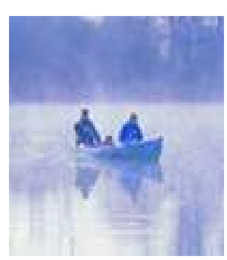
# FULTON COUNTY, GEORGIA
# WATER & SEWERAGE SYSTEM FUND

## (A Fund of Fulton County, Georgia)

## Financial Statements
## And
## Independent Auditor's Report

## December 31, 2014 and 2013






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

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PJC GROUP, LLC
*CERTIFIED PUBLIC ACCOUNTANTS*

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business activities of the Water and Sewerage System Fund of Fulton County, Georgia, which comprise the statements of net position as of December 31, 2014 and 2013, 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, 2014 and 2013, 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.

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**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 19, 2015

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, 2014 and 2013. 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 $1,463,293 for the fiscal year ended December 31, 2014. This compares to the previous year when total assets reported were $1,469,013 representing a decrease of $5,720, as depreciation and amortization slightly outpaced gains in other asset capitalizations.

System bonded debt of $512,536 decreased from 2013 by a net $10,096 net of principal payments and amortization of bond premiums on outstanding Water and Sewerage revenue bonds. All other liabilities increased slightly by $1,968 from 2013.

System net position increased by $1,577 during 2014, as compared to 2013's decrease of $8,152. Both operating revenues and operating income remained stable compared to 2013. Recognition of an unusual and infrequent accounting loss from the 2013 bond refunding of $8,434 comprises the primary decrease in Net position for 2013, while a sale of property garnered $1,549 in 2014. Total net position at December 31, 2014 was $949,170, of which $37,046 is restricted for future debt service, and $655,841 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 $256,283 as of December 31, 2014, a slight increase of $10,059 from December 31, 2013.

### Overview of the Financial Statements

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

### Basic Financial Statements

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

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

### Basic Financial Statements (continued)

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

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

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

### Financial Analysis

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

| | | | 2014-2013 | % | | 2013-2012 | % |
|---|---|---|---|---|---|---|---|
| **Assets:** | 2014 | 2013 | Net change | change | 2012 | Net change | change |
| Current assets | $ 179,956 | 166,028 | 13,928 | 8 | 169,259 | (3,231) | (2) |
| Restricted assets | 82,534 | 94,446 | (11,912) | (13) | 108,563 | (14,117) | (13) |
| Capital assets, net of depreciation | 1,122,911 | 1,129,611 | (6,700) | (1) | 1,138,176 | (8,565) | (1) |
| Other non current assets | 77,892 | 78,928 | (1,036) | (1) | 81,087 | (2,159) | (3) |
| Total assets | 1,463,293 | 1,469,013 | (5,720) | - | 1,497,085 | (28,072) | (2) |
| **Deferred Outflows of Resources:** | | | | | | | |
| Deferred charge on refunding of bonds | 6,017 | 6,848 | (831) | (12) | 7,697 | (849) | (11) |
| Total deferred outflows of resources | 6,017 | 6,848 | (831) | (12) | 7,697 | (849) | (11) |
| **Liabilities:** | | | | | | | |
| Current liabilities | 20,890 | 9,235 | 11,655 | 126 | 24,324 | (15,089) | (62) |
| Long-term liabilities | 499,250 | 519,033 | (19,783) | (4) | 524,713 | (5,680) | (1) |
| Total liabilities | 520,140 | 528,268 | (8,128) | - | 549,037 | (20,769) | (4) |
| **Net postion:** | | | | | | | |
| Net investment in capital assets | 655,841 | 664,445 | (8,604) | (1) | 677,926 | (13,481) | (2) |
| Restricted for debt retirement | 37,046 | 36,924 | 122 | - | 39,482 | (2,558) | (6) |
| Unrestricted | 256,283 | 246,224 | 10,059 | 4 | 238,337 | 7,887 | 3 |
| Total net position | 949,170 | 947,593 | 1,577 | - | 955,745 | (8,152) | (1) |

The System's assets above decreased slightly from depreciation on water and sewer infrastructure from development outpacing new capitalizations during 2014.

