

**December 31, 2011 and 2010**



**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

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December 31, 2011 and 2010

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## INDEPENDENT AUDITORS' REPORT

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To the Board of Commissioners  
Water & 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 as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of Fulton County, Georgia's management. 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. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 6 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*PJC Group, LLC*

Atlanta, Georgia  
June 29, 2012

**FULTON COUNTY, GEORGIA**  
**WATER AND SEWERAGE SYSTEM FUND**

Management's Discussion and Analysis

(in thousands of dollars)

December 31, 2011

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, 2011 and 2010. 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 \$1,536,485 for the fiscal year ended December 31, 2011. This compares to the previous year when total assets reported were \$1,568,538 representing a decrease of \$32,053, the primary components of which is depreciation on assets of approximately \$43 million offset by increased capitalized bond issue costs with the 2011 refinancing of outstanding revenue bonds.

System bonded debt of \$538,775 decreased by \$181 net of principal payments and amortization of discount/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. All remaining net liabilities of \$4,185 decreased slightly from the previous year.

System net assets decreased by \$30,329 during 2011, as compared to 2010's decrease of \$13,202. Higher annual depreciation was recorded as significant sewer plant capitalizations are now being recovered over a 40 year lifespan. The System recognized no material capital contributions in fiscal 2011 or 2010, and relatively few in fiscal 2009 as new development all but ceased. Net operating losses of \$5,150 also are affected by increased depreciation, as compared to 2010's net operating income of \$14,876. Total net assets at December 31, 2011 were \$989,101, of which \$39,316 is restricted for future debt service, and \$700,911 represents the investment of capital assets in excess of the related debt to acquire these assets. Unrestricted net assets available for system operations and improvements totaled \$248,874 as of December 31, 2011, an increase of \$18,133 from December 31, 2010.

**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 assets, (2) statements of revenues, expenses and changes in net assets, (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 Assets*. This statement presents information that includes all of the System assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

Management's Discussion and Analysis  
(in thousands of dollars)  
December 31, 2011

**Basic Financial Statements (continued)**

The second System statement is the *Statement of Revenues, Expenses and Changes in Net Assets* which reports how the System net assets 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 assets (in thousands):

Assets:	2011	2010	2010-2009 Net change	% change	2009	2010-2009 Net change	% change
Current assets	\$ 164,314	156,415	7,899	5	146,866	9,549	7
Current restricted assets	124,094	134,700	(10,606)	(8)	159,838	(25,138)	(16)
Capital assets, net of depreciation	1,154,935	1,193,058	(38,123)	(3)	1,207,957	(14,899)	(1)
Other non current assets	93,142	84,365	8,777	-	86,487	(2,122)	(2)
Total assets	<u>1,536,485</u>	<u>1,568,538</u>	<u>(32,053)</u>	(2)	<u>1,601,148</u>	<u>(32,610)</u>	(2)
<b>Liabilities:</b>							
Current liabilities	12,794	20,719	(7,925)	(38)	27,938	(7,219)	(26)
Long-term liabilities	534,590	528,389	6,201	1	540,578	(12,189)	(2)
Total liabilities	<u>547,384</u>	<u>549,108</u>	<u>(1,724)</u>	(0)	<u>568,516</u>	<u>(19,408)</u>	(3)
<b>Net Assets:</b>							
Invested in capital assets, net of related debt	700,911	749,611	(48,700)	(6)	770,950	(21,339)	(3)
Restricted for debt retirement	39,316	39,078	238	1	46,015	(6,937)	(15)
Unrestricted	248,874	230,741	18,133	8	215,667	15,074	-
Total net assets	<u>989,101</u>	<u>1,019,430</u>	<u>(30,329)</u>	(3)	<u>1,032,632</u>	<u>(13,202)</u>	(1)

The System's assets above decreased from depreciation on water and sewer infrastructure from development, for fiscal 2011.

Long-term liabilities increased slightly with restructuring and refinancing of existing revenue bonds during 2011, but total outstanding bonds decreased from 2010. Net assets invested in capital assets, net of related debt, also saw the decrease commensurate with the reduction in capital assets due to depreciation.

