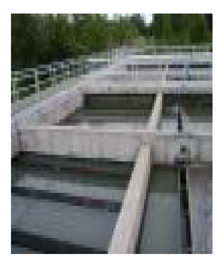
FULTON COUNTY, GEORGIA
WATER & SEWERAGE SYSTEM FUND

(A Fund of Fulton County, Georgia)

Financial Statements
And
Independent Auditors' Report

December 31, 2009 and 2008



FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

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December 31, 2009 and 2008

PJC GROUP, LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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, 2009 and 2008, 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, 2009 and 2008, 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
October 25, 2010

FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

Management's Discussion and Analysis
(in thousands of dollars)
December 31, 2009

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, 2009 and 2008. 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 $1,601,148 for the fiscal year ended December 31, 2009. This compares to the previous year when total assets reported were $1,644,272 representing a decrease of $43,124, the primary component of which is depreciation on assets of approximately $30 million as well as decreased receivables from the prior year.

System bonded debt decreased by $10,855 net of principal payments and amortization of discount/premiums on the 1998 and 2004 outstanding Water and Sewerage revenue bonds. All remaining net liabilities decreased by $11,457, primarily with payables on construction contracts. As of December 31, 2009, the 1992 Water and Sewerage revenue bonds have been paid in full.

System net assets decreased by $20,812 during 2009, as compared to an increase of $17,215 in 2008. The System recognized significantly less in capital contributions in fiscal 2009 as compared to fiscal 2008 as new development all but ceased, but net operating income decreased with higher depreciation on capital assets. Total net assets at December 31, 2009 were $1,032,632 of which $46,015 is restricted for future debt service, and $770,950 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 $215,667 as of December 31, 2009, an increase of $2,661 from December 31, 2008, virtually unchanged for 2009.

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.

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):

				2009-2008	%		2008-2007	%
Assets:		**2009**	**2008**	**Net change**	**change**	**2007**	**Net change**	**change**
Current assets	$	146,866	153,288	(6,422)	(4)	163,196	(9,908)	(6)
Current restricted assets		159,838	235,754	(75,916)	(32)	304,388	(68,634)	(23)
Capital assets, net of depreciation		1,207,957	1,167,101	40,856	4	920,534	246,567	27
Other non current assets		86,487	88,129	(1,642)	(2)	239,585	(151,456)	(63)
Total assets		1,601,148	1,644,272	(43,124)	(3)	1,627,703	16,569	1
Liabilities:								
Current liabilities		27,938	38,715	(10,777)	(28)	28,342	10,373	37
Long-term liabilities		540,578	552,113	(11,535)	(2)	563,132	(11,019)	(2)
Total liabilities		568,516	590,828	(22,312)	(4)	591,474	(646)	(0)
Net Assets:								
Invested in capital assets, net of related debt		770,950	794,605	(23,655)	(3)	606,358	188,247	31
Restricted for debt retirement		46,015	45,833	182	0	44,584	1,249	3
Unrestricted		215,667	213,006	2,661	1	385,287	(172,281)	(45)
Total net assets		1,032,632	1,053,444	(20,812)	(2)	1,036,229	17,215	2

The System's assets above decreased from depreciation on donated water and sewer infrastructure from development, and lower receivable totals as of December 31, 2009.

Long-term liabilities decreased by scheduled principal payments and by amounts owed for construction payments at year end. 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, 2009

