

FULTON COUNTY, GEORGIA WATER & SEWERAGE SYSTEM FUND

(A Fund of Fulton County, Georgia)

Financial Statements And Independent Auditor's Report

December 31, 2015 and 2014



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

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December 31, 2015 and 2014

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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 statements of net position as of December 31, 2015 and 2014, 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, 2015 and 2014, 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.

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 and Required Supplementary Information on pages 29 through 31 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 3, 2016

FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

Management's Discussion and Analysis
(in thousands of dollars)
December 31, 2015 and 2014

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, 2015 and 2014. 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 \$1,440,679 for the fiscal year ended December 31, 2015. This compares to the previous year when total assets reported were \$1,463,293 representing a decrease of \$22,614, as depreciation and amortization outpaced gains in other asset capitalizations.

System bonded debt of \$492,765 decreased from 2014 by \$19,771 net of principal payments and amortization of bond premiums on outstanding Water and Sewerage revenue bonds. All other liabilities decreased slightly by \$1,432 from 2014.

System net position decreased slightly by \$2,229 during 2015 as compared to 2014's increase of \$1,577. Both 2015's operating revenues and operating income remained stable compared to 2014. Total net position at December 31, 2015 was \$946,941, of which \$37,163 is restricted for future debt service, and \$648,725 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 \$261,053 as of December 31, 2015, a slight increase of \$4,770 from December 31, 2014.

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.

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

Management's Discussion and Analysis
(in thousands of dollars)
December 31, 2015 and 2014

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):

	2015	2014	2015-2014 Net change	%	2013	2014-2013 Net change	%
Assets:							
Current assets	\$ 186,166	179,956	6,210	3	166,028	13,928	8
Restricted assets	57,246	82,534	(25,288)	(31)	94,446	(11,912)	(13)
Capital assets, net of depreciation	1,121,435	1,122,911	(1,476)	-	1,129,611	(6,700)	(1)
Other non current assets	75,832	77,892	(2,060)	(3)	78,928	(1,036)	(1)
Total assets	<u>1,440,679</u>	<u>1,463,293</u>	<u>(22,614)</u>	-	<u>1,469,013</u>	<u>(5,720)</u>	-
Deferred Outflows of Resources:							
Deferred charge on refunding of bonds	5,199	6,017	(818)	(14)	6,848	(831)	(12)
Total deferred outflows of resources	<u>5,199</u>	<u>6,017</u>	<u>(818)</u>	(14)	<u>6,848</u>	<u>(831)</u>	(12)
Liabilities:							
Current liabilities	20,122	20,890	(768)	(4)	9,235	11,655	126
Long-term liabilities	478,815	499,250	(20,435)	(4)	519,033	(19,783)	(4)
Total liabilities	<u>498,937</u>	<u>520,140</u>	<u>(21,203)</u>	-	<u>528,268</u>	<u>(8,128)</u>	(2)
Net position:							
Net investment in capital assets	648,725	655,841	(7,116)	(1)	664,445	(8,604)	(1)
Restricted for debt retirement	37,163	37,046	117	-	36,924	122	-
Unrestricted	261,053	256,283	4,770	2	246,224	10,059	4
Total net position	<u>946,941</u>	<u>949,170</u>	<u>(2,229)</u>	-	<u>947,593</u>	<u>1,577</u>	-

The System's assets above decreased slightly from depreciation on water and sewer infrastructure from development outpacing new capitalizations during 2015.

Long-term liabilities decreased due to reductions in scheduled principal during 2015, while short term payables decreased slightly from the previous year. The Net investment in capital assets also trended similar to total assets as depreciation outpaced new capitalized assets in 2015.

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

Management's Discussion and Analysis

(in thousands of dollars)

December 31, 2015 and 2014

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

	2015	2014	2015-2014 net change	% change	2013	2014-2013 net change	% change
Operating revenues:							
Water and sewerage charges	\$ 121,756	119,730	2,026	2	117,871	1,859	2
Total Operating revenues	<u>121,756</u>	<u>119,730</u>	<u>2,026</u>	2	<u>117,871</u>	<u>1,859</u>	2
Operating expenses:							
Administrative and general	4,012	3,876	136	4	6,830	(2,954)	(43)
Depreciation and amortization	33,898	33,711	187	1	33,319	392	1
Personal services	21,482	21,854	(372)	(2)	20,817	1,037	5
Contractual services	29,445	27,689	1,756	6	26,135	1,554	6
Operating services	15,848	14,126	1,722	12	13,502	624	5
Total Operating expenses	<u>104,685</u>	<u>101,256</u>	<u>3,429</u>	3	<u>100,603</u>	<u>653</u>	1
Total Operating income	<u>17,071</u>	<u>18,474</u>	<u>(1,403)</u>	(8)	<u>17,268</u>	<u>1,206</u>	7
Nonoperating revenues (expenses):							
Gain (loss) on investment in joint venture	(2,661)	(1,687)	(974)	58	(2,159)	472	(22)
Interest income	366	377	(11)	(3)	225	152	68
Interest expense	(17,005)	(17,136)	131	(1)	(15,052)	(2,084)	14
Total nonoperating revenue(expense)	<u>(19,300)</u>	<u>(18,446)</u>	<u>(854)</u>	5	<u>(16,986)</u>	<u>(1,460)</u>	9
Change in net position	(2,229)	28	(2,257)	(8,061)	282	(254)	(90)
Extraordinary gain (loss)	—	1,549	(1,549)	(100)	(8,434)	9,983	(118)
Net position at beginning of year	949,170	947,593	1,577	—	955,745	(8,152)	(1)
Prior period adjustment	—	—	—	—	—	3,786	100
Beginning Net Position, as restated	<u>949,170</u>	<u>947,593</u>	<u>1,577</u>	—	<u>955,745</u>	<u>(8,152)</u>	(1)
Ending Net Position	<u>\$ 946,941</u>	<u>949,170</u>	<u>(2,229)</u>	—	<u>947,593</u>	<u>1,577</u>	—