Long-term liabilities decreased due to reductions in scheduled principal during 2014, while short term payables increased from the previous year. The New Investment in Capital Assets also trended similar to total assets as depreciation outpaced new capitalized assets in 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

| | 2014 | 2013 | 2014-2013 net change | % change | 2012 | 2013-2012 net change | % change |
|---|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | | |
| Water and sewerage charges | $ 119,730 | 117,871 | 1,859 | 2 | 120,060 | (2,189) | (2) |
| Total Operating revenues | 119,730 | 117,871 | 1,859 | 2 | 120,060 | (2,189) | (2) |
| Operating expenses: | | | | | | | |
| Administrative and general | 3,876 | 6,830 | (2,954) | (43) | 5,687 | 1,143 | 20 |
| Depreciation and amortization | 33,711 | 33,319 | 392 | 1 | 44,979 | (11,660) | (26) |
| Personal services | 21,854 | 20,817 | 1,037 | 5 | 20,693 | 124 | 1 |
| Contractual services | 27,689 | 26,135 | 1,554 | 6 | 24,132 | 2,003 | 8 |
| Operating services | 14,126 | 13,502 | 624 | 5 | 18,598 | (5,096) | (27) |
| Total Operating expenses | 101,256 | 100,603 | 653 | 1 | 114,089 | (13,486) | (12) |
| Total Operating income | 18,474 | 17,268 | 1,206 | 7 | 5,971 | 11,297 | 189 |
| Nonoperating revenues (expenses): | | | | | | | |
| Gain (loss) on investment in joint venture | (1,687) | (2,159) | 472 | (22) | (1,929) | (230) | 12 |
| Interest income | 377 | 225 | 152 | 68 | 666 | (441) | (66) |
| Interest expense | (17,136) | (15,052) | (2,084) | 14 | (21,029) | 5,977 | (28) |
| Total nonoperating revenue(expense) | (18,446) | (16,986) | (1,460) | 9 | (22,292) | 5,306 | (24) |
| Change in net position | 28 | 282 | (254) | (90) | (16,321) | 16,603 | (102) |
| Extraordinary gain (loss) | 1,549 | (8,434) | 9,983 | (118) | (13,249) | 4,815 | (36) |
| Net position at beginning of year | 947,593 | 955,745 | (8,152) | (1) | 985,315 | (29,570) | (3) |
| Prior period adjustment | — | — | — | — | — | 3,786 | 100 |
| Beginning Net Position, as restated | 947,593 | 955,745 | (8,152) | (1) | 985,315 | (29,570) | (3) |
| Ending Net Position | $ 949,170 | 947,593 | 1,577 | — | 955,745 | (8,152) | (1) |

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.

Management's Discussion and Analysis
(in thousands of dollars)
December 31, 2014 and 2013

## Capital Assets

Capital asset balances and activity for 2014 and 2013 are shown below:

| Water and Sewerage System fund: | | January 1, 2014 | Increases | Decreases | December 31, 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 | | 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 |

| | | January 1, 2013 | Increases | Decreases | December 31, 2013 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land improvements | | 8,604 | 1,452 | — | 10,056 |
| Construction in progress | $ | 4,858 | 10,442 | — | 15,300 |
| Total capital assets not being depreciated | | 13,462 | 11,894 | — | 25,356 |
| Capital assets being depreciated: | | | | | |
| Equipment | | 14,730 | 499 | — | 15,229 |
| Water system | | 271,205 | 4,281 | — | 275,486 |
| Sewer system | | 1,107,465 | 7,231 | — | 1,114,696 |
| Intangible assets | | 169,006 | — | — | 169,006 |
| Total capital assets being depreciated | | 1,562,406 | 12,011 | — | 1,574,417 |
| Less accumulated depreciation for: | | | | | |
| Equipment | | (13,220) | (440) | — | (13,660) |
| Water system | | (78,352) | (5,128) | — | (83,480) |
| Sewer system | | (311,569) | (21,568) | — | (333,137) |
| Intangible assets | | (34,551) | (5,334) | — | (39,885) |
| Total accumulated depreciation | | (437,692) | (32,470) | — | (470,162) |
| Net capital assets being depreciated | | 1,124,714 | (20,459) | — | 1,104,255 |
| Net capital assets-Water & Sewerage System fund | $ | 1,138,176 | (8,565) | — | 1,129,611 |