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

	2009	2008	2009-2008 net change	% change	2007	2008-2007 net change	% change
Operating revenues:							
Water and sewerage charges	$ 107,324	106,477	847	1	128,131	(21,654)	(17)
Total Operating revenues	107,324	106,477	847	1	128,131	(21,654)	(17)
Operating expenses:							
Administrative and general	6,423	5,050	1,373	27	6,328	(1,278)	(20)
Depreciation and amortization	30,631	26,210	4,421	17	22,936	3,274	14
Personal services	19,004	18,648	356	2	18,625	23	0
Contractual services	23,057	22,435	622	3	22,615	(180)	(1)
Operating services	21,330	22,157	(827)	(4)	23,802	(1,645)	(7)
Total Operating expenses	100,445	94,500	5,945	6	94,306	194	0
Total Operating income	6,879	11,977	(5,098)	(43)	33,825	(21,848)	(65)
Nonoperating revenues (expenses):							
Gain (loss) on investment in joint venture	(1,795)	467	(2,262)	(484)	(1,318)	1,785	(135)
Interest income	1,651	13,971	(12,320)	(88)	26,421	(12,450)	(47)
Interest expense	(27,985)	(28,675)	690	(2)	(29,324)	649	(2)
Total nonoperating revenue(expense)	(28,129)	(14,237)	(13,892)	98	(4,221)	(10,016)	237
Change in net assets before capital contributions	(21,250)	(2,260)	(18,990)	840	29,604	(31,864)	(108)
Capital contributions	438	19,475	(19,037)	(98)	13,944	5,531	40
Change in net assets	(20,812)	17,215	(38,027)	(221)	43,548	(26,333)	(60)
Beginning Net Assets	1,053,444	1,036,229	17,215	2	992,681	43,548	4
Ending Net Assets	$ 1,032,632	1,053,444	(20,812)	(2)	1,036,229	17,215	2

The System experienced a dramatic drop in capital contributions in 2009 due to the economic downturn effect on development. Watering bans that significantly affected System income for 2008 did not alter 2009 revenues significantly, although water usage remains slightly lower than years previous to 2008. Contractual services, operating, administrative and personnel costs remained relatively constant for 2009 to 2008. Interest costs decreased slightly as a smaller balance of outstanding bonds were outstanding throughout 2009 as compared to 2008. Interest income also dropped significantly with lower earnings rates available through capital markets for 2009, and lower amounts invested from capital funds as projects are nearly completion.

FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

Management's Discussion and Analysis
(in thousands of dollars)
December 31, 2009

Capital Assets

Capital asset balances and activity for 2009 and 2008 are shown below:

Water and Sewerage System fund: Capital assets not being depreciated:		January 1, 2009	Increases	Decreases	December 31, 2009
Land improvements	$	6,664	—	—	6,664
Construction in progress		179,947	70,688	(25,215)	225,420
Total capital assets not being depreciated		186,611	70,688	(25,215)	232,084
Capital assets being depreciated:					
Equipment		13,201	89	—	13,290
Water system		202,965	15,650	—	218,615
Sewer system		880,332	10,003	—	890,335
Intangible assets		169,006	—	—	169,006
Total capital assets being depreciated		1,265,504	25,742	—	1,291,246
Less accumulated depreciation for:					
Equipment		(12,034)	—	(441)	(12,475)
Water system		(53,690)	—	(4,007)	(57,697)
Sewer system		(206,078)	—	(20,576)	(226,654)
Intangible assets		(13,212)	—	(5,335)	(18,547)
Total accumulated depreciation		(285,014)	—	(30,359)	(315,373)
Net capital assets being depreciated		980,490	25,742	(30,359)	975,873
Net capital assets-Water & Sewerage System fund	$	1,167,101	96,430	(55,574)	1,207,957

		January 1, 2008	Increases	Decreases	December 31, 2008
Capital assets not being depreciated:					
Land improvements	$	6,664	—	—	6,664
Construction in progress		131,947	91,839	(43,839)	179,947
Total capital assets not being depreciated		138,611	91,839	(43,839)	186,611
Capital assets being depreciated:					
Equipment		13,164	37	—	13,201
Water system		202,920	45	—	202,965
Sewer system		817,063	63,269	—	880,332
Intangible assets		169,006	—	—	169,006
Total capital assets being depreciated		1,202,153	63,351	—	1,265,504
Less accumulated depreciation for:					
Equipment		(11,364)	—	(670)	(12,034)
Water system		(49,688)	—	(4,002)	(53,690)
Sewer system		(190,172)	—	(15,906)	(206,078)
Intangible assets		(7,814)	—	(5,398)	(13,212)
Total accumulated depreciation		(259,038)	—	(25,976)	(285,014)
Net capital assets being depreciated		943,115	63,351	(25,976)	980,490
Net capital assets-Water & Sewerage System fund	$	1,081,726	155,190	(69,815)	1,167,101

(in thousands of dollars)

Capital Assets (continued)

The primary change for 2009 and 2008 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 decreased in 2009 along with the economic downturn in new home construction. Intangible assets for sewerage capacity rights in neighboring systems, previously classified as other assets, have now been added to capital assets, and shown separately with other categories of capital assets for both 2009 and 2008.