The System experienced a slight increase in water and sewer revenues in 2014 as compared to 2013, but overall remains relatively stable from 2012. Rainfall totals impact customer usage for irrigation, which can affect overall system revenues year after year. Operating service costs increases slightly in 2014 for contractual services, but decreased in the administrative category due to lower required cost allocation charges from the County's support service agencies, due to reorganization of the primary infrastructure support agency into a separate support group for water resource management.

FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

Management's Discussion and Analysis
(in thousands of dollars)

December 31, 2015 and 2014

Capital Assets

Capital asset balances and activity for 2015 and 2014 are shown below:

	January 1,	Increases	Decreases	December 31,
	2015	2015	2015	2015
Water and Sewerage System fund:				
Capital assets not being depreciated:				
Land improvements	\$ 10,193	8	—	10,201
Construction in progress	26,017	20,340	—	46,357
Total capital assets not being depreciated	<u>36,210</u>	<u>20,348</u>	<u>—</u>	<u>56,558</u>
Capital assets being depreciated:				
Equipment	16,887	341	—	17,228
Water system	281,219	2,094	—	283,313
Sewer system	1,122,629	8,821	—	1,131,450
Intangible assets	169,006	—	—	169,006
Total capital assets being depreciated	<u>1,589,741</u>	<u>11,256</u>	<u>—</u>	<u>1,600,997</u>
Less accumulated depreciation for:				
Equipment	(14,109)	(649)	—	(14,758)
Water system	(88,608)	(5,128)	—	(93,736)
Sewer system	(355,104)	(21,968)	—	(377,072)
Intangible assets	(45,219)	(5,335)	—	(50,554)
Total accumulated depreciation	<u>(503,040)</u>	<u>(33,080)</u>	<u>—</u>	<u>(536,120)</u>
Net capital assets being depreciated	<u>1,086,701</u>	<u>(21,824)</u>	<u>—</u>	<u>1,064,877</u>
Net capital assets-Water & Sewerage System fund	<u>\$ 1,122,911</u>	<u>(1,476)</u>	<u>—</u>	<u>1,121,435</u>
	January 1,	Increases	Decreases	December 31,
	2014	2014	2014	2014
Capital assets not being depreciated:				
Land improvements	10,056	137	—	10,193
Construction in progress	\$ 15,300	10,717	—	26,017
Total capital assets not being depreciated	<u>25,356</u>	<u>10,854</u>	<u>—</u>	<u>36,210</u>
Capital assets being depreciated:				
Equipment	15,229	1,658	—	16,887
Water system	275,486	5,733	—	281,219
Sewer system	1,114,696	7,933	—	1,122,629
Intangible assets	169,006	—	—	169,006
Total capital assets being depreciated	<u>1,574,417</u>	<u>15,324</u>	<u>—</u>	<u>1,589,741</u>
Less accumulated depreciation for:				
Equipment	(13,660)	(449)	—	(14,109)
Water system	(83,480)	(5,128)	—	(88,608)
Sewer system	(333,137)	(21,967)	—	(355,104)
Intangible assets	(39,885)	(5,334)	—	(45,219)
Total accumulated depreciation	<u>(470,162)</u>	<u>(32,878)</u>	<u>—</u>	<u>(503,040)</u>
Net capital assets being depreciated	<u>1,104,255</u>	<u>(17,554)</u>	<u>—</u>	<u>1,086,701</u>
Net capital assets-Water & Sewerage System fund	<u>\$ 1,129,611</u>	<u>(6,700)</u>	<u>—</u>	<u>1,122,911</u>

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

Management's Discussion and Analysis
(in thousands of dollars)
December 31, 2015 and 2014

Capital Assets (continued)

The primary change for 2015 and 2014 was investments made from bond proceeds for sewerage treatment facilities. No interest was allocated to capital projects during both years, and no material donations of infrastructure of water and sewer lines from developers were recorded in either year.