**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

Management's Discussion and Analysis

(in thousands of dollars)

December 31, 2011

**Financial Analysis (continued)**

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

**Summary of Revenues, Expenses, and Changes in Net Assets**

	2011	2010	2011-2010 net change	% change	2009	2010-2009 net change	% change
Operating revenues:							
Water and sewerage charges	\$ 118,990	120,317	(1,327)	(1)	107,324	12,993	12
Total Operating revenues	<u>118,990</u>	<u>120,317</u>	<u>(1,327)</u>	<u>(1)</u>	<u>107,324</u>	<u>12,993</u>	<u>12</u>
Operating expenses:							
Administrative and general	5,946	4,855	1,091	22	6,423	(1,568)	(24)
Depreciation and amortization	48,878	30,342	18,536	61	30,631	(289)	(1)
Personal services	20,059	19,771	288	1	19,004	767	4
Contractual services	24,777	25,056	(279)	(1)	23,057	1,999	9
Operating services	24,480	25,417	(937)	(4)	21,330	4,087	19
Total Operating expenses	<u>124,140</u>	<u>105,441</u>	<u>18,699</u>	<u>18</u>	<u>100,445</u>	<u>4,996</u>	<u>5</u>
Total Operating income	<u>(5,150)</u>	<u>14,876</u>	<u>(20,026)</u>	<u>(135)</u>	<u>6,879</u>	<u>7,997</u>	<u>116</u>
Nonoperating revenues (expenses):							
Gain (loss) on investment in joint venture	(1,626)	(2,085)	459	(22)	(1,795)	(290)	16
Interest income	610	1,277	(667)	(52)	1,651	(374)	(23)
Interest expense	(24,163)	(27,270)	3,107	(11)	(27,985)	715	(3)
Total nonoperating revenue(expense)	<u>(25,179)</u>	<u>(28,078)</u>	<u>2,899</u>	<u>(10)</u>	<u>(28,129)</u>	<u>51</u>	<u>(0)</u>
Change in net assets before capital contributions	<u>(30,329)</u>	<u>(13,202)</u>	<u>(17,127)</u>	<u>130</u>	<u>(21,250)</u>	<u>8,048</u>	<u>(38)</u>
Capital contributions	<u>—</u>	<u>—</u>	<u>0</u>	<u>—</u>	<u>438</u>	<u>(438)</u>	<u>(100)</u>
Change in net assets	<u>(30,329)</u>	<u>(13,202)</u>	<u>(17,127)</u>	<u>130</u>	<u>(20,812)</u>	<u>7,610</u>	<u>(37)</u>
Beginning Net Assets	<u>1,019,430</u>	<u>1,032,632</u>	<u>(13,202)</u>	<u>(1)</u>	<u>1,053,444</u>	<u>(20,812)</u>	<u>(2)</u>
Ending Net Assets	<u>\$ 989,101</u>	<u>1,019,430</u>	<u>(30,329)</u>	<u>(3)</u>	<u>1,032,632</u>	<u>(13,202)</u>	<u>(1)</u>

The System experienced a slight drop in water and sewer revenues in 2011 as compared to 2010. Rainfall totals impact customer usage for irrigation, which can affect overall system revenues year after year. Contractual services, operating, administrative and personnel costs remained relatively constant for 2011 to 2010. 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 however also dropped significantly with lower earnings rates available through capital markets for 2010. Depreciation and amortization 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 depreciation costs.

**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

Management's Discussion and Analysis

(in thousands of dollars)

December 31, 2011

**Capital Assets**

Capital asset balances and activity for 2011 and 2010 are shown below:

	<b>January 1,</b>			<b>December 31,</b>
	<b>2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>2011</b>
Water and Sewerage System fund:				
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	<u>95,598</u>	<u>15,307</u>	<u>(97,665)</u>	<u>13,240</u>
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	<u>1,442,824</u>	<u>92,695</u>	<u>—</u>	<u>1,535,519</u>
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	<u>(345,364)</u>	<u>(48,460)</u>	<u>—</u>	<u>(393,824)</u>
Net capital assets being depreciated	<u>1,097,460</u>	<u>44,235</u>	<u>—</u>	<u>1,141,695</u>
Net capital assets-Water & Sewerage System fund	<u>\$ 1,193,058</u>	<u>59,542</u>	<u>(97,665)</u>	<u>1,154,935</u>
	<b>January 1,</b>			<b>December 31,</b>
	<b>2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>2010</b>
Capital assets not being depreciated:				
Land improvements	6,664	—	—	6,664
Construction in progress	\$ 225,420	15,047	(151,533)	88,934
Total capital assets not being depreciated	<u>232,084</u>	<u>15,047</u>	<u>(151,533)</u>	<u>95,598</u>
Capital assets being depreciated:				
Equipment	13,290	45	—	13,335
Water system	218,615	692	—	219,307
Sewer system	890,335	150,841	—	1,041,176
Intangible assets	169,006	—	—	169,006
Total capital assets being depreciated	<u>1,291,246</u>	<u>151,578</u>	<u>—</u>	<u>1,442,824</u>
Less accumulated depreciation for:				
Equipment	(12,475)	(279)	—	(12,754)
Water system	(57,697)	(5,845)	—	(63,542)
Sewer system	(226,654)	(18,532)	—	(245,186)
Intangible assets	(18,547)	(5,335)	—	(23,882)
Total accumulated depreciation	<u>(315,373)</u>	<u>(29,991)</u>	<u>—</u>	<u>(345,364)</u>
Net capital assets being depreciated	<u>975,873</u>	<u>121,587</u>	<u>—</u>	<u>1,097,460</u>
Net capital assets-Water & Sewerage System fund	<u>\$ 1,207,957</u>	<u>136,634</u>	<u>(151,533)</u>	<u>1,193,058</u>

**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

Management's Discussion and Analysis  
(in thousands of dollars)  
December 31, 2011

**Capital Assets (continued)**

The primary change for 2011 and 2010 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 \$6.8 million and \$6.5 million for 2011 and 2010, respectively, for water produced at this facility. The net value of this joint venture is \$80,547 and \$80,584 as of December 31, 2011 and 2010, 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 2011 and 2010, is classified as an operating cost on the Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary funds.

**Long term liabilities**

This chart displays the System's long-term liabilities as of December 31, 2011. 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.

<u>Issue year</u>	<u>Interest rate range</u>	<u>Final Maturity Date</u>	<u>Outstanding balance</u>	<u>Annual principal installments</u>	<u>Purpose</u>
Business-type activities:					
2011 Water and Sewerage	4.75-5.25	2027	288,042	4,920-20,320	Water/Sewer facilities
2004 Water and Sewerage	3.5-5.25	2034	250,733	155-36,935	Water/Sewer facilities
			\$ <u>538,775</u>		

**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 Assets

December 31, 2011 and 2010

(In thousands of dollars)

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Current assets:		
Cash and cash equivalents (note 2)	\$ 52,694	86,004
Investments (note 2)	103,437	60,897
Interest receivable	8	—
Customer receivables, net of allowance for doubtful accounts (note 3)	3,954	5,539
Due from other governments, net of allowance for doubtful accounts (note 3)	4,221	3,975
Total current assets	164,314	156,415
Restricted assets (note 1):		
Cash and cash equivalents (note 2)	42,704	9,145
Investments (note 2)	81,363	125,494
Interest receivable	27	61
Total restricted assets	124,094	134,700
Non-current assets:		
Investment in joint venture (note 4)	80,547	80,584
Capital Assets:		
Nondepreciable capital assets	13,240	95,598
Depreciable capital assets, net of accumulated depreciation (note 6)	1,141,695	1,097,460
Other assets (note 5)	12,595	3,781
Total non-current assets	1,248,077	1,277,423
Total assets	1,536,485	1,568,538

See accompanying notes to financial statements.

(continued)

<b>Liabilities and Net Assets</b>	<b>2011</b>	<b>2010</b>
Liabilities:		
Current liabilities:		
Accounts payable	3,047	4,541
Accrued liabilities and payroll payable	602	594
Total current liabilities payable from unrestricted assets	<u>3,649</u>	<u>5,135</u>
Liabilities payable from restricted assets:		
Contracts and other payables	3,023	2,905
Revenue bonds payable – current portion (note 7)	5,655	12,160
Note payable – current portion (note 8)	—	52
Deferred revenue	467	467
Total liabilities payable from restricted assets	<u>9,145</u>	<u>15,584</u>
Total current liabilities	<u>12,794</u>	<u>20,719</u>
Noncurrent liabilities:		
Revenue bonds payable (note 7)	533,120	526,796
Accrued liabilities	1,470	1,593
Total noncurrent liabilities	<u>534,590</u>	<u>528,389</u>
Total liabilities	<u>547,384</u>	<u>549,108</u>
Net Assets:		
Invested in capital assets, net of related debt	700,911	749,611
Restricted for debt retirement	39,316	39,078
Unrestricted	248,874	230,741
Total Net Assets	<u>\$ 989,101</u>	<u>1,019,430</u>

