

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 12, 2016

NEW ISSUES – Book Entry Only

Standard & Poor's: ____

Moody's: ____

See "Ratings" herein

In the opinion of Co-Bond Counsel, under existing law and assuming continuing compliance with certain conditions described herein, except as discussed under the heading "TAX MATTERS," interest on the Series 2016-A Bonds and the Series 2016-B Bonds (i) is excludable from gross income for federal income tax purposes, and (ii) will not be an item of tax preference for purposes of the federal alternative minimum tax on individuals and corporations. In the opinion of Co-Bond Counsel, interest on the Series 2016-A Bonds and the Series 2016-B Bonds is, under existing law, exempt from Alabama income taxation.

In the opinion of Co-Bond Counsel, under existing law, interest on the Series 2016-C Bonds is (a) not excludable from gross income, and is taxable as ordinary income, for purposes of federal income taxation, and (b) is exempt from Alabama income taxation.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM

\$150,615,000*
Senior Water Revenue
Refunding Bonds
Series 2016-A

\$273,245,000*
Subordinate Water Revenue
Refunding Bonds
Series 2016-B

\$33,885,000*
Subordinate Water Revenue
Refunding Bonds
Series 2016-C (Taxable)

Dated: Date of Delivery

Due: January 1, as shown on inside cover

This Official Statement has been prepared in connection with the issuance of \$150,615,000* aggregate principal amount of the Board's Senior Water Revenue Refunding Bonds, Series 2016-A (the "Series 2016-A Bonds"), \$273,245,000* aggregate principal amount of the Board's Subordinate Water Revenue Refunding Bonds, Series 2016-B (the "Series 2016-B Bonds"), and \$33,885,000* aggregate principal amount of the Board's Subordinate Water Revenue Refunding Bonds, Series 2016-C (Taxable) (the "Series 2016-C Bonds" and, together with the Series 2016-A Bonds and the Series 2016-B Bonds, the "Series 2016 Bonds").

The Series 2016-A Bonds are secured under a Trust Indenture dated as of December 1, 1998, as supplemented, between the Board and Regions Bank, Birmingham, Alabama, as Trustee. The Series 2016-B Bonds and the Series 2016-C Bonds are secured under a Trust Indenture dated as of March 1, 2007, as supplemented, between the Board and Regions Bank, Birmingham, Alabama, as Trustee.

The Series 2016 Bonds are issuable only as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Series 2016 Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2016 Bonds purchased.

The Series 2016 Bonds will bear interest from the date of their delivery, at the rates shown on the inside cover of this Official Statement, payable semiannually on each January 1 and July 1, commencing January 1, 2017, until maturity or earlier redemption. Interest on, and principal of, the Series 2016 Bonds is payable by the Trustee to DTC, which will in turn remit such principal and interest to its Participants, which will remit such principal and interest to the Beneficial Owners of the Series 2016 Bonds, as described under the section herein entitled "BOOK-ENTRY ONLY SYSTEM".

The Series 2016-A Bonds will be limited obligations of the Board, payable solely out of, and secured by a pledge and assignment of, the net revenues of the Board attributable to the operation of the Board's water works distribution system (the "System"). The Series 2016-A Bonds will be payable on a parity of lien with certain other outstanding senior debt of the Board. See "INDEBTEDNESS OF THE BOARD" herein. The Series 2016-B Bonds and the Series 2016-C Bonds are limited obligations of the Board, payable solely out of, and secured by a subordinate pledge and assignment of, the revenues of the Board attributable to the operation of the Board's water works distribution system. The Series 2016-B Bonds and the Series 2016-C Bonds will be payable on a parity of lien with certain other outstanding subordinate debt of the Board. See "INDEBTEDNESS OF THE BOARD" herein. The Series 2016 Bonds are not obligations of the State of Alabama, the City of Birmingham, or any county or municipality. The Board has no taxing power. See "SOURCE OF PAYMENT AND SECURITY" herein. Certain of the Series 2016 Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES 2016-A BONDS", "THE SERIES 2016-B BONDS", and "THE SERIES 2016-C BONDS" herein.