(in thousands of dollars)

### Capital Assets (continued)

The primary change for 2014 and 2013 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 $77,892 and $78,928 as of December 31, 2014 and 2013, 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 2014 and 2013, 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, 2014. Detailed analysis of System debt is contained within the footnotes.

| Issue year | Interest rate range | Final Maturity Date | Outstanding balance | Annual principal installments | Purpose |
|---|---|---|---|---|---|
| Business-type activities: | | | | | |
| 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 | 236,250 | 14,650-20,270 | Water/Sewer facilities |
| | | | $ 459,515 | | |

### 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, 2014 and 2013

(In thousands of dollars)

| Assets | | 2014 | 2013 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents (note 2) | $ | 165,761 | 154,033 |
| Investments (note 2) | | — | — |
| Interest receivable | | — | — |
| Customer receivables, net of allowance for doubtful accounts (note 3) | | 9,807 | 7,168 |
| Due from other governments, net of allowance for doubtful accounts (note 3) | | 4,388 | 4,827 |
| Total current assets | | 179,956 | 166,028 |
| Restricted assets (note 1): | | | |
| Cash and cash equivalents (note 2) | | 17,249 | 3,812 |
| Investments (note 2) | | 65,263 | 90,578 |
| Interest receivable | | 22 | 56 |
| Total restricted assets | | 82,534 | 94,446 |
| Non-current assets: | | | |
| Investment in joint venture (note 4) | | 77,892 | 78,928 |
| Capital Assets: | | | |
| Nondepreciable capital assets | | 36,210 | 25,356 |
| Depreciable capital assets, net of accumulated depreciation (note 6) | | 1,086,701 | 1,104,255 |
| Other assets | | — | — |
| Total non-current assets | | 1,200,803 | 1,208,539 |
| Total assets | | 1,463,293 | 1,469,013 |
| Deferred Outflows of Resources | | | |
| Deferred charge on refunding of bonds (note 5) | | 6,017 | 6,848 |
| Total deferred outflows of resources | | 6,017 | 6,848 |

See accompanying notes to financial statements.

(continued)

| Liabilities and Net Position | | 2014 | 2013 |
|---|---|---|---|
| Liabilities: | | | |
| Current liabilities: | | | |
| Accounts payable | | 1,145 | 1,384 |
| Accrued liabilities and payroll payable | | 895 | 794 |
| Total current liabilities payable from unrestricted assets | | 2,040 | 2,178 |
| Liabilities payable from restricted assets: | | | |
| Contracts and other payables | | 3,733 | 1,670 |
| Revenue bonds payable – current portion (note 7) | | 14,650 | 4,920 |
| Unearned revenue | | 467 | 467 |
| Total liabilities payable from restricted assets | | 18,850 | 7,057 |
| Total current liabilities | | 20,890 | 9,235 |
| Noncurrent liabilities: | | | |
| Revenue bonds payable (note 7) | | 497,886 | 517,712 |
| Accrued liabilities | | 1,364 | 1,321 |
| Total noncurrent liabilities | | 499,250 | 519,033 |
| Total liabilities | | 520,140 | 528,268 |
| Net Position: | | | |
| Net investment in capital assets | | 655,841 | 664,445 |
| Restricted for debt retirement | | 37,046 | 36,924 |
| Unrestricted | | 256,283 | 246,224 |
| Total Net Position | $ | 949,170 | 947,593 |