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 approximately \$6 million annually for water produced at this facility. The net value of this joint venture is \$75,832 and \$77,892 as of December 31, 2015 and 2014, 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 2015 and 2014, 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, 2015. 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:					
2013 Water and Sewerage	4.80-5.25	2034	223,265	5,080-36,935	Water/Sewer facilities
2011 Water and Sewerage	2.00-5.00	2027	221,600	15,325-20,270	Water/Sewer facilities
			\$ <u>444,865</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 Position

December 31, 2015 and 2014

(In thousands of dollars)

Assets	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 171,525	165,761
Investments (note 2)	—	—
Interest receivable	—	—
Customer receivables, net of allowance for doubtful accounts (note 3)	9,622	9,807
Due from other governments, net of allowance for doubtful accounts (note 3)	5,019	4,388
Total current assets	<u>186,166</u>	<u>179,956</u>
Restricted assets (note 1):		
Cash and cash equivalents (note 2)	21,937	17,249
Investments (note 2)	35,281	65,263
Interest receivable	28	22
Total restricted assets	<u>57,246</u>	<u>82,534</u>
Non-current assets:		
Investment in joint venture (note 4)	75,832	77,892
Capital Assets:		
Nondepreciable capital assets	56,558	36,210
Depreciable capital assets, net of accumulated depreciation (note 6)	1,064,877	1,086,701
Other assets	—	—
Total non-current assets	<u>1,197,267</u>	<u>1,200,803</u>
Total assets	<u>1,440,679</u>	<u>1,463,293</u>
Deferred Outflows of Resources		
Deferred charge on refunding of bonds (note 5)	5,199	6,017
Total deferred outflows of resources	<u>5,199</u>	<u>6,017</u>

See accompanying notes to financial statements.

(continued)

Liabilities and Net Position	2015	2014
Liabilities:		
Current liabilities:		
Accounts payable	1,942	1,145
Accrued liabilities and payroll payable	848	895
Total current liabilities payable from unrestricted assets	<u>2,790</u>	<u>2,040</u>
Liabilities payable from restricted assets:		
Contracts and other payables	1,540	3,733
Revenue bonds payable – current portion (note 7)	15,325	14,650
Unearned revenue	467	467
Total liabilities payable from restricted assets	<u>17,332</u>	<u>18,850</u>
Total current liabilities	<u>20,122</u>	<u>20,890</u>
Noncurrent liabilities:		
Revenue bonds payable (note 7)	477,440	497,886
Accrued liabilities	1,375	1,364
Total noncurrent liabilities	<u>478,815</u>	<u>499,250</u>
Total liabilities	<u>498,937</u>	<u>520,140</u>
Net Position:		
Net investment in capital assets	648,725	655,841
Restricted for debt retirement	37,163	37,046
Unrestricted	261,053	256,283
Total Net Position	<u>\$ 946,941</u>	<u>949,170</u>

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, 2015 and 2014

(In thousands of dollars)

	2015	2014
Operating revenues:		
Water and Sewerage charges	121,756	119,730
Total operating revenues	121,756	119,730
Operating expenses:		
Administrative and general	4,012	3,876
Depreciation and amortization	33,898	33,711
Personal services	21,482	21,854
Contractual services	29,445	27,689
Operating services	15,848	14,126
Total operating expenses	104,685	101,256
Operating income	17,071	18,474
Non-operating revenues (expenses):		
Loss on investment in joint venture	(2,661)	(1,687)
Interest income	366	377
Interest expense	(17,005)	(17,136)
Total non-operating expenses	(19,300)	(18,446)
Change in net position	(2,229)	28
Extraordinary items-Note 11	—	1,549
Net position at beginning of year	949,170	947,593
Net position at end of year	\$ 946,941	949,170

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 2015 and 2014

(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 121,310	117,530
Payments to suppliers	(50,748)	(43,766)
Payments to employees	(21,471)	(21,811)
Net cash provided by operating activities	<u>49,091</u>	<u>51,953</u>
Cash flows from capital and related financing activities:		
Principal and interest payments on revenue bonds	(36,776)	(27,231)
Proceeds from sale of capital assets	—	1,549
Payments for joint venture	(601)	(651)
Purchases of capital assets	(31,622)	(26,180)
Net cash provided by (used in) capital and related financing activities	<u>(68,999)</u>	<u>(52,513)</u>
Investing activities:		
Purchase of investments	(35,281)	(65,263)
Proceeds from sale of investments	65,263	90,578
Interest received on investments	378	410
Net cash (used in) provided by investing activities	<u>30,360</u>	<u>25,725</u>
Net change in cash and cash equivalents	10,452	25,165
Cash and cash equivalents at beginning of year	<u>183,010</u>	<u>157,845</u>
Cash and cash equivalents at end of year	<u>\$ 193,462</u>	<u>183,010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 17,071	18,474
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	33,898	33,711
Changes in assets and liabilities:		
Customer receivables - net	185	(2,639)
Change in due from other governments - net	(631)	439
Accounts payable	750	(138)
Accrued liabilities	11	43
Contractual and other liabilities	(2,193)	2,063
Net cash provided by operating activities	<u>\$ 49,091</u>	<u>51,953</u>
Non-cash transactions:		
Unrealized gain (loss) on investments	\$ (18)	(33)
Gain (loss) on investment in joint venture	(2,661)	(1,687)

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(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, 2015; the CAFR should be read in conjunction with these financial statements.