The Series 2016 Bonds are offered when, as and if issued by the Board, subject to the approving legal opinions of Maynard, Cooper & Gale, P.C., Birmingham, Alabama, and Yvonne Green Davis, P.C., Birmingham, Alabama, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Board by Sirote & Permutt, P.C., Birmingham, Alabama, Disclosure Counsel to the Board, and for the Underwriters by their counsel, Hand Arendall LLC, Birmingham, Alabama. Certain legal matters will be passed upon for the benefit of the Board by its counsel, Fuston, Petway & French, LLP. It is expected that the Series 2016 Bonds will be delivered in book-entry form through the facilities of The Depository Trust Company on or about October 4, 2016.

GOLDMAN, SACHS & CO.
MORGAN STANLEY
NW CAPITAL MARKETS INC.

CITIGROUP
THE FRAZER LANIER COMPANY
SECURITIES CAPITAL CORPORATION

October ____, 2016

* Preliminary; subject to change; all figures, dates and other information marked with an asterisk, not otherwise explained in the document, represent information subject to change.

This Preliminary Official Statement and the information contained therein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**THE WATER WORKS BOARD OF THE
CITY OF BIRMINGHAM**

MATURITIES, AMOUNTS, RATES AND PRICES

150,615,000*					\$273,245,000*				
Senior Water Revenue					Subordinate Water Revenue				
Refunding Bonds					Refunding Bonds				
Series 2016-A					Series 2016-B				
Maturity	Principal Amount	Interest Rate	Price or Yield	CUSIP⁽¹⁾	Maturity	Principal Amount	Interest Rate	Price or Yield	CUSIP⁽¹⁾
2020	\$2,070,000	___%	___	_____	2023	\$1,245,000	___%	___	_____
2022	2,715,000				2024	5,870,000			
2023	2,860,000				2025	6,175,000			
2024	3,005,000				2026	2,290,000			
2025	3,160,000				2027	2,400,000			
2026	3,315,000				2028	2,530,000			
2027	7,195,000				2029	2,650,000			
2028	7,570,000				2030	12,640,000			
2029	7,950,000				2031	13,295,000			
2030	4,095,000				2032	13,980,000			
2031	4,300,000				2033	14,700,000			
2032	9,250,000				2034	15,430,000			
2033	9,730,000				2035	16,225,000			
2034	10,225,000				2036	17,060,000			
2035	10,750,000				2037	17,940,000			
2036	11,305,000								
2037	11,885,000								

\$33,885,000*				
Subordinate Water Revenue				
Refunding Bonds				
Series 2016 C (Taxable)				
Maturity	Principal Amount	Interest Rate	Price or Yield	CUSIP⁽¹⁾
2017	\$2,700,000	___%	___%	_____
2018	5,215,000			
2019	5,280,000			
2020	5,340,000			
2021	5,425,000			
2022	5,525,000			
2023	4,400,000			

Series 2016-A Term Bonds

Series 2016-B Term Bonds

* Preliminary; subject to change.

⁽¹⁾ CUSIP is a trademark of the American Bankers Association. CUSIP data contained herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
DIRECTORS, MANAGEMENT AND CONSULTANTS**

Board of Directors

Ronald A. Mims
Chairman and President

Kevin McKie
First Vice Chairman

Dr. George Munchus
Secretary/Treasurer

Sherry W. Lewis
Assistant Secretary/Treasurer

William Muhammad

Management

Mac Underwood
General Manager

Darryl R. Jones
*Assistant General Manager
Operations and Technical Services*

T. M. Jones
*Assistant General Manager
Engineering and Maintenance*

Michael Johnson
*Assistant General Manager
Finance and Administration*

Independent Engineer
Arcadis U.S., Inc.
Highlands Ranch, Colorado

Independent Accountants
Banks, Finley, White & Co.
Birmingham, Alabama

Independent Rate Consultants
Raftelis Financial Consultants, Inc.
Charlotte, North Carolina

Board's Counsel

Fuston, Petway & French, LLP
Birmingham, Alabama

Financial Advisor

Terminus Municipal Advisors, LLC
Atlanta, Georgia

Co-Bond Counsel

Maynard, Cooper & Gale, P.C.
Birmingham, Alabama

Yvonne Green Davis, P.C.
Birmingham, Alabama

Disclosure Counsel

Sirote & Permutt, P.C.
Birmingham, Alabama

Underwriters' Counsel

Hand Arendall LLC
Birmingham, Alabama

Verification Agent

AMTEC
Avon, Connecticut

Revenue Certificate Provider

Banks, Finley, White & Co.
Birmingham, Alabama

This Preliminary Official Statement and the information herein is subject to change, completion, and amendment. A definitive Official Statement will be made available prior to the delivery of the Series 2016 Bonds.