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 $5.6 million and $4.8 million for 2009 and 2008, respectively, for water produced at this facility. The net value of this joint venture is $82,444 and $83,814 as of December 31, 2009 and 2008, 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 2009 and 2008, 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, 2009. Scheduled bond payments represent the primary change in debt as shown below. Scheduled debt payments were made timely and are reflected in the schedule below, and detailed analysis is contained within the footnotes.

Issue year	Interest rate range	Final Maturity Date	Outstanding balance	Annual principal installments	Purpose
Business-type activities:					
1998 Water and Sewerage	4.75-5.25	2027	262,515	11,405-20,320	Water/Sewer facilities
2004 Water and Sewerage	2.375-5.25	2034	286,300	150-36,935	Water/Sewer facilities
			$ 548,815		

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, 2009 and 2008

(In thousands of dollars)

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents (note 2)	$	87,001	76,088
Investments (note 2)		51,585	65,436
Customer receivables, net of allowance for doubtful accounts (note 3)		5,095	10,462
Due from other governments, net of allowance for doubtful accounts (note 3)		3,185	1,302
Total current assets		146,866	153,288
Restricted assets (note 1):			
Cash and cash equivalents (note 2)		29,286	25,524
Investments (note 2)		130,394	209,526
Interest receivable		158	704
Total restricted assets		159,838	235,754
Non-current assets:			
Investment in joint venture (note 4)		82,444	83,814
Capital Assets:			
Nondepreciable capital assets		232,084	186,611
Depreciable capital assets, net of accumulated depreciation (note 6)		975,873	980,490
Other assets (note 5)		4,043	4,315
Total non-current assets		1,294,444	1,255,230
Total assets		1,601,148	1,644,272

See accompanying notes to financial statements.

(continued)

Liabilities and Net Assets	2009	2008
Liabilities:		
Current liabilities:		
Accounts payable	4,855	4,798
Accrued liabilities and payroll payable	516	382
Total current liabilities payable from unrestricted assets	5,371	5,180
Liabilities payable from restricted assets:		
Contracts and other payables	10,347	21,918
Revenue bonds payable – current portion (note 7)	11,555	10,965
Note payable – current portion (note 8)	198	185
Deferred revenue	467	467
Total liabilities payable from restricted assets	22,567	33,535
Total current liabilities	27,938	38,715
Noncurrent liabilities:		
Revenue bonds payable (note 7)	538,867	550,312
Note payable (note 8)	52	251
Accrued liabilities	1,659	1,550
Total noncurrent liabilities	540,578	552,113
Total liabilities	568,516	590,828
Net Assets:		
Invested in capital assets, net of related debt	770,950	794,605
Restricted for debt retirement	46,015	45,833
Unrestricted	215,667	213,006
Total Net Assets	$ 1,032,632	1,053,444

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, 2009 and 2008

(In thousands of dollars)

		2009	2008
Operating revenues:			
Water and Sewerage charges		107,324	106,477
Total operating revenues		107,324	106,477
Operating expenses:			
Administrative and general		6,423	5,050
Depreciation and amortization		30,631	26,210
Personal services		19,004	18,648
Contractual services		23,057	22,435
Operating services		21,330	22,157
Total operating expenses		100,445	94,500
Operating income		6,879	11,977
Non-operating revenues (expenses):			
Gain on investment in joint venture		(1,795)	467
Interest income		1,651	13,971
Interest expense		(27,985)	(28,675)
Total non-operating expenses		(28,129)	(14,237)
Change in net assets before capital contributions		(21,250)	(2,260)
Capital contributions		438	19,475
Change in net assets		(20,812)	17,215
Net assets at beginning of year		1,053,444	1,036,229
Net assets at end of year	$	1,032,632	1,053,444

See accompanying notes to financial statements.