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 funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation 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.

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(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:

<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 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.

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(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.

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(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):

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Unrestricted:		
Cash and cash equivalents	\$ 171,525	165,761
Restricted:		
Cash and cash equivalents	21,937	17,249
Investments	35,281	65,263
	<u>\$ 228,743</u>	<u>248,273</u>

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.

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(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, 2015 and 2014, the System had the following investments:

	<u>Fair Value</u>	<u>December 31, 2015</u>		
		<u>to 3 months</u>	<u>4-12 months</u>	<u>1-5yrs</u>
Fixed Income:				
US Agency Obligations	\$ 35,281	-	-	35,281
Fixed Income subtotal	35,281	-	-	35,281
Money Market funds	20,753			
Georgia Fund I	171,164			
Total cash equivalents and investments	<u>\$ 227,198</u>			

	<u>Fair Value</u>	<u>December 31, 2014</u>		
		<u>to 3 months</u>	<u>4-12 months</u>	<u>1-5yrs</u>
Fixed Income:				
US Agency Obligations	\$ 65,263	-	14,981	50,282
Fixed Income subtotal	65,263	-	14,981	50,282
Money Market funds	16,059			
Total cash equivalents and investments	<u>\$ 81,322</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 \$35,281 as of December 31, 2015 and \$65,263 as of December 31, 2014 are rated AAA/AA+. The short term money market funds possess the highest short term ratings by each rating agency. Georgia Fund I is rated AA Af and managed by the State of Georgia.

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(3) Allowances for Doubtful Accounts

Allowances for doubtful accounts at December 31, 2015 and 2014 are as follows (in thousands of dollars):

	<u>2015</u>	<u>2014</u>
Customer receivables	\$ 881	936
Due from other governments	\$ -0-	-0-

(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 \$6.6 million and \$6.2 million in 2015 and 2014 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, 2015 and 2014, 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

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(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 annually and is classified as an operating cost on the Statement of Revenues, Expenses and Changes in Fund Net Position-Proprietary funds. Amounts remaining are \$118.4 million and \$123.8 million as of December 31, 2015 and 2014.

Deferred charge on refunding of bonds, classified as a Deferred Outflow of Resources, and is \$5,199 and \$6,017 at December 31, 2015 and December 31, 2014.

(6) Capital Assets

The following charts display capital asset balances and activity for 2015 and 2014.

	January 1,			December 31,
	2015	Increases	Decreases	2015
Water and Sewerage System fund:				
Capital assets not being depreciated:				
Land improvements	\$ 10,193	8	—	10,201
Construction in progress	26,017	20,340	—	46,357
Total capital assets not being depreciated	36,210	20,348	—	56,558
Capital assets being depreciated:				
Equipment	16,887	341	—	17,228
Water system	281,219	2,094	—	283,313
Sewer system	1,122,629	8,821	—	1,131,450
Intangible assets	169,006	—	—	169,006
Total capital assets being depreciated	1,589,741	11,256	—	1,600,997
Less accumulated depreciation for:				
Equipment	(14,109)	(649)	—	(14,758)
Water system	(88,608)	(5,128)	—	(93,736)
Sewer system	(355,104)	(21,968)	—	(377,072)
Intangible assets	(45,219)	(5,335)	—	(50,554)
Total accumulated depreciation	(503,040)	(33,080)	—	(536,120)
Net capital assets being depreciated	1,086,701	(21,824)	—	1,064,877
Net capital assets-Water & Sewerage System fund	\$ 1,122,911	(1,476)	—	1,121,435

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(6) Capital Assets (continued)

	January 1, 2014	Increases	Decreases	December 31, 2014
Water and Sewerage System fund:				
Capital assets not being depreciated:				
Land improvements	\$ 10,056	137	—	10,193
Construction in progress	15,300	10,717	—	26,017
Total capital assets not being depreciated	25,356	10,854	—	36,210
Capital assets being depreciated:				
Equipment	15,229	1,658	—	16,887
Water system	275,486	5,733	—	281,219
Sewer system	1,114,696	7,933	—	1,122,629
Intangible assets	169,006	—	—	169,006
Total capital assets being depreciated	1,574,417	15,324	—	1,589,741
Less accumulated depreciation for:				
Equipment	(13,660)	(449)	—	(14,109)
Water system	(83,480)	(5,128)	—	(88,608)
Sewer system	(333,137)	(21,967)	—	(355,104)
Intangible assets	(39,885)	(5,334)	—	(45,219)
Total accumulated depreciation	(470,162)	(32,878)	—	(503,040)
Net capital assets being depreciated	1,104,255	(17,554)	—	1,086,701
Net capital assets-Water & Sewerage System fund	\$ 1,129,611	(6,700)	—	1,122,911

No interest was required to be capitalized from borrowings related to water and sewerage system construction projects in 2015 or 2014. No material capital contributions were received in 2014 or in 2013.