For purposes of this Preliminary Official Statement, selling compensation, delivery dates, and certain other information dependent on pricing of the Series 2016 Bonds have been omitted. Further, for purposes of this Preliminary Official Statement, offering prices, interest rates, aggregate principal amount, principal amount per maturity, and certain other information dependent on pricing of the Series 2016 Bonds have been estimated. Actual information dependent on pricing will be established after pricing of the Series 2016 Bonds and will be reflected in the final Official Statement. Such actual information will vary from the estimates.

Investors should check under the heading "INTRODUCTION - Changes to the Preliminary Official Statement" in the final Official Statement for guidance regarding information dependent on pricing of the Series 2016 Bonds and for guidance regarding other information that is changed between the date of this Preliminary Official Statement and the date of the final Official Statement.

**CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget," "anticipate," or similar words.

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OFFICIAL STATEMENT

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM (ALABAMA)

\$150,615,000*
Senior Water Revenue
Refunding Bonds
Series 2016-A

\$273,245,000*
Subordinate Water Revenue
Refunding Bonds
Series 2016-B

\$33,885,000*
Subordinate Water Revenue
Refunding Bonds
Series 2016-C (Taxable)

INTRODUCTION

This Official Statement of The Water Works Board of the City of Birmingham (the "Board") provides information with respect to the above-referenced \$150,615,000* Senior Water Revenue Refunding Bonds, Series 2016-A (the "Series 2016-A Bonds"), \$273,245,000* Subordinate Water Revenue Refunding Bonds, Series 2016-B (the "Series 2016-B Bonds"), and \$33,885,000* Subordinate Water Revenue Refunding Bonds, Series 2016-C (Taxable) (the "Series 2016-C Bonds", and, together with the Series 2016-A Bonds and the Series 2016-B, the "Series 2016 Bonds") of the Board being issued pursuant to the Constitution and laws of the State of Alabama, including particularly Sections 11-50-230 to 11-50-241, inclusive, of the Code of Alabama 1975, as amended, and other applicable provisions of law. The Series 2016-A Bonds are issued under and pursuant to the terms and conditions of a resolution (the "Authorizing Resolution") of the Board and a Trust Indenture dated as of December 1, 1998 (the "Original Senior Indenture"), between the Board (successor to the City of Birmingham, Alabama (the "City")) and Regions Bank (successor trustee to U.S. Bank National Association), as trustee (the "Trustee"), as supplemented and amended by a First Supplemental Indenture dated as of July 1, 2002, a Second Supplemental Indenture dated as of September 1, 2002, a Third Supplemental Indenture dated as of April 1, 2004, a Fourth Supplemental Indenture dated as of April 1, 2006, a Fifth Supplemental Indenture dated as of February 28, 2007, a Sixth Supplemental Indenture dated as of December 1, 2008, a Seventh Supplemental Indenture dated as of May 1, 2009, an Eighth Supplemental Indenture dated as of November 1, 2010, a Ninth Supplemental Indenture dated as of June 1, 2011, a Tenth Supplemental Indenture dated as of March 1, 2012, an Eleventh Supplemental Indenture dated as of April 1, 2013, a Twelfth Supplemental Indenture dated as of April 1, 2015, and a Thirteenth Supplemental Indenture dated as of October 1, 2016. The Original Indenture, as so supplemented and amended, is referred to herein as the "Senior Indenture". The Board has succeeded to the interests of the City under the Senior Indenture. See "THE BOARD – Transfer of System to City; Reconveyance to Board" herein.

The Series 2016-A Bonds are being issued for the following purposes: (i) advance refunding of a portion of the Board's Water Revenue Bonds, Series 2009-A (the "Series 2009-A Bonds"), which are now outstanding in the aggregate principal amount of \$ _____; (ii) advance refunding of a portion of the Board's Water Revenue Bonds, Series 2011 (the "Series 2011 Bonds"), which are now outstanding in the aggregate principal amount of \$ _____; and (iii) paying the costs of issuing the Series 2016-A Bonds. The Series 2009-A Bonds and the Series 2011 Bonds to be refunded are referred to herein, collectively, as the "2016-A Refunded Bonds".