FULTON COUNTY, GEORGIA
WATER AND SEWERAGE SYSTEM FUND

Statements of Cash Flows

Years ended December 31, 2009 and 2008

(In thousands of dollars)

		2009	2008
Cash flows from operating activities:			
Receipts from customers and users	$	110,807	105,042
Payments to suppliers		(62,036)	(39,325)
Payments to employees		(18,895)	(18,671)
Net cash provided by operating activities		29,876	47,046
Cash flows from capital and related financing activities:			
Principal and interest payments on revenue bonds		(39,079)	(39,128)
Principal and interest payments on notes payable		(210)	(210)
Other payments for capacity rights		(375)	(9,824)
Purchases of capital assets		(70,718)	(91,400)
Net cash provided by (used in) capital and related financing activities		(110,382)	(140,562)
Investing activities:			
Purchase of investments		(183,355)	(273,383)
Purchase of investments in joint venture		—	—
Proceeds from sale of investments		274,962	321,532
Interest received on investments		3,574	13,600
Net cash (used in) provided by investing activities		95,181	61,749
Net change in cash and cash equivalents		14,675	(31,767)
Cash and cash equivalents at beginning of year		101,612	133,379
Cash and cash equivalents at end of year	$	116,287	101,612
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	6,879	11,977
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		30,631	26,210
Changes in assets and liabilities:			
Customer receivables - net		5,367	(1,257)
Other assets		153	153
Change in due from other governments - net		(1,883)	(178)
Accounts payable		191	(23)
Accrued liabilities		109	1,304
Due to other funds		—	432
Contractual and other liabilities		(11,571)	8,428
Net cash provided by operating activities	$	29,876	47,046
Non-cash transactions:			
Unrealized gain (loss) on investments	$	1,376	1,579
Donated capital assets contributed by outside sources		438	19,475

(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, 2009; 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.

(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:

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

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

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

(e) Bond 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.

(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 beginning in 2006 are not eligible to receive compensatory time, and utilize those accumulated hours for vacation time until the compensatory time has been fully utilized. 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.

(1) Summary of Significant Accounting Policies (continued)

(l) Risk Management

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

(2) Cash, Cash Equivalents, and Investments

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

	December 31, 2009	December 31, 2008
Unrestricted:		
Cash and cash equivalents	$ 87,001	76,088
Investments	51,585	65,436
Restricted:		
Cash and cash equivalents	29,286	25,524
Investments	130,394	209,526
	$ 298,266	376,574

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

Interest Rate Risk

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

(in thousands of dollars)

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

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. As of December 31, 2009 and 2008, the System had the following investments:

		December 31, 2009		
Fixed Income:	**Fair Value**	**to 3 months**	**4-12 months**	**1-5yrs**
US Treasury Obligations	$ 1,978			1,978
US Agency Obligations	192,019	12,019	73,808	106,192
Fixed Income subtotal	193,997	12,019	73,808	108,170
Money Market funds	29,609			
Bankers acceptances	50,872			
Total cash equivalents and investments	$ 274,478			

		December 31, 2008		
Fixed Income:	**Fair Value**	**to 3 months**	**4-12 months**	**1-5yrs**
US Treasury Obligations	$ 10,698			10,698
US Agency Obligations	186,291	-	133,228	53,063
Fixed Income subtotal	196,989	-	133,228	63,761
Bankers acceptances	14,225			
Total cash equivalents and investments	$ 163,673			
	374,887			

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 and Treasury obligations totaling $193,997 as of December 31, 2009 and $196,989 as of December 31, 2008 are rated AAA. The money market funds and bankers' acceptances are not rated but are collateralized at 102%.