(7) Revenue Bonds Payable – Long-term liabilities

In current and prior years, the County defeased certain outstanding revenue and general obligation bonds by placing the proceeds of new bonds and County resources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the accompanying financial statements. The Fulton County Water and Sewerage System issued \$223,265 in March 2013 to refund all outstanding 2004 revenue bonds and are considered defeased as of December 31, 2013. The average true interest cost of 3.63% decreased total debt service payments by approximately \$59 million resulting in an economic gain of \$40.3 million. An accounting loss of \$8,434 has been recorded in the Water and Sewer System financial statements as an extraordinary item for 2013.

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(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 \$47,900 and \$53,021 at December 31, 2015 and 2014, respectively, are as follows (in thousands of dollars):

Issue	Interest	Maturity	Authorized	Total at December 31	
	rate range	date	and issued	2015	2014
Series 2013	3.375-5.00%	2034	223,265	223,265	223,265
Less current portion				-	-
Series 2011	4.75-5.25%	2027	251,770	221,600	236,250
Less current portion				(15,325)	(14,650)
				<u>429,540</u>	<u>444,865</u>

This chart displays the System’s long-term liabilities and related activity for 2015 and 2014.

	Balance			Balance	Due
	January 1,	Increases	Decreases	December 31,	within
	2015			2015	One year
Water & Sewerage Revenue Bonds	\$ 459,515	—	(14,650)	444,865	15,325
Less deferred charges, net	53,021	—	(5,121)	47,900	
Total Water & Sewerage Revenue Bonds	512,536	—	(19,771)	492,765	
Other Long-Term Liabilities	1,364	760	(749)	1,375	
Total System long term liabilities	<u>\$ 513,900</u>	<u>760</u>	<u>(20,520)</u>	<u>494,140</u>	<u>15,325</u>

	Balance			Balance	Due
	January 1,	Increases	Decreases	December 31,	within
	2014			2014	One year
Water & Sewerage Revenue Bonds	\$ 464,435	—	(4,920)	459,515	14,650
Less deferred charges, net	58,197	—	(5,176)	53,021	
Total Water & Sewerage Revenue Bonds	522,632	—	(10,096)	512,536	
Other Long-Term Liabilities	1,321	797	(754)	1,364	
Total System long term liabilities	<u>\$ 523,953</u>	<u>797</u>	<u>(10,850)</u>	<u>513,900</u>	<u>14,650</u>

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

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

Aggregate annual debt service requirements are as follows (in thousands of dollars):

December 31	Principal	Interest	Total
2016	\$ 15,325	21,453	36,778
2017	16,090	20,687	36,777
2018	16,875	19,898	36,773
2019	17,720	19,057	36,777
2020	18,605	18,174	36,779
2021-2025	104,705	76,138	180,843
2026-2030	128,345	47,946	176,291
2031-2034	127,200	13,842	141,042
Total	444,865	237,195	682,060
Unamortized premiums	47,900	(47,900)	-
Total	492,765	189,295	682,060

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. On May 19, 2016, the Board of commissioners of Fulton County authorized execution of a settlement agreement with the Security and Exchange Commissioner relating to one instance in the past 5 years in which a continuing disclosure notification within the 2011 Water and Sewerage bond issuance was not properly identified. No monetary damages were sought. The county had earlier self-reported this violation to the SEC on December 1, 2015 under the SEC’s “MCDC” initiative, in which Issuers would obtain favorable outcomes with the SEC and cure any requirements of continuing disclosure information on outstanding and issued bonds.

(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

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(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 2015 and 2014 are as follows (in thousands of dollars):

	2015	2014
Total required employer contributions:		
Dollar amount	\$ 48,586	55,255
Percent of covered payroll	174.64%	168.32%
Actual employer contributions:		
Dollar amount	\$ 47,230	57,529
Percent of covered payroll	169.77%	175.24%

Employee contribution rates are established in accordance with pension law. During 2014 and 2013, actual countywide employee contributions were \$1,868 and \$2,129, respectively. These contributions represented 6.71% and 6.49% of covered payroll in 2015 and 2014, 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.

The actuarial present value of accumulated plan benefits is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. An actuarial valuation of the Plan is performed annually each January 1, and an update is

FULTON COUNTY, GEORGIA

Notes to Financial Statements
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December 31, 2015 and 2014

(8) Retirement Plans-(continued)

performed to determine the Actuarial Value of Assets and Actuarial Accrued Liability, Total Pension Liability and Net Pension Liability.

Membership

Current membership in the Plan and current year payrolls for 2015 are as follows:

Members:		
Retired and receiving benefits	\$	3,210
Terminated with vested benefits		27
Active employees:		
Vested		478
Total members		<u>3,715</u>
Total current year payroll for employees covered by the Plan (in thousands)	\$	<u>27,820</u>

Accumulated plan benefits are those future periodic payments, including lump-sum distributions that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employee compensation. The accumulated plan benefits for active employees are based on their average compensation and credited service ending on the date as of which the benefit information is presented (the valuation date). Benefits payable under all circumstances — retirement, death, disability, and termination of employment — are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

The actuarial present value of accumulated plan benefits is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. An actuarial valuation of the Plan is performed annually each January 1, and an update is performed to determine the Actuarial Value of Assets and Actuarial Accrued Liability.