The Series 2016-B Bonds and the Series 2016-C Bonds are being issued under and pursuant to the terms and conditions of the Authorizing Resolution and a Trust Indenture dated as of March 1, 2007 (the "Original Subordinate Indenture"), between the Board and Regions Bank (successor trustee to U.S. Bank National Association), as trustee (the "Trustee"), as supplemented and amended by a First Supplemental Indenture dated as of December 1, 2009, a Second Supplemental Indenture (as amended) dated as of February 1, 2011, a Third Supplemental Indenture dated as of February 15, 2012, a Fourth Supplemental Indenture dated as of February 1, 2013, a Fifth Supplemental Indenture dated as of September 15, 2014, and a Sixth Supplemental Indenture dated as of October 1, 2016. The Original Subordinate Indenture, as so supplemented and amended, is referred to herein as the "Subordinate Indenture".

The Series 2016-B Bonds are being issued for the following purposes: (i) current refunding all of the Board's Water Revenue Bonds, Series 2007-A (the "Series 2007-A Bonds"), which are now outstanding in the aggregate principal amount of \$ _____; (ii) advance refunding those of the Board's Water Revenue Bonds, Series 2009 (the "Series 2009 Bonds"), that can be advance refunded on a tax-exempt basis (collectively, the "2016-B Refunded Bonds") which are now outstanding in the aggregate principal amount of \$ _____;

(iii) financing certain capital improvements to the Board's water distribution system (the "System"); and (iv) paying the costs of issuing the Series 2016-B Bonds.

The Series 2016-C Bonds are being issued for the following purposes: (i) advance refunding those of the Series 2009 Bonds that cannot be advanced refunded on a tax-exempt basis (the "2016-C Refunded Bonds"); (ii) financing certain capital improvements to the System; and (iii) paying the costs of issuing the Series 2016-C Bonds.

The Series 2016-A Bonds will be payable solely out of, and secured by a pledge and assignment of the Board's System Revenues remaining after the payment of Operating Expenses (the "Pledged Revenues"), as more particularly described herein. See "SOURCE OF PAYMENT AND SECURITY". The pledge of the Pledged Revenues in favor of the Series 2016-A Bonds will be on parity of lien with other bonds that are outstanding under the Senior Indenture in the aggregate principal amount of \$_____ (not including the Series 2016-A Bonds) (the "Senior Securities"). See "SOURCE OF PAYMENT AND SECURITY" and "INDEBTEDNESS OF THE BOARD – Senior Securities Outstanding Under the Senior Indenture".

The Series 2016-B Bonds and the Series 2016-C Bonds will be payable solely out of, and secured by a subordinate pledge and assignment of the Board's Pledged Revenues, as more particularly described herein. See "SOURCE OF PAYMENT AND SECURITY". The subordinate pledge of the Pledged Revenues in favor of the Series 2016-B Bonds and Series 2016-C Bonds will be on parity of lien with other bonds that are outstanding under the Subordinate Indenture in the aggregate principal amount of \$_____ (not including the Series 2016-B Bonds and Series 2016-C Bonds) (the "Subordinate Securities"). See "SOURCE OF PAYMENT AND SECURITY" and "INDEBTEDNESS OF THE BOARD – Subordinate Securities Outstanding Under the Subordinate Indenture".

All references to or summaries of contracts, documents, or official acts in this Official Statement are qualified by the exact terms of such contracts, documents or acts, each being an item of public record. So far as any statements are made in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, they are set forth as such and not as representations of fact, and no representation is made that any such estimates will be realized.

Changes to the Preliminary Official Statement

The differences between the Preliminary Official Statement and this Official Statement include differences in the principal amounts of the Series 2016-A Bonds, the Series 2016-B Bonds and the Series 2016-C Bonds issued as a result of fluctuating market conditions between the date of the Preliminary Official Statement and this Official Statement. These changes in the principal amounts also resulted in changes to the debt service requirements of the Board and the outstanding indebtedness of the Board. See "INDEBTEDNESS OF THE BOARD" and "DEBT SERVICE REQUIREMENTS" herein.