See accompanying notes to financial statements.

**FULTON COUNTY, GEORGIA**  
**WATER AND SEWERAGE SYSTEM FUND**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2011 and 2010

(In thousands of dollars)

	<b>2011</b>	<b>2010</b>
Operating revenues:		
Water and Sewerage charges	118,990	120,317
Total operating revenues	118,990	120,317
Operating expenses:		
Administrative and general	5,946	4,855
Depreciation and amortization	48,878	30,342
Personal services	20,059	19,771
Contractual services	24,777	25,056
Operating services	24,480	25,417
Total operating expenses	124,140	105,441
Operating income	(5,150)	14,876
Non-operating revenues (expenses):		
Loss on investment in joint venture	(1,626)	(2,085)
Interest income	610	1,277
Interest expense	(24,163)	(27,270)
Total non-operating expenses	(25,179)	(28,078)
Change in net assets before capital contributions	(30,329)	(13,202)
Capital contributions	—	—
Change in net assets	(30,329)	(13,202)
Net assets at beginning of year	1,019,430	1,032,632
Net assets at end of year	\$ 989,101	1,019,430

See accompanying notes to financial statements.

**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

Statements of Cash Flows

Years ended December 31, 2011 and 2010

(In thousands of dollars)

	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Receipts from customers and users	\$ 120,329	119,083
Payments to suppliers	(56,572)	(63,007)
Payments to employees	(20,181)	(19,837)
Net cash provided by operating activities	43,576	36,239
Cash flows from capital and related financing activities:		
Principal and interest payments on revenue bonds	(315,949)	(38,813)
Proceeds from issuance of revenue bonds	289,074	—
Payments for other assets	(4,459)	(224)
Principal and interest payments on notes payable	(67)	(210)
Purchases of capital assets	(14,152)	(15,091)
Net cash provided by (used in) capital and related financing activities	(45,553)	(54,338)
Investing activities:		
Purchase of investments	(184,614)	(188,179)
Proceeds from sale of investments	186,391	181,979
Interest received on investments	449	3,161
Net cash (used in ) provided by investing activities	2,226	(3,039)
Net change in cash and cash equivalents	249	(21,138)
Cash and cash equivalents at beginning of year	95,149	116,287
Cash and cash equivalents at end of year	\$ 95,398	95,149
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ (5,150)	14,876
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	48,878	30,342
Changes in assets and liabilities:		
Customer receivables - net	1,585	(445)
Change in due from other governments - net	(246)	(790)
Accounts payable	(1,486)	(236)
Accrued liabilities	(123)	(66)
Contractual and other liabilities	118	(7,442)
Net cash provided by operating activities	\$ 43,576	36,239
Non-cash transactions:		
Unrealized gain (loss) on investments	\$ 186	1,788
Gain (loss) on investment in joint venture	(1,626)	(2,085)
Construction in progress not capitalized	3,916	—

**FULTON COUNTY, GEORGIA**  
**WATER AND SEWERAGE SYSTEM FUND**

Notes to Financial Statements

(in thousands of dollars)

December 31, 2011 and 2010

**(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 assets, revenues, expenses and changes in net assets, and cash flows of the System; they are not intended to present fairly the government-wide statement of net assets and changes in net assets 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, 2011; the CAFR should be read in conjunction with these financial statements.

The accounting policies of the System conform, in all material respects, to GAAP applicable to enterprise funds of local governmental units and are reported using the economic resources measurement focus and the accrual basis of accounting. As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the System has elected to not apply any Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. The following is a summary of these significant policies.