Effective as of the January 1, 2016 valuation, the Fulton County Employees Retirement System Board approved a lower assumed rate of return from 7.70% to 7.60%, which affected the actuarial liability by \$15.5 million, and also changed the administrative expense assumption from \$700,000 down to \$600,000.

Effective as of the January 1, 2015 valuation, the Fulton County Employees Retirement System Board approved changes to the amortization period to a "fresh start" amortization period over a single 15-year closed level-dollar amortization base. This lowered the 2015 required contribution to \$48.5 million as compared to the \$55.2 million required contribution for 2014, which is also affected by actuarial values and other assumption changes. This also affected the credit balance,

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(8) Retirement Plans (continued)

previously \$9.1 million to a “fresh start” balance of \$5 million which is available to meet future pension required contributions.

New bases will be established in future years, to account for future gains and losses and changes in assumptions, methods or plan provisions. The Board also lowered the assumed investment rate of return from 7.8% to 7.7% with this January 1, 2015 valuation, increasing the actuarial liability \$15.4 million, as well as a \$100 increase from \$600 to \$700 annually for the administrative expense assumption. There were no changes in plan provisions from the last valuation date.

Effective as of the January 1, 2014 valuation, changes to the amortization period for experience gains and losses from 25 years to 20 years were approved. The salary scale was also modified from 2% for the 2014 year and 4% thereafter was changed to 3% for all years thereafter.

The System’s total and net pension liability for the years ended December 31, 2015 and 2014 are as follows:

Fiscal year ended	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary net position as a percentage of Total Pension Liability
December 31, 2015	\$ 1,677,001	1,217,955	\$ 459,046	72.63%
December 31, 2014	1,654,412	1,306,027	348,385	78.94%

The following presents target allocations and long term expected rates of return for the Plan.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity	48.00%	6.75%
International Equity	20.00%	7.45%
Emerging International Equity	5.00%	9.85%
Core Bonds	17.00%	1.75%
Global Bonds	5.00%	4.95%
Global Asset Allocation	5.00%	3.75%
	<u>100.00%</u>	

*Expected real rate of return is net of inflation

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(8) Retirement Plans (continued)

Sensitivity of the Net Pension Liability to Changes in the discount rate

The following presents the net pension liability of the County, calculated using the discount rate of 7.60%, and the System's net pension liability would be if it were calculated using a discount rate this is one-percentage-point lower (6.60%) or one-percentage-point higher (8.60%) than the current rate.

	1% Decrease	Current Discount	1% Increase
	(6.60%)	(7.60%)	(8.60%)
System's net pension liability	\$630,018	\$459,046	\$314,103

Pension Expense and Deferred Outflows of Resources Related to Pensions

The County recognized total pension expense of \$70,859 for the year ended December 31, 2015, all within the governmental activities. Included in pension expense are recognized amounts related to the deferred outflows of resources for pensions, which is detailed below. The December 31, 2015 balance of \$87,033 will be recognized ratably at \$21,758 each year for the next four years. This is the net difference between projected and actual earnings on pension plan investments.

January 1, 2015 Deferred outflows related to pensions	\$ 130,543
Difference between projected and actual earnings Recognized in 2015	(21,758)
Recognition of liability loss	(6,263)
Assumptions changes	<u>(15,489)</u>
December 31, 2015 Deferred outflows related to pensions	<u>\$ 87,033</u>

Fulton County Employees' Retirement System Supplemental Plan

On January 1, 2000, the Fulton County Employees' Retirement System Supplemental Plan was created to pay benefits in excess of the limitations required for compliance with federal tax laws. The accrued liability estimate for this plan remains at approximately \$1.1 million as of January 1, 2016 and is being amortized on an 8 year level dollar method. Participant information, actuarial funding methods, and other assumptions are the same as the Fulton County Employees' Retirement System. This liability does not appear on the actuarial information presented for the Fulton County Employees Retirement System Plan. The Supplemental plan obtained a biannual actuarial valuation as of January 1, 2015.

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

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(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, 2015, the plan had 4,498 active participants who contributed 6% of their pensionable earnings, approximately \$12,743 during 2015. The County also contributed \$17,702 which was 8% of their pensionable earnings throughout the year. The County also contributed an additional \$1,525 in matched funds into the Plan for those Participants electing to participate in the County's Deferred Compensation Plan. 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.

(c) *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 \$18,000. 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, MetLife and TIAA-CREF independently managed assets throughout 2015.

(9) *Other Post-Employment Benefits*

(a) *Fulton County*

The County provides certain health care and life insurance benefits for retired employees 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, in the Health Insurance Stabilization fund, an internal service fund, is recognized as paid; such costs approximated \$42,873 in 2015, as compared to \$38,994 in 2014. 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.

The Annual Required Contribution and Total OPEB Obligation amounts were determined under the Attained Age funding method. As of the evaluation date, the number of retirees with current health care coverage was approximately 3,300 and all also had life insurance coverage in effect. Approximately 4,800 active employees with coverage are subject to this plan.