THE SERIES 2016-A BONDS

General Provisions

The Series 2016-A Bonds are dated the date of their issuance and delivery, and will bear interest from the dated date at the rates, and will mature in the amounts and on the dates, set forth on the inside cover page of this Official Statement. Interest on the Series 2016-A Bonds is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2017, to the registered owners thereof. The Series 2016-A Bonds are issuable in denominations of \$5,000 or any integral multiple thereof. The Series 2016-A Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Series 2016-A Bonds will be paid. See "BOOK ENTRY ONLY SYSTEM" herein. If any due date for payment of principal and interest with respect to the Series 2016-A Bonds is not a Business Day, then such payment shall be made on the next succeeding Business Day with the effect of having been made on such due date.

Purpose

The Series 2016-A Bonds are being issued for the purpose of (i) advance refunding the 2016-A Refunded Bonds and (ii) paying the costs of issuing the Series 2016-A Bonds.

Plan of Refunding

In order to advance refund the 2016-A Refunded Bonds, the Board and the Trustee will enter into an escrow agreement simultaneously with the issuance of the Series 2016-A Bonds (the "2016-A Escrow Agreement") pursuant to which the Board will establish an escrow fund (the "2016-A Escrow Fund") for the benefit of the holders of the 2016-A Refunded Bonds, and will deposit therein (i) a portion of the proceeds of the Series 2016-A Bonds, and (ii) certain monies held in the reserve fund and the debt service fund established for the benefit of the 2016-A Refunded Bonds. Money in the 2016-A Escrow Fund will be invested in U.S. Government Securities (herein referred to as the "2016-A Escrow Securities") as allowed under the Senior Indenture for the benefit of the holders of 2016-A Refunded Bonds and will not be available under any circumstances to pay principal of or interest on the Series 2016-A Bonds. The maturing principal and interest on the 2016-A Escrow Securities, together with any cash balance remaining in the 2016-A Escrow Fund after purchase of the 2016-A Escrow Securities, will be sufficient to pay maturing installments of principal and interest on the 2016-A Refunded Bonds through and including their respective redemption dates, and to pay the redemption prices of the 2016-A Refunded Bonds on their respective redemption dates.

Concurrently with the issuance of the Series 2016-A Bonds, AMTEC, Avon, Connecticut, as verification agent (the "Verification Agent"), will verify, from the information provided to it, the mathematical accuracy, as of the date of delivery of the Series 2016-A Bonds, of the computations contained in the provided schedules to determine that the anticipated receipts from the 2016-A Escrow Securities, together with the initial cash deposit, will be sufficient to pay, when due: (1) maturing installments of principal and interest on the 2016-A Refunded Bonds through and including their respective redemption dates and (2) to pay the redemption price of the 2016-A Refunded Bonds on their respective redemption dates.

Transfers and Exchanges

The registered owner of any Series 2016-A Bond may, upon surrender thereof at the principal corporate trust office of the Trustee together with a written instrument of transfer satisfactory to the Trustee and duly executed by the owner thereof or its duly authorized attorney, transfer or exchange such Bond for an equal aggregate principal amount of Series 2016-A Bonds of the same maturity and of any authorized denomination. The Board and the Trustee may deem and treat the person in whose name any Series 2016-A Bond is registered upon the books of the Board as the absolute owner of such bond, for the purpose of receiving payment of, or on account of, the principal of and interest on such bond, for notices required under the Senior Indenture and for all other purposes. The Board or the Trustee may charge a person requesting a transfer or exchange of any bonds an amount sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange.

For so long as the Series 2016-A Bonds are registered in the name of DTC or its nominee, the Trustee will transfer and exchange Series 2016-A Bonds only on behalf of DTC or its nominee, in accordance with the preceding paragraph. Neither the Board nor the Trustee will have any responsibility for transferring or exchanging any Beneficial Owner's interest in any Series 2016-A Bonds. See "BOOK ENTRY ONLY SYSTEM" herein.

Neither the Board nor the Trustee shall be required to transfer or exchange any Series 2016-A Bonds during the period of fifteen (15) days immediately preceding any Interest Payment Date or, in the case of any Series 2016-A Bonds called for redemption (in whole or in part), during the period of thirty (30) days immediately preceding the date fixed for such redemption.