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, 2014 and 2013

(In thousands of dollars)

| | | 2014 | 2013 |
|---|---|---|---|
| Operating revenues: | | | |
| Water and Sewerage charges | | 119,730 | 117,871 |
| Total operating revenues | | 119,730 | 117,871 |
| Operating expenses: | | | |
| Administrative and general | | 3,876 | 6,830 |
| Depreciation and amortization | | 33,711 | 33,319 |
| Personal services | | 21,854 | 20,817 |
| Contractual services | | 27,689 | 26,135 |
| Operating services | | 14,126 | 13,502 |
| Total operating expenses | | 101,256 | 100,603 |
| Operating income | | 18,474 | 17,268 |
| Non-operating revenues (expenses): | | | |
| Loss on investment in joint venture | | (1,687) | (2,159) |
| Interest income | | 377 | 225 |
| Interest expense | | (17,136) | (15,052) |
| Total non-operating expenses | | (18,446) | (16,986) |
| Change in net position | | 28 | 282 |
| Extraordinary items-Note 12 | | 1,549 | (8,434) |
| Net position at beginning of year | | 947,593 | 955,745 |
| Net position at end of year | $ | 949,170 | 947,593 |

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 2014 and 2013

(In thousands of dollars)

| | 2014 | 2013 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from customers and users | $ 117,530 | 117,686 |
| Payments to suppliers | (43,766) | (68,989) |
| Payments to employees | (21,811) | (20,889) |
| Net cash provided by operating activities | 51,953 | 27,808 |
| Cash flows from capital and related financing activities: | | |
| Principal and interest payments on revenue bonds | (27,231) | (275,507) |
| Proceeds from issuance of revenue bonds | — | 253,689 |
| Proceeds from sale of capital assets | 1,549 | — |
| Payments for other assets | (651) | — |
| Purchases of capital assets | (26,180) | (23,906) |
| Net cash provided by (used in) capital and related financing activities | (52,513) | (45,724) |
| Investing activities: | | |
| Purchase of investments | (65,263) | (90,578) |
| Purchase of investments in joint venture | — | — |
| Proceeds from sale of investments | 90,578 | 136,143 |
| Interest received on investments | 410 | 418 |
| Net cash (used in ) provided by investing activities | 25,725 | 45,983 |
| Net change in cash and cash equivalents | 25,165 | 28,067 |
| Cash and cash equivalents at beginning of year | 157,845 | 129,778 |
| Cash and cash equivalents at end of year | $ 183,010 | 157,845 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | $ 18,474 | 17,268 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 33,711 | 33,319 |
| Changes in assets and liabilities: | | |
| Customer receivables - net | (2,639) | 36 |
| Change in due from other governments - net | 439 | (220) |
| Accounts payable | (138) | (8,482) |
| Accrued liabilities | 43 | (72) |
| Contractual and other liabilities | 2,063 | (14,041) |
| Net cash provided by operating activities | $ 51,953 | 27,808 |
| Non-cash transactions: | | |
| Unrealized gain (loss) on investments | $ (33) | 158 |
| Gain (loss) on investment in joint venture | (1,687) | (2,159) |

## (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, 2013; the CAFR should be read in conjunction with these financial statements.

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

### *(b) Basis of Presentation*

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

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

### *(c) Investments*

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

### *(d) Capital Assets*

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

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

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

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

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

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

### *(e) Bond Premiums or Discounts/Debt Issuance Costs*

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

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

### *(f) Restricted Assets*

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

### *(g) Other Liabilities*

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

### *(h) Interfund Transactions*

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

### *(i) Restricted Net Position*

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

### *(j) Statement of Cash Flows*

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

### *(k) Use of Estimates*

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

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

### *(l) Risk Management*

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

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

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

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Unrestricted: | | |
| Cash and cash equivalents | $ 165,761 | 154,033 |
| Restricted: | | |
| Cash and cash equivalents | 17,249 | 3,812 |
| Investments | 65,263 | 90,578 |
| | $ 248,273 | 248,423 |

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)

## (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, 2014 and 2013, the System had the following investments:

| | | December 31, 2014 | | |
|---|---|---|---|---|
| Fixed Income: | Fair Value | to 3 months | 4-12 months | 1-5yrs |
| 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 | $ 81,322 | | | |

| | | December 31, 2013 | | |
|---|---|---|---|---|
| Fixed Income: | Fair Value | to 3 months | 4-12 months | 1-5yrs |
| US Agency Obligations | $ 90,578 | - | 47,534 | 43,044 |
| Fixed Income subtotal | 90,578 | - | 47,534 | 43,044 |
| Money Market funds | 2,694 | | | |
| Total cash equivalents and investments | $ 93,272 | | | |

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 $65,263 as of December 31, 2014 and $90,578 as of December 31, 2013 are rated AAA/AA+. The short term money market funds possess the highest short term ratings by each rating agency.