(3) Allowances for Doubtful Accounts

Allowances for doubtful accounts at December 31, 2009 and 2008 are as follows (in thousands of dollars):

	2009	2008
Customer receivables	$ 6,549	436
Due from other governments	$ 766	454

(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 $5.6 million and $4.8 million in 2009 and 2008 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, 2009 and 2008, 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

(in thousands of dollars)

(5) Other Assets

Cost-Sharing Arrangements

The County paid $58 million with neighboring Cobb County, Georgia in 2003 for the purchase of long-term wastewater treatment capacity at the R.L Sutton wastewater treatment plant and the adjoining underground conveyance system. In November 2007 the County incurred $99.9 million in similar capital costs through facilities owned by the City of Atlanta. The County will share in the cost of annual capital improvements at these facilities on a pro rata basis, and incurred an additional $10.8 million for the Cobb County facility during 2008. These costs were previously shown as other assets on the financial statements of the Water and Sewerage System fund, but now 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 or 2009 and 2008, is classified as an operating cost on the Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary funds. The amount remaining as of December 31, 2009 is approximately $150.4 million.

All other assets represent unamortized bond issuance costs of $4,043 and $4,315 as of December 31, 2009 and 2008, respectively.

(6) Capital Assets

The following charts display capital asset balances and activity for 2009 and 2008.

Water and Sewerage System fund:	January 1, 2009	Increases	Decreases	December 31, 2009
Capital assets not being depreciated:				
Land improvements	$ 6,664	—	—	6,664
Construction in progress	179,947	70,688	(25,215)	225,420
Total capital assets not being depreciated	186,611	70,688	(25,215)	232,084
Capital assets being depreciated:				
Equipment	13,201	89	—	13,290
Water system	202,965	15,650	—	218,615
Sewer system	880,332	10,003	—	890,335
Intangible assets	169,006	—	—	169,006
Total capital assets being depreciated	1,265,504	25,742	—	1,291,246
Less accumulated depreciation for:				
Equipment	(12,034)	—	(441)	(12,475)
Water system	(53,690)	—	(4,007)	(57,697)
Sewer system	(206,078)	—	(20,576)	(226,654)
Intangible assets	(13,212)	—	(5,335)	(18,547)
Total accumulated depreciation	(285,014)	—	(30,359)	(315,373)
Net capital assets being depreciated	980,490	25,742	(30,359)	975,873
Net capital assets-Water & Sewerage System fund	$ 1,167,101	96,430	(55,574)	1,207,957

(in thousands of dollars)

(6) Capital Assets (continued)

Water and Sewerage System fund:		January 1, 2008	Increases	Decreases	December 31, 2008
Capital assets not being depreciated:					
Land improvements	$	6,664	—	—	6,664
Construction in progress		131,947	91,839	(43,839)	179,947
Total capital assets not being depreciated		138,611	91,839	(43,839)	186,611
Capital assets being depreciated:					
Equipment		13,164	37	—	13,201
Water system		202,920	45	—	202,965
Sewer system		817,063	63,269	—	880,332
Intangible assets		169,006	—	—	169,006
Total capital assets being depreciated		1,202,153	63,351	—	1,265,504
Less accumulated depreciation for:					
Equipment		(11,364)	—	(670)	(12,034)
Water system		(49,688)	—	(4,002)	(53,690)
Sewer system		(190,172)	—	(15,906)	(206,078)
Intangible assets		(7,814)	—	(5,398)	(13,212)
Total accumulated depreciation		(259,038)	—	(25,976)	(285,014)
Net capital assets being depreciated		943,115	63,351	(25,976)	980,490
Net capital assets-Water & Sewerage System fund	$	1,081,726	155,190	(69,815)	1,167,101

No interest was required to be capitalized from borrowings related to water and sewerage system construction projects in 2009 or 2008. Capital contributions of $.4 million and $19.5 million for 2009 and 2008 respectively represent infrastructure constructed by developers and granted to the System. These capital contributions are not shown within the Statement of Cash flows, but are shown separately as a non-cash transaction.

Long term sewerage treatment capacity rights, classified above as Intangible Assets, have been reclassified into the capital asset footnote disclosure as of January 1, 2008 of $169,006, along with accumulated depreciation of $7,814.