Optional Redemption

Those of the Series 2016-A Bonds scheduled to mature in ____ and thereafter are subject to optional redemption and payment, at the option of the Board, in whole or in part (but if in part, in integral multiples of

\$5,000), at any time and from time to time on or after January 1, _____, at and for a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Mandatory Redemption

Those of the Series 2016-A Bonds scheduled to mature on January 1, _____ (the "____ Term 2016-A Bonds"), shall be subject to scheduled mandatory redemption on the following respective dates and in the following respective principal amounts:

Redemption Date (<u>January 1</u>)*	Principal <u>Amount</u> *
2038	\$12,495,000
2039	13,140,000
2040	6,630,000
2041 (maturity)	6,970,000

Not less than 45 nor more than 60 days prior to each mandatory redemption date with respect to _____ Term 2016-A Bonds, the Trustee shall proceed to select for redemption, by lot, _____ Term 2016-A Bonds or portions thereof in an aggregate principal amount equal to the amount required to be redeemed and shall call such _____ Term Bonds or portions thereof for redemption on such mandatory redemption date. The Board may, not less than 60 days prior to any such mandatory redemption date, direct that any or all of the following amounts be credited against the _____ Term 2016-A Bonds scheduled for redemption on such date: (i) the principal amount of _____ Term 2016-A Bonds delivered by the Board to the Trustee for cancellation and not previously claimed as a credit; and (ii) the principal amount of _____ Term 2016-A Bonds previously redeemed (other than _____ Term 2016-A Bonds redeemed pursuant to this paragraph) and not previously claimed as a credit; and (iii) the principal amount of _____ Term 2016-A Bonds otherwise deemed paid in full and not previously claimed as a credit.

Notice of Redemption

Notice of the redemption of any Series 2016-A and will be given to the registered owner thereof by registered or certified mail, mailed not more than 60 and not less than 30 days prior to the date fixed for redemption.

For so long as DTC or its nominee is the registered owner of any Series 2016-A Bond to be redeemed, notice of redemption will be given to DTC or its nominee as the registered owner of such Series 2016-A Bond. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner of any Series 2016-A Bond to be redeemed shall not affect the validity of the redemption of such Series 2016-A Bond.

Selection of Bonds for Redemption

Except as otherwise provided with respect to mandatory redemption of the _____ Term 2016-A Bonds, if less than all Series 2016-A Bonds outstanding are to be redeemed, the principal amount of Series 2016-A Bonds of each maturity to be redeemed may be specified by the Board by written notice to the Trustee, or, in the absence of timely receipt by the Trustee of such notice, shall be selected by the Trustee by lot or by such other method as the Trustee shall deem fair and appropriate; provided, however, that the principal amount of Series 2016-A Bonds of each maturity to be redeemed must be a multiple of the smallest authorized denomination of the Series 2016-A Bonds. If less than all of the Series 2016-A Bonds of any particular maturity and bearing the same rate of interest are to be redeemed, those Series 2016-A Bonds to be redeemed shall be selected by the Trustee by lot.

For so long as the Series 2016-A Bonds are registered in the name of DTC or its nominee, the Trustee will select Series 2016-A Bonds or portions thereof for redemption in accordance with the preceding paragraph, and DTC will select for redemption the Direct Participants' interests in the Series 2016-A Bonds. The Direct Participants and Indirect Participants will select for redemption the particular Beneficial Owners' interests in the Series 2016-A Bonds. Neither the Board nor the Trustee will have any responsibility for selecting for redemption any Beneficial Owners' interest in the Series 2016-A Bonds. See "BOOK ENTRY ONLY SYSTEM" herein.

THE SERIES 2016-B BONDS

General Provisions

The Series 2016-B Bonds are dated the date of their issuance and delivery, and will bear interest from the dated date at the rates, and will mature in the amounts and on the dates, set forth on the inside cover page of this Official Statement. Interest on the Series 2016-B Bonds is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2017, to the registered owners thereof. The Series 2016-B Bonds are issuable in denominations of \$5,000 or any integral multiple thereof. The Series 2016-B Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Series 2016-B Bonds will be paid. See "BOOK ENTRY ONLY SYSTEM" herein. If any due date for payment of principal and interest with respect to the Series 2016-B Bonds is not a Business Day, then such payment shall be made on the next succeeding Business Day with the effect of having been made on such due date.