## (3) Allowances for Doubtful Accounts

Allowances for doubtful accounts at December 31, 2014 and 2013 are as follows (in thousands of dollars):

| | 2014 | 2013 |
|---|---|---|
| Customer receivables | $ 936 | 3,189 |
| 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 $6.2 million and $6.0 million in 2014 and 2013 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, 2014 and 2013, the County's share of the depreciated cost of the facility is shown as "Investment in joint venture" in the accompanying statement of net position.

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

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

(in thousands)

## (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 $123.8 million and $129.2 million as of December 31, 2014 and 2013.

Deferred charge on refunding of bonds, classified as a Deferred Outflow of Resources, and is $6,017 and $6,848 at December 31, 2014 and December 31, 2013.

## (6) Capital Assets

The following charts display capital asset balances and activity for 2014 and 2013.

| Water and Sewerage System fund: | January 1, 2014 | Increases | Decreases | December 31, 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 | 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 |

(in thousands)

## (6) Capital Assets (continued)

| Water and Sewerage System fund: | | January 1, 2013 | Increases | Decreases | December 31, 2013 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land improvements | $ | 8,604 | 1,452 | — | 10,056 |
| Construction in progress | | 4,858 | 10,442 | — | 15,300 |
| Total capital assets not being depreciated | | 13,462 | 11,894 | — | 25,356 |
| Capital assets being depreciated: | | | | | |
| Equipment | | 14,730 | 499 | — | 15,229 |
| Water system | | 271,205 | 4,281 | — | 275,486 |
| Sewer system | | 1,107,465 | 7,231 | — | 1,114,696 |
| Intangible assets | | 169,006 | — | — | 169,006 |
| Total capital assets being depreciated | | 1,562,406 | 12,011 | — | 1,574,417 |
| Less accumulated depreciation for: | | | | | |
| Equipment | | (13,220) | (440) | — | (13,660) |
| Water system | | (78,352) | (5,128) | — | (83,480) |
| Sewer system | | (311,569) | (21,568) | — | (333,137) |
| Intangible assets | | (34,551) | (5,334) | — | (39,885) |
| Total accumulated depreciation | | (437,692) | (32,470) | — | (470,162) |
| Net capital assets being depreciated | | 1,124,714 | (20,459) | — | 1,104,255 |
| Net capital assets-Water & Sewerage System fund | $ | 1,138,176 | (8,565) | — | 1,129,611 |

No interest was required to be capitalized from borrowings related to water and sewerage system construction projects in 2014 or 2013. 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.

## (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 $53,021 and $58,197 at December 31, 2014 and 2013, respectively, are as follows (in thousands of dollars):

| Issue | Interest rate range | Maturity date | Authorized and issued | Total at December 31 2014 | 2013 |
|---|---|---|---|---|---|
| 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 | 236,250 | 241,170 |
| Less current portion | | | | (14,650) | (4,920) |
| | | | | 444,865 | 459,515 |

This chart displays the System's long-term liabilities and related activity for 2014 and 2013.

| | Balance January 1, 2014 | Increases | Decreases | Balance December 31, 2014 | Due within 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 | $ 523,953 | 797 | (10,850) | 513,900 | 14,650 |

| | Balance January 1, 2013 | Increases | Decreases | Balance December 31, 2013 | Due within One year |
|---|---|---|---|---|---|
| Water & Sewerage Revenue Bonds | $ 492,845 | 223,265 | (251,675) | 464,435 | 4,920 |
| Less deferred charges, net | 36,395 | 30,424 | (8,622) | 58,197 | |
| Total Water & Sewerage Revenue Bonds | 529,240 | 253,689 | (260,297) | 522,632 | |
| Other Long-Term Liabilities | 1,393 | 802 | (874) | 1,321 | 802 |
| Total System long term liabilities | $ 530,633 | 254,491 | (261,171) | 523,953 | 5,722 |