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(9) Other Post-Employment Benefits (continued)

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.

In 2009 the County contributed \$2,185 to an irrevocable trust fund dedicated to pay for future OPEB claims against the current unfunded accrued actuarial liability of \$1,226,465. This is presented in the Statement of Fiduciary Assets on page 24. No contribution has been made subsequently, but interest earnings of \$1,845 have accumulated in this trust fund as of December 31, 2015, of which \$18 was earned in 2015.

As of the most recent valuation date of January 1, 2015, 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
\$4,012	\$1,230,477	\$1,226,465	0.003%	\$207,692	590.5%

The county's annual OPEB cost and net OPEB liability for the year ended December 31, 2015:

Annual required contribution (ARC) for other postemployment benefits (OPEB)	\$ 86,971
Interest on annual required contribution	19,110
Adjustment to the ARC	(18,256)
Annual OPEB cost/Annual required contribution	87,825
Annual employer contributions made on claims	(32,717)
Change in net OPEB obligation	55,108
Net OPEB obligation - January 1	477,761
Net OPEB obligation - December 31	\$ 532,869

FULTON COUNTY, GEORGIA

Notes to Financial Statements
(in thousands)

December 31, 2015 and 2014

(9) Other Post-Employment Benefits (continued)

**Schedule of OPEB Employer Contributions
Three-Year Trend Information**

Fiscal year ended	Annual OPEB Cost (ARC)	Percentage of ARC contributed	Net OPEB obligation
December 31, 2013	\$ 90,817	32.1%	\$ 398,441
December 31, 2014	107,851	26.9	477,761
December 31, 2015	86,971	37.6	532,869

Actuarial Assumptions for the Other Postemployment Benefit plan as of January 1, 2015:

Cost Method	Entry Age Normal Actuarial Cost method
Actuarial Asset Valuation Method	Market Value
Assumed Investment Rate of Return	4.0%, compounded annually
Healthcare Cost Trend Rate	7.0% in 2015 to 5.0% in 2020 and thereafter
Aging Adjustment	1.0% at age 30 up to 4.2% ages 60-64, declining to 0.0% at age 90 and over
Inflation Rate	3.0%
Estimated Salary increases	3.0%
Amortization Method	Level dollar, 30 years, open period

The required schedule of funding progress for the postemployment benefit plan immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net position is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

(10) 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 \$27,863 and \$54,290 as of December 31, 2015 and 2014, respectively.

(11) Extraordinary Items

The System sold capital assets at a gain of \$1,549 in 2014, considered infrequent for the system. This event is shown as extraordinary items on the Statement of Revenues, Expenses and changes in Fund Net Position on page 10 of these financial statements.

FULTON COUNTY, GEORGIA

Required Supplementary Information
Unaudited, and in thousands

December 31, 2015

Schedule of Contributions from the Employer and Other Contributing Entities

Year Ended	Contributions in Relation to The Actuarially Determined Contribution						
	Actuarially Determined Contribution	County Employer Contribution	DFACS Employer Contribution	Total Employer Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
December 31, 2006	\$ 37,081	35,453	658	36,111	970	98,882	36.52%
December 31, 2007	38,367	37,289	513	37,802	565	80,266	47.10
December 31, 2008	33,836	32,339	411	32,750	1,086	78,184	41.89
December 31, 2009	43,008	38,242	260	38,502	4,506	67,184	57.31
December 31, 2010	36,639	37,044	182	37,226	(587)	57,888	64.31
December 31, 2011	45,049	42,049	121	42,170	2,879	49,277	85.58
December 31, 2012	51,199	45,878	58	45,936	5,263	42,622	107.78
December 31, 2013	52,882	56,126	118	56,244	(3,362)	36,258	155.12
December 31, 2014	55,255	57,441	88	57,529	(2,274)	32,828	175.24
December 31, 2015	48,586	47,203	27	47,230	1,356	27,820	169.77

Schedule of Employer's Net Pension Liability

Year Ended	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Plan Fiduciary Net Position as a percentage of the Total Pension liability	Covered payroll	Net pension liability as a percentage of covered payroll
December 31, 2015	\$ 1,677,001	1,217,955	459,046	72.63%	27,820	1,650.06%
December 31, 2014	1,654,412	1,306,027	348,385	78.94	32,828	1,061.24

Schedule of Investment Returns

Year Ended	Annual money-weighted rate of return, net of investment expense
December 31, 2014	5.05%
December 31, 2015	(0.88%)

FULTON COUNTY, GEORGIA

Required Supplementary Information
Unaudited, and in thousands

December 31, 2015

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, 2010	\$ 2,492	941,944	939,719	0.26%	214,743	437%
December 31, 2011	2,689	1,509,799	1,507,110	0.18	224,189	673
December 31, 2012	3,023	1,798,332	1,795,309	0.17	226,479	794
December 31, 2013	3,023	1,798,332	1,795,309	0.17	226,479	794
December 31, 2014	4,012	1,230,477	1,226,465	0.33	207,692	591
December 31, 2015	4,012	1,230,477	1,226,465	0.33	207,692	591