Purpose

The Series 2016-B Bonds are being issued for the purpose of: (i) refunding the 2016-B Refunded Bonds, (ii) financing certain capital improvements to the System (the "2016-B Improvements"), and (iii) paying the costs of issuing the Series 2016-B Bonds. The proceeds from the sale of the Series 2016-B Bonds to be used to pay the costs of the 2016-B Improvements shall be held in an Acquisition Fund established under the Subordinate Indenture by the Trustee for the benefit of the Board pending disbursement.

Plan of Refunding

In order to refund the 2016-B Refunded Bonds, the Board and the Trustee will enter into an escrow agreement simultaneously with the issuance of the Series 2016-B Bonds and the Series 2016-C Bonds (the "2016-B Escrow Agreement") pursuant to which the Board will establish an escrow fund (the "2016 B Escrow Fund") for the benefit of the holders of the 2016-B Refunded Bonds, and will deposit therein (i) a portion of the proceeds of the Series 2016-B Bonds, and (ii) certain monies held in the reserve fund and debt service fund established for the benefit of the 2016-B Refunded Bonds. Money in the 2016-B Escrow Fund will be invested in U.S. Government Securities (herein referred to as the "2016-B Escrow Securities") as allowed under the Subordinate Indenture for the benefit of the holders of the 2016-B Refunded Bonds and will not be available under any circumstances to pay principal of or interest on the Series 2016-B Bonds. The maturing principal and interest on the 2016-B Escrow Securities, together with any cash balance remaining in the 2016-B Escrow Fund after purchase of the 2016-B Escrow Securities, will be sufficient to pay maturing installments of principal and interest on the 2016-B Refunded Bonds through and including their respective redemption dates, and to pay the redemption prices of the 2016-B Refunded Bonds on their respective redemption dates.

Concurrently with the issuance of the Series 2016-B Bonds, the Verification Agent will verify, from the information provided to it, the mathematical accuracy, as of the date of delivery of the Series 2016-B Bonds, of the computations contained in the provided schedules to determine that the anticipated receipts from the 2016-B Escrow Securities, together with the initial cash deposit, will be sufficient to pay, when due: (1) maturing installments of principal and interest on the 2016-B Refunded Bonds through and including their respective redemption dates and (2) to pay the redemption price of the 2016-B Refunded Bonds on their respective redemption dates.

Transfers and Exchanges

The registered owner of any Series 2016-B Bond may, upon surrender thereof at the principal corporate trust office of the Trustee together with a written instrument of transfer satisfactory to the Trustee and duly executed by the owner thereof or its duly authorized attorney, transfer or exchange such Bond for an equal aggregate principal amount of Series 2016-B Bonds of the same maturity and of any authorized denomination. The Board and the Trustee may deem and treat the person in whose name any Series 2016-B Bond is registered upon the books of the Board as the absolute owner of such bond, for the purpose of receiving payment of, or on account of, the principal of and interest on such bond, for notices required under the Subordinate Indenture and for all other purposes. The

Board or the Trustee may charge a person requesting a transfer or exchange of any bonds an amount sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange.

For so long as the Series 2016-B Bonds are registered in the name of DTC or its nominee, the Trustee will transfer and exchange Series 2016-B Bonds only on behalf of DTC or its nominee, in accordance with the preceding paragraph. Neither the Board nor the Trustee will have any responsibility for transferring or exchanging any Beneficial Owner's interest in any Series 2016-B Bonds. See "BOOK ENTRY ONLY SYSTEM" herein.

Neither the Board nor the Trustee shall be required to transfer or exchange any Series 2016-B Bonds during the period of fifteen (15) days immediately preceding any Interest Payment Date or, in the case of any Series 2016-B Bonds called for redemption (in whole or in part), during the period of thirty (30) days immediately preceding the date fixed for such redemption.