## (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 |
|---|---|---|---|---|
| 2015 | $ | 14,650 | 22,125 | 36,775 |
| 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 |
| 2020-2024 | | 101,190 | 81,175 | 182,365 |
| 2025-2029 | | 122,230 | 54,058 | 176,288 |
| 2030-2034 | | 155,435 | 20,867 | 176,302 |
| Total | | 459,515 | 259,320 | 718,835 |
| Unamortized premiums | | 53,021 | (53,021) | - |
| Total | | 512,536 | 206,299 | 718,835 |

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, 2014 and 2013. On December 1, 2014, the County voluntarily submitted a questionnaire pursuant to the Security Exchange Commission's Municipalities Continuing Disclosure Cooperation, or "MCDC" Initiative with municipal issuers throughout the country, in which prior submissions, as issuer and obligor, were discussed and self-evaluated. The County believes these instances noted are immaterial.

## (8) Retirement Plans

### *(a) County Pension Plan*

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

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

## (8) Retirement Plans-(continued)

### *(a) County Pension Plan*

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

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

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

The required contribution percentages developed in the most recent actuarial valuations for the Plan, and the actual contributions made for 2014 and 2013 are as follows (in thousands of dollars):

| | | 2014 | 2013 |
|---|---|---|---|
| Total required employer contributions: | | | |
| Dollar amount | $ | 55,255 | 52,882 |
| Percent of covered payroll | | 168.32% | 145.85% |
| Actual employer contributions: | | | |
| Dollar amount | $ | 57,529 | 56,244 |
| Percent of covered payroll | | 175.24% | 155.12% |

Employee contribution rates are established in accordance with pension law. During 2014 and 2013, actual countywide employee contributions were $2,129 and $2,533, respectively. These contributions represented 6.49% and 6.99% of covered payroll in 2014 and 2013, 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 performed to determine the Actuarial Value of Assets and Actuarial Accrued Liability.

## (8) Retirement Plans-(continued)

### *Membership*

Current membership in the Plan and current year payrolls for 2014 are as follows:

| | | |
|---|---|---|
| Members: | | |
| Retired and receiving benefits | $ | 3,179 |
| Terminated with vested benefits | | 27 |
| Active employees: | | |
| Vested | | 576 |
| Total members | | 3,782 |
| Total current year payroll for employees covered by the Plan (in thousands ) | $ | 32,828 |

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, 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, 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.

## (8) Retirement Plans (continued)

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 Funding Status & Funding Progress, as of the January 1, 2015 valuation date, were as follows:

| Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Accrued Liabilities | Percentage Funded | Covered Payroll | Unfunded AAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| $1,306,027 | $1,654,412 | $348,385 | 78.9% | $32,828 | 1061.23% |

The System's annual pension cost and net pension obligation for the current year ended December 31, 2014 and each of the five preceding years were as follows:

**Schedule of Employer Contributions**
**(in thousands)**

| Fiscal year ended | | Annual Pension Cost (APC) | Percentage of ARC contributed | | Annual Required Contribution |
|---|---|---|---|---|---|
| December 31, 2009 | $ | 43,537 | 101.2% | $ | 43,008 |
| December 31, 2010 | | 36,299 | 99.1 | | 36,639 |
| December 31, 2011 | | 44,507 | 98.8 | | 45,049 |
| December 31, 2012 | | 51,320 | 100.2 | | 51,199 |
| December 31, 2013 | | 53,165 | 100.5 | | 52,882 |
| December 31, 2014 | | 55,199 | 99.9 | | 55,255 |

The schedule of funding progress, as presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 | 54.00% | 6.00% |
| International equity | 15.00% | 6.70% |
| Emerging Market equity | 6.00% | 9.00% |
| Core fixed income | 22.50% | 0.90% |
| High yield fixed income | 2.50% | 3.75% |
| | 100.00% | |

(in thousands)

**(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 7.70%, and the System's net pension liability would be if it were calculated using a discount rate this is one-percentage-point lower (6.70%) or one-percentage-point higher (8.70%) than the current rate.

| | 1% Decrease (6.70%) | Current Discount (7.70%) | 1% Increase (8.70%) |
|---|---|---|---|
| System's net pension liability | $516,561 | $348,385 | $205,799 |

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 for this plan remains at approximately $1.1 million as of January 1, 2015 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.