(7) Revenue Bonds Payable – Long-term liabilities

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 $1,607 and $1,497 at December 31, 2009 and 2008, respectively, are as follows (in thousands of dollars):

Issue	Interest rate range	Maturity date	Authorized and issued		Total at December 31 2009	2008
Series 1992	6.25%	2010	163,375	$	—	1,832
Less current portion					—	(1,840)
Series 1998	4.60-5.25%	2027	276,120		258,965	267,587
Less current portion					(11,405)	(8,980)
Series 2004	2.0-5.25%	2034	287,000		291,457	291,858
Less current portion					(150)	(145)
Total non current portion				$	538,867	550,312

In prior years, the System advance refunded certain outstanding revenue bonds. The System issued revenue bonds to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service requirements on the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the System's records. All outstanding indebtedness on all bonds that are considered to be defeased had matured.

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, 2009.

This chart displays the System's long-term liabilities and related activity for 2009 and 2008.

		Balance January 1, 2009	Increases	Decreases	Balance December 31, 2009	Due within One year
Water & Sewerage Revenue Bonds	$	559,780	—	(10,965)	548,815	11,555
Less deferred charges, net		1,497	110	—	1,607	
Total Water & Sewerage Revenue Bonds		561,277	110	(10,965)	550,422	
Note Payable		436		(186)	250	198
Other Long-Term Liabilities		1,550	943	(834)	1,659	
Total System long term liabilities	$	563,263	1,053	(11,985)	552,331	11,753

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

		Balance January 1, 2008	Increases	Decreases	Balance December 31, 2008	Due within One year
Water & Sewerage Revenue Bonds	$	570,115	—	(10,335)	559,780	10,965
Less deferred charges, net		1,343	154	—	1,497	
Total Water & Sewerage Revenue Bonds		571,458	154	(10,335)	561,277	
Note Payable		610		(174)	436	185
Other Long-Term Liabilities		1,573	797	(820)	1,550	
Total System long term liabilities	$	573,641	951	(11,329)	563,263	11,150

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

December 31		Principal	Interest	Total
2010	$	11,555	27,258	38,813
2011		12,160	26,654	38,814
2012		12,795	26,019	38,814
2013		13,465	25,350	38,815
2014		14,160	24,657	38,817
2015-2019		81,935	112,141	194,076
2020-2024		103,830	90,252	194,082
2025-2029		131,320	62,745	194,065
2030-2034		167,595	26,481	194,076
Total		548,815	421,557	970,372
Deferred charges/premiums		1,607	(1,607)	-
Total		550,422	419,950	970,372

(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 bears interest at the rate of 6.7% per annum, and is payable in quarterly installments of principal and interest. Aggregate debt service requirements on the note payable are as follows (in thousands of dollars):

Year Ended December 31		Principal	Interest	Total payments
2010	$	198	12	210
2011		52	2	54
	$	250	14	264

(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

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.

(9) Retirement Plans-(continued)

(a) County Pension Plan

The required contribution percentages developed in the most recent actuarial valuations for the Plan, and the actual contributions made for 2009 and 2008 are as follows (in thousands of dollars):

		2009	2008
Total required employer contributions:			
Dollar amount	$	43,008	33,836
Percent of covered payroll		64.02%	43.28%
Actual employer contributions:			
Dollar amount	$	38,602	32,857
Percent of covered payroll		57.46%	42.03%

Employee contribution rates are established in accordance with pension law. During 2009 and 2008, actual countywide employee contributions were $4,187 and $4,900, respectively. These contributions represented 6.23% and 6.27% of covered payroll in 2009 and 2008, 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 Plan's annual pension cost and net pension obligation (asset) for the current year were as follows (in thousands of dollars):

		2009	2008
Annual required contribution	$	43,008	33,836
Interest on net pension obligation		(3,996)	(4,074)
Adjustment to annual required contribution		4,525	4,676
Annual pension cost		43,537	34,438
Contributions made with interest		40,061	34,093
Increase decrease in net pension obligation (asset)		3,476	345
Net pension obligation (asset) beginning of year		(49,332)	(49,677)
Net pension obligation (asset) end of year	$	(45,856)	(49,332)

Actuarial changes for the January 1, 2010 valuation include two changes. The first is an additional reduction of the assumed rate of return from 8.1% to 8.0% to better reflect anticipated investment performance. Secondly, the salary scale assumptions for 2010 were changed from 2.0% to 0.0%. The amortization period for actuarial gains and loses was changed from 25 years to 30 years for the 2010 and 2011 valuations. This period subsequent to 2011 will be subject to review by the Plan's Board.