**(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. For financial reporting purposes, all such accounts are presented in the accompanying financial statements as a single enterprise fund. All significant transactions between accounts and related balances have been eliminated.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges. Enterprise funds are accounted for using the accrual basis of accounting, whereby revenues are recognized when earned, and expenses are recognized at such time as liabilities are incurred. Unbilled service revenue is accrued.

**FULTON COUNTY, GEORGIA**  
**WATER AND SEWERAGE SYSTEM FUND**

Notes to Financial Statements  
(in thousands of dollars)  
December 31, 2011 and 2010

**(1) Summary of Significant Accounting Policies (continued)**

The System distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the System's principal ongoing operations. The principal operating revenue of the System is charges for water and sewerage services. Operating expenses for the System include direct and indirect expenses of providing those services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**(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:

<u>Classification</u>	<u>Years</u>
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 Discounts/Debt Issuance Costs**

Bond discounts and debt issuance costs are deferred and amortized over the term of the debt. Bond discounts and debt issuance costs are accreted or amortized using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable, whereas debt issuance costs are recorded as deferred charges.

**FULTON COUNTY, GEORGIA**  
**WATER AND SEWERAGE SYSTEM FUND**

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(in thousands of dollars)

December 31, 2011 and 2010

**(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 Assets 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 Assets***

Restrictions of Net Assets are presented consistent with requirements of GASB Statement No. 34 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.

**FULTON COUNTY, GEORGIA  
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**(1) Summary of Significant Accounting Policies (continued)**

***(1) 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):

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Unrestricted:		
Cash and cash equivalents	\$ 52,694	86,004
Investments	103,437	60,897
Restricted:		
Cash and cash equivalents	42,704	9,145
Investments	81,363	125,494
	\$ 280,198	281,540

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.



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**(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, 2011 and 2010, the System had the following investments:

	<u>Fair Value</u>	<b>December 31, 2011</b>		
		<u>to 3 months</u>	<u>4-12 months</u>	<u>1-5yrs</u>
Fixed Income:				
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	<u>\$ 227,117</u>			

	<u>Fair Value</u>	<b>December 31, 2010</b>		
		<u>to 3 months</u>	<u>4-12 months</u>	<u>1-5yrs</u>
Fixed Income:				
US Agency Obligations	\$ 62,053	-	-	62,053
Fixed Income subtotal	62,053	-	-	62,053
Money Market funds	6			
Bankers acceptances	184,711			
Total cash equivalents and investments	<u>\$ 246,770</u>			

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 \$86,338 as of December 31, 2011 and \$62,053 as of December 31, 2010 are rated AA. The money market funds and bankers' acceptances are not rated but are collateralized at 102%.

**FULTON COUNTY, GEORGIA  
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December 31, 2011 and 2010

**(3) Allowances for Doubtful Accounts**

Allowances for doubtful accounts at December 31, 2011 and 2010 are as follows (in thousands of dollars):

	<b>2011</b>	<b>2010</b>
Customer receivables	\$ 6,499	6,650
Due from other governments	\$ 1,251	1,192

**(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 \$6.8 million and \$6.5 million in 2011 and 2010 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, 2011 and 2010, the County's share of the depreciated cost of the facility is shown as "Investment in joint venture" in the accompanying statement of net assets.

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

**FULTON COUNTY, GEORGIA  
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**(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, both using the straight-line method. Depreciation of these intangible assets, approximately \$5.3 million for 2011 and 2010, is classified as an operating cost on the Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary funds. Amounts remaining are \$139.8 million and \$145.1 million as of December 31, 2011 and 2010, respectively.

All other assets represent unamortized bond issuance costs of \$12,595 and \$3,781 as of December 31, 2011 and 2010, respectively.

**(6) Capital Assets**

The following charts display capital asset balances and activity for 2011 and 2010.