***(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, 2014, the plan had 4,433 active participants who contributed 6% of their pensionable earnings, approximately $12,164 during 2014. The County also contributed $16,222 which was 8% of their pensionable earnings throughout the year. The County also contributed an additional $1,440 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***

System employees may also participate in the County's deferred compensation plan (the "Plan") in accordance with the 2001 revisions of Section 457 of the Internal Revenue Code. This allows employees to voluntarily defer receipt of up to 25% of gross compensation, not to exceed $15,000. 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, MetLife and TIAA-CREF independently managed assets throughout 2014.

(in thousands)

## (9) Other Post-Employment Benefits

Eligible System employees are provided 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 $38,994 in 2014, as compared to $36,506 in 2013. 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 3,200 and all also had life insurance coverage in effect. Approximately 4,300 active employees with coverage are subject to this plan.

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 $1,827 have accumulated in this trust fund as of December 31, 2014, of which $372 was earned in 2014.

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% |

(in thousands)

## (9) Other Post-Employment Benefits (continued)

The county's annual OPEB cost and net OPEB liability for the year ended December 31, 2014:

| | | |
|---|---|---|
| Annual required contribution (ARC) for other postemployment benefits (OPEB) | $ | 107,851 |
| Interest on annual required contribution | | 15,938 |
| Adjustment to the ARC | | (15,225) |
| Annual OPEB cost/Annual required contribution | | 108,564 |
| Annual employer contributions made on claims | | (29,244) |
| Change in net OPEB obligation | | 79,320 |
| Net OPEB obligation - January 1 | | 398,441 |
| Net OPEB obligation - December 31 | $ | 477,761 |

**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, 2012 | $ | 90,817 | 30.1% | $ | 336,813 |
| December 31, 2013 | | 90,817 | 32.1 | | 398,441 |
| December 31, 2014 | | 107,851 | 26.9 | | 477,761 |

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 $54,290 and $36,665 as of December 31, 2014 and 2013, respectively.

## (11) Extraordinary Items

The System sold capital assets at a gain of $1,549 in 2014, considered infrequent for the system. In 2013 the System issued 2013 Fulton County Water and Sewerage System revenue bonds to refinance all outstanding 2004 Fulton County Water and Sewerage System revenue bonds, which yielded significant savings to the Water and Sewerage system. This resulted in an accounting loss of $8,434. These events are 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
(in thousands)

December 31, 2014 and 2013

## Schedule of Funding Progress

(Including and after effects of plan modifications and actuarial assumption changes)

| Actuarial valuation date | | Actuarial value of assets (a) | Entry age normal Actuarial Accrued Liability (AAL) (b) | Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b – a) | Funded ratio (a/b) | Covered payroll (c) | UAAL as a Percentage of Covered Payroll ([b – a]/c) |
|---|---|---|---|---|---|---|---|
| December 31, 2009 | $ | 1,149,786 | 1,478,136 | 328,350 | 77.8% | 67,184 | 488.7% |
| December 31, 2010 | | 1,144,371 | 1,567,306 | 422,935 | 73.0 | 57,888 | 730.6 |
| December 31, 2011 | | 1,104,779 | 1,604,463 | 499,684 | 68.9 | 49,277 | 1,014.0 |
| December 31, 2012 | | 1,082,180 | 1,577,865 | 495,685 | 68.6 | 42,622 | 1,163.0 |
| December 31, 2013 | | 1,173,841 | 1,608,975 | 435,134 | 73.0 | 36,258 | 1,200.0 |
| December 31, 2014 | | 1,240,742 | 1,654,412 | 413,670 | 75.0 | 32,828 | 1,260.1 |