(in thousands of dollars)

(9) Retirement Plans-(continued)

Actuarial changes for the January 1, 2009 valuation included a reduction of the assumed rate of return from 8.2% to 8.1%; the salary scale assumptions were reduced from 4.0% for all years to calendar year rates of 0.0% in 2009, 2.0% from 2010 to 2014, and 4.0% thereafter, which decreased the actuarial liability by $12,317 as of January 1, 2009.

The information required to report the net pension assets for proprietary funds was not available as of this date.

Three-Year Trend Information
(Unaudited)

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC contributed	Net Pension obligation (asset)
December 31, 2009	$ 43,537	92.0%	$ (45,856)
December 31, 2008	34,438	99.0%	$ (49,332)
December 31, 2007	39,608	99.4%	$ (49,677)

Schedule of Funding Progress
(Unaudited)

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, 2004[1]	$ 1,038,201	1,232,491[1]	194,290 [1]	84.2%	$ 115,284	168.5%
December 31, 2005	1,064,825	1,277,972	213,147	83.3	104,909	203.2
December 31, 2006[2]	1,116,451	1,331,658[2]	215,207[2]	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[3]	1,175,299	1,441,124[3]	265,825[3]	81.6	78,184	340.0
December 31, 2009[4]	1,149,786	1,478,136[4]	328,350[4]	77.8	67,184	488.7

[1] Includes effect of January 1, 2005 actuarial assumption modifications.

[2] Includes effect of January 1, 2007 actuarial assumption and plan modifications.

[3] Includes effect of January 1, 2009 actuarial assumption and plan modifications.

[4] Includes effect of January 1, 2010 actuarial assumption and plan modifications.

(9) Retirement Plans-(continued)

(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. GEB Corporation serves as an independent administrator of the plan. At December 31, 2009, the plan had 4,074 active participants who contributed 6% of their pensionable earnings, approximately $10,877 during 2009. The County also contributed $14,503 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.

(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 CityStreet independently managed assets of the plan throughout 2009.

(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 (OBEB) cost is calculated based on the Annual Required Contribution of the employer (ARC) which is required to be actuarially determined on a biannual basis.

Specific information regarding the County's OPEB liability and actuarially determined estimates are shown within the County's 2009 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 thousands of dollars)

(11) Other Postemployment Benefits (continued)

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 $939,719. 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.

The County's annual OPEB cost and net OPEB liability for the year ended December 31, 2009:

Amortization of unfunded accrued liability (UAAL)	$ 39,503
Normal cost at beginning of year	16,138
Annual required contribution (ARC) for other postemployment benefits (OPEB)	55,641
Interest on annual required contribution	4,940
Adjustment to the ARC	(4,720)
Annual OPEB cost/Annual required contribution	55,861
Annual employer contributions made on claims	(11,921)
Contribution to OPEB trust fund	(2,185)
Change in net OPEB obligation	41,755
Net OPEB obligation - January 1	112,277
Net OPEB obligation - December 31	$ 154,032

As of the most recent valuation date of January 1, 2009, 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
$2,225	$941,944	$939,719	0.002%	$214,743	438.6%

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

(in thousands of dollars)

(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	4.4%
Healthcare Cost Trend Rate	8.0% in 2010 to 5.0% in 2015 and thereafter
Inflation Rate	3.0%
Estimated Salary increases	4.0%
Amortization Method	Level, 30 years
Latest valuation date	January 1, 2009

(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 $33,260 and $103,129 as of December 31, 2009 and 2008, respectively.