	<u>January 1,</u> <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2011</u>
Water and Sewerage System fund:				
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	<u>95,598</u>	<u>15,307</u>	<u>(97,665)</u>	<u>13,240</u>
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	<u>1,442,824</u>	<u>92,695</u>	<u>—</u>	<u>1,535,519</u>
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	<u>(345,364)</u>	<u>(48,460)</u>	<u>—</u>	<u>(393,824)</u>
Net capital assets being depreciated	<u>1,097,460</u>	<u>44,235</u>	<u>—</u>	<u>1,141,695</u>
Net capital assets-Water & Sewerage System fund	<u>\$ 1,193,058</u>	<u>59,542</u>	<u>(97,665)</u>	<u>1,154,935</u>

**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

Notes to Financial Statements

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December 31, 2011 and 2010

**(6) Capital Assets (continued)**

	<b>January 1, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>December 31, 2010</b>
Water and Sewerage System fund:				
Capital assets not being depreciated:				
Land improvements	\$ 6,664	—	—	6,664
Construction in progress	225,420	15,047	(151,533)	88,934
Total capital assets not being depreciated	232,084	15,047	(151,533)	95,598
Capital assets being depreciated:				
Equipment	13,290	45	—	13,335
Water system	218,615	692	—	219,307
Sewer system	890,335	150,841	—	1,041,176
Intangible assets	169,006	—	—	169,006
Total capital assets being depreciated	1,291,246	151,578	—	1,442,824
Less accumulated depreciation for:				
Equipment	(12,475)	(279)	—	(12,754)
Water system	(57,697)	(5,845)	—	(63,542)
Sewer system	(226,654)	(18,532)	—	(245,186)
Intangible assets	(18,547)	(5,335)	—	(23,882)
Total accumulated depreciation	(315,373)	(29,991)	—	(345,364)
Net capital assets being depreciated	975,873	121,587	—	1,097,460
Net capital assets-Water & Sewerage System fund	\$ 1,207,957	136,634	(151,533)	1,193,058

No interest was required to be capitalized from borrowings related to water and sewerage system construction projects in 2011 or 2010. No material capital contributions were received in 2011 or in 2010. Construction in progress costs of \$3,916 were expensed in 2011, 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 \$44.1 million as of December 31, 2011.

**FULTON COUNTY, GEORGIA**  
**WATER AND SEWERAGE SYSTEM FUND**

Notes to Financial Statements  
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December 31, 2011 and 2010

**(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 \$40,275 and \$1,696 at December 31, 2011 and 2010, respectively, are as follows (in thousands of dollars):

<u>Issue</u>	<u>rate range</u>	<u>date</u>	<u>and issued</u>	<u>2011</u>	<u>2010</u>
Series 2011	4.75-5.25%	2027	251,770	288,042	—
Less current portion				(5,500)	—
Series 2004	3.5-5.25%	2034	287,000	250,733	291,050
Less current portion				(155)	(155)
Series 1998	4.75-5.25%	2027	276,120	—	247,906
Less current portion				—	(12,005)
				533,120	526,796

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, 2011.

This chart displays the System's long-term liabilities and related activity for 2011 and 2010.

	<u>Balance</u>			<u>Balance</u>	<u>Due</u>
	<u>January 1,</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u>	<u>within</u>
	<u>2011</u>			<u>2011</u>	<u>One year</u>
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
	<u>Balance</u>			<u>Balance</u>	<u>Due</u>
	<u>January 1,</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u>	<u>within</u>
	<u>2010</u>			<u>2010</u>	<u>One year</u>
Water & Sewerage Revenue Bonds	\$ 548,815	—	(11,555)	537,260	12,160
Less deferred charges, net	1,607	89	—	1,696	
Total Water & Sewerage Revenue Bonds	550,422	89	(11,555)	538,956	
Note Payable	250		(198)	52	52
Other Long-Term Liabilities	1,659	796	(862)	1,593	
Total System long term liabilities	\$ 552,331	885	(12,615)	540,601	12,212

**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

Notes to Financial Statements

(in thousands of dollars)

December 31, 2011 and 2010

**(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):

<u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 5,655	24,909	30,564
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
2017-2021	88,810	105,239	194,049
2022-2026	113,200	80,852	194,052
2027-2031	144,505	49,564	194,069
2032-2034	105,515	10,929	116,444
Total	<u>498,500</u>	<u>368,111</u>	<u>866,611</u>
Deferred charges/premiums	<u>40,275</u>	<u>(40,275)</u>	<u>-</u>
Total	<u><u>538,775</u></u>	<u><u>327,836</u></u>	<u><u>866,611</u></u>

**(8) Note Payable**

During 1993, the System entered into a note payable arrangement with an agency of the State of Georgia to finance the construction and improvement of various treatment facilities. This note fully matured in 2011, and no remaining payments are due.