FULTON COUNTY, GEORGIA

Required Supplementary Information
Unaudited, and in thousands

December 31, 2015

**Schedule of Changes in System's Net Position Liability
Last Ten Fiscal Years
(in thousands)**

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service cost	\$ 3,678	4,291
Interest	122,562	120,935
Change of benefit terms	-	-
Differences between expected and actual experience	6,262	21,902
Change of assumptions	15,489	15,352
Benefit payments, including refunds of employee contributions	<u>(125,402)</u>	<u>(117,044)</u>
Net change in total pension liability	22,589	45,436
Total pension liability - beginning	\$ <u>1,654,412</u>	<u>1,608,976</u>
Total pension liability - ending (a)	\$ <u>1,677,001</u>	<u>1,654,412</u>
Plan fiduciary net position		
Contributions-employer	\$ 47,230	57,529
Contributions-employee	1,868	2,129
Net investment income	(11,187)	64,143
Benefit payments, including refunds of employee contributions	(125,402)	(117,044)
Administrative expense	(581)	(705)
Other	-	-
Net change in plan fiduciary net position	\$ <u>(88,072)</u>	<u>6,052</u>
Plan fiduciary net position - beginning	\$ <u>1,306,027</u>	<u>1,299,975</u>
Plan fiduciary net position - ending (b)	\$ <u>1,217,955</u>	<u>1,306,027</u>
System's net pension liability - ending (a) - (b)	<u>459,046</u>	<u>348,385</u>
Plan fiduciary net position as a percentage of the total pension liability	72.63%	78.94%
Covered employee payroll	\$ 27,820	32,828
System's net pension liability as a percentage of covered employee payroll	1650.06%	1061.23%

Note: Schedule is intended to show information for 10 years, once available
See accompanying notes to required supplementary information and accompanying independent auditor's report.
Notes to Schedule:

Benefit changes: There have been no benefit changes since GASB 67/68 implementation.

Change of Assumptions: The discount rate assumption was changed from 7.70% to 7.60% at 1/1/2016.

FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

Notes to Required Supplementary Information
(in thousands)
December 31, 2015 and 2014

(1) Schedule of Changes in the Net Pension Liability

The total pension liability contained in this schedule was provided by the Plan's actuary, Segal Consulting. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Plan.

(2) Schedule of Contributions from the Employer and Other Contributing Entities

Required contributions and percentage of those contributions made are presented in the schedule.

(3) Actuarial Methods and Assumptions

Changes of assumptions: Effective as of the January 1, 2016 valuation, the Fulton County Employees Retirement System Board approved a lower assumed rate of return from 7.70% to 7.60%, which affected the actuarial liability by \$15.5 million, and also changed the administrative expense assumption from \$700,000 down to \$600,000.

Effective as of the January 1, 2015 valuation, the Fulton County Employees Retirement System Board approved changes to the amortization period to a "fresh start" amortization period over a single 15-year closed level-dollar amortization base. The Board also lowered the assumed investment rate of return from 7.8% to 7.7% with this January 1, 2015 valuation and increased the annual administrative expense assumption from \$600 thousand to \$700 thousand.

Methods and assumptions used in the calculations of actuarially determined contributions: The following actuarial methods and assumptions were used to determine the most recent contribution rate reported:

Valuation Date	January 1, 2016
Actuarial cost method	Entry Age normal
Amortization method	Closed level dollar for remaining unfunded liability
Remaining amortization period	15 years remaining as of January 1, 2016
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Investment rate of return	7.60%. The net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the System's target asset allocation.

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

Notes to Required Supplementary Information
(in thousands)
December 31, 2015 and 2014

(3) Actuarial Methods and Assumptions (continued)

Inflation rate	3.0%
Projected salary increases	3.0%
Cost of living adjustments	3.0%

Mortality Rates-Healthy	RP-2000 Combined Mortality Table with Blue Collar adjustment, projected to 2019 using Scale AA, further loaded by 30% for Males and 10% for Females
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Mortality Rates-Disabled	RP-2000 Disabled Retiree Mortality Table projected to 2019 using Scale AA
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RP-2000 mortality tables, projected to the 2016 valuation date reasonably reflect the projected mortality experience of the Plan as of the measurement date. The additional projection of four years is a provision made for future mortality improvement.

Retirement Rates-Unreduced Pension:	Assumptions for non-public safety retirement probability is 26.5% at first age eligibility until 100% at age 70. Assumptions for public safety retirement probability is 60.0% at first age eligibility, then 40% through age 64 and 100% thereafter.
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Retirement Rates-Reduced Pension:	Assumptions for non-public safety retirement probability range from 8.25% at age 50 and increases each year to 12% at age 64. Assumptions for public safety retirement probability ranges from 12.55% at age 50, and increases each year to 23.75% at age 64.
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The retirement rates for reduced pensions apply only until eligibility for normal retirement occurs. From that point forward, the rates for unreduced pensions apply.