## Schedule of Contributions from the Employer and Other Contributing Entities

| | | | Contributions in Relation to The Actuarially Determined Contribution | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year Ended | | 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, 2005 | $ | 32,726 | 31,579 | 761 | 32,340 | 6,555 | 104,909 | 30.83% |
| December 31, 2006 | | 37,081 | 35,453 | 658 | 36,111 | 2,784 | 98,882 | 36.52 |
| December 31, 2007 | | 38,367 | 37,289 | 513 | 37,802 | 1,093 | 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 |

FULTON COUNTY, GEORGIA

Required Supplementary Information
(in thousands)

December 31, 2014 and 2013

## Schedule of Employer's Net Position Liability

| Year Ended | | Total Pension Liability | Plan Fiduciary Net Position | Plan's net Pension Liability | Plan fiduciary net position as a percentage of total pension liability |
|---|---|---|---|---|---|
| December31, 2014 | $ | 1,654,412 | 1,306,027 | 348,385 | 78.94% |

## Schedule of Investment Returns

| Year Ended | Annual money-weighted rate of return, net of investment expense |
|---|---|
| December 31, 2014 | 5.20% |

## 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, 2009 | $ | 2,225 | 941,944 | 939,719 | 0.24% | 214,743 | 437% |
| 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 | 226,479 | 591 |

# FULTON COUNTY, GEORGIA

Required Supplementary Information
(in thousands)

December 31, 2014 and 2013

## Schedule of Changes in System's Net Position Liability
## Last Ten Fiscal Years

| | 2014 |
|---|---|
| **Total Pension Liability** | |
| Service cost | $ 4,291 |
| Interest | 120,935 |
| Change of benefit terms | - |
| Differences between expected and actual experience | 21,902 |
| Change of assumptions | 15,352 |
| Benefit payments, including refunds of employee contributions | (117,044) |
| Net change in total pension liability | 45,436 |
| Total pension liability - beginning | $ 1,608,976 |
| Total pension liability - ending (a) | $ 1,654,412 |
| **Plan fiduciary net position** | |
| Contributions-employer | $ 57,529 |
| Contributions-employee | 2,129 |
| Net investment income | 64,143 |
| Benefit payments, including refunds of employee contributions | (117,044) |
| Administrative expense | (705) |
| Other | - |
| Net change in plan fiduciary net position | $ 6,052 |
| Plan fiduciary net position - beginning | $ 1,299,975 |
| Plan fiduciary net position - ending (b) | $ 1,306,027 |
| System's net pension liability - ending (a) - (b) | 348,385 |
| Plan fiduciary net position as a percentage of the total pension liability | 78.94% |
| Covered employee payroll | $ 32,828 |
| System's net pension liability as a percentage of covered employee payroll | 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 implementation.

Change of Assumptions: The discount rate assumption was changed from 7.80% to 7.70%.

(in thousands)

## (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 Employer Contributions

The required contributions and percentage of those contributions actually made are presented I the schedule

## (3) Actuarial Methods and Assumptions

*Changes of assumptions:* 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, 2015 |
| 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, 2015 |
| 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 | 7.70%. 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. |
| Inflation rate | 3.0% |
| Projected salary increases | 3.0% |
| Cost of living adjustments | 3.0% |

(in thousands)

## (3) Actuarial Methods and Assumptions (continued)

| | |
|---|---|
| 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 |
| Mortality Rates-Disabled | RP-2000 Disabled Retiree Mortality Table projected to 2019 using Scale AA<br><br>RP-2000 mortality tables, projected to the 2015 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.<br>Assumptions for public safety retirement probability is 60.0% at first age eligibility, then 40% through age 64 and 100% thereafter. |
| 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.<br>Assumptions for public safety retirement probability ranges from 12.55% at age 50, and increases each year to 23.75% at age 64.<br><br>The retirement rates for reduced pensions apply only until eligibility for normal retirement occurs. From that point forward, the rates for unreduced pensions apply. |