**(9) 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

**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

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**(9) 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 2011 and 2010 are as follows (in thousands of dollars):

	<u>2011</u>	<u>2010</u>
Total required employer contributions:		
Dollar amount	\$ 45,049	36,639
Percent of covered payroll	91.42%	63.29%
Actual employer contributions:		
Dollar amount	\$ 42,299	37,326
Percent of covered payroll	85.84%	64.48%

Employee contribution rates are established in accordance with pension law. During 2011 and 2010, actual countywide employee contributions were \$3,225 and \$3,602, respectively. These contributions represented 6.54% and 6.22% of covered payroll in 2011 and 2010, 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.

**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

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**(9) 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):

	<b>2011</b>	<b>2010</b>
Annual required contribution	\$ 45,049	36,639
Interest on net pension obligation	(3,862)	(3,668)
Adjustment to annual required contribution	3,320	3,328
Annual pension cost	44,507	36,299
Contributions made with interest	43,857	38,715
Increase decrease in net pension obligation (asset)	650	(2,416)
Net pension obligation (asset) beginning of year	(48,271)	(45,855)
Net pension obligation (asset) end of year	\$ (47,621)	(48,271)

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 inactive migrants 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%.

Actuarial changes for the January 1, 2011 valuation only included one change from the changes implemented in 2010. Salary increase assumptions were increased to 2.0% from 0.0% for salary under \$40,000 per year. However, plan provision interpretation changes contributed to a significant increase in the actuarial determined liability. The computation of final average earnings was revised to account for a 27<sup>th</sup> pay period occurring in some of the 12-month periods. This was done by adding a 3.6% load to affected active employees pay rates when computing future benefits. These total changes along with market conditions increased the actuarial accrued liability from \$1,478,136 as of 1/1/2010 to \$1,567,306 as of January 1, 2011, an increase of \$89,170, or 6.0%.

As of the most recent valuation date of January 1, 2012, 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
\$1,104,779	\$1,604,463	\$499,684	68.9%	\$49,277	1014.0%



**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

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**(9) Retirement Plans--(continued)**

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

Year Ended	Annual Required Contribution	Employer Contributions	Percentage Contributed
December 31, 2006	\$ 37,081	36,111	97.4%
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

**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

**(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, 2011, the plan had 4,881 total participants, of which 4,816 are active who contributed 6% of their pensionable earnings, approximately \$10,842 during 2011. The County also contributed \$14,456 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.

**FULTON COUNTY, GEORGIA**  
**WATER AND SEWERAGE SYSTEM FUND**

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(in thousands of dollars)

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**(10) 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 2011.

**(11) 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 (OPEB) 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 2011 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 \$1,507,110. No contribution was made during fiscal 2011 or 2010, but the plan has earned \$504 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 third year of implementation of GASB 45.

**FULTON COUNTY, GEORGIA  
WATER AND SEWERAGE SYSTEM FUND**

Notes to Financial Statements  
(in thousands of dollars)  
December 31, 2011 and 2010

**(11) Other Postemployment Benefits (continued)**

The County's annual OPEB cost and net OPEB liability for the year ended December 31, 2011:

Annual required contribution (ARC) for other postemployment benefits (OPEB)	90,851
Interest on annual required contribution	7,928
Adjustment to the ARC	<u>(7,876)</u>
Annual OPEB cost/Annual required contribution	90,903
Annual employer contributions made on claims	<u>(15,768)</u>
Change in net OPEB obligation	75,135
Net OPEB obligation - January 1	<u>198,188</u>
Net OPEB obligation - December 31	<u><u>\$ 273,323</u></u>

As of the most recent valuation date of January 1, 2011, 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
\$2,689	\$1,509,799	\$1,507,110	0.002%	\$224,189	673.4%

**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

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.

**FULTON COUNTY, GEORGIA**  
**WATER AND SEWERAGE SYSTEM FUND**

Notes to Financial Statements

(in thousands of dollars)

December 31, 2011 and 2010

**(11) 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 2012 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, 2011

**(12) 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 \$15,535 and \$17,878 as of December 31, 2011 and 2010, respectively.