Optional Redemption

Those of the Series 2016-B Bonds scheduled to mature in _____ and thereafter are subject to optional redemption and payment, at the option of the Board, in whole or in part (but if in part, in integral multiples of \$5,000), at any time and from time to time on or after January 1, _____, at and for a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Mandatory Redemption

Those of the Series 2016-B Bonds scheduled to mature on January 1, _____ (the "_____ Term 2016-B Bonds"), shall be subject to scheduled mandatory redemption on the following respective dates and in the following respective principal amounts:

Redemption Date (January 1)*	Principal Amount*
2038	\$18,865,000
2039	19,840,000
2040	20,860,000
2041	21,935,000
2042	23,060,000
2043 (maturity)	24,255,000

Not less than 45 nor more than 60 days prior to each mandatory redemption date with respect to _____ Term 2016-B Bonds, the Trustee shall proceed to select for redemption, by lot, _____ Term 2016-B Bonds or portions thereof in an aggregate principal amount equal to the amount required to be redeemed and shall call such _____ Term 2016-B Bonds or portions thereof for redemption on such mandatory redemption date. The Board may, not less than 60 days prior to any such mandatory redemption date, direct that any or all of the following amounts be credited against the _____ Term 2016-B Bonds scheduled for redemption on such date: (i) the principal amount of _____ Term 2016-B Bonds delivered by the Board to the Trustee for cancellation and not previously claimed as a credit; and (ii) the principal amount of _____ Term 2016-B Bonds previously redeemed (other than _____ Term 2016-B Bonds redeemed pursuant to this paragraph) and not previously claimed as a credit; and (iii) the principal amount of _____ Term 2016-B Bonds otherwise deemed paid in full and not previously claimed as a credit.

Notice of Redemption

Notice of the redemption of any Series 2016-B and will be given to the registered owner thereof by registered or certified mail, mailed not more than 60 and not less than 30 days prior to the date fixed for redemption.

For so long as DTC or its nominee is the registered owner of any Series 2016-B Bond to be redeemed, notice of redemption will be given to DTC or its nominee as the registered owner of such Series 2016-B Bond. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a

DTC Participant or otherwise) to notify the Beneficial Owner of any Series 2016-B Bond to be redeemed shall not affect the validity of the redemption of such Series 2016-B Bond.

Selection of Bonds for Redemption

Except as otherwise provided with respect to mandatory redemption of the ____ Term 2016-B Bonds, if less than all Series 2016-B Bonds outstanding are to be redeemed, the principal amount of Series 2016-B Bonds of each maturity to be redeemed may be specified by the Board by written notice to the Trustee, or, in the absence of timely receipt by the Trustee of such notice, shall be selected by the Trustee by lot or by such other method as the Trustee shall deem fair and appropriate; provided, however, that the principal amount of Series 2016-B Bonds of each maturity to be redeemed must be a multiple of the smallest authorized denomination of the Series 2016-B Bonds. If less than all of the Series 2016-B Bonds of any particular maturity and bearing the same rate of interest are to be redeemed, those Series 2016-B Bonds to be redeemed shall be selected by the Trustee by lot.

For so long as the Series 2016-B Bonds are registered in the name of DTC or its nominee, the Trustee will select Series 2016-B Bonds or portions thereof for redemption in accordance with the preceding paragraph, and DTC will select for redemption the Direct Participants' interests in the Series 2016-B Bonds. The Direct Participants and Indirect Participants will select for redemption the particular Beneficial Owners' interests in the Series 2016-B Bonds. Neither the Board nor the Trustee will have any responsibility for selecting for redemption any Beneficial Owners' interest in the Series 2016-B Bonds. See "BOOK ENTRY ONLY SYSTEM" herein.

THE SERIES 2016-C BONDS

General Provisions

The Series 2016-C Bonds are dated the date of their issuance and delivery, and will bear interest from the dated date at the rates, and will mature in the amounts and on the dates, set forth on the inside cover page of this Official Statement. Interest on the Series 2016-C Bonds is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2017, to the registered owners thereof. The Series 2016-C Bonds are issuable in denominations of \$5,000 or any integral multiple thereof. The Series 2016-C Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Series 2016-C Bonds will be paid. See "BOOK ENTRY ONLY SYSTEM" herein. If any due date for payment of principal and interest with respect to the Series 2016-C Bonds is not a Business Day, then such payment shall be made on the next succeeding Business Day with the effect of having been made on such due date.

Purpose

The Series 2016-C Bonds are being issued for the purpose of (i) advance refunding a portion of the 2016-C Refunded Bonds, (ii) financing certain capital improvements to the System (the "2016-C Improvements"), and (iii) paying the costs of issuing the Series 2016-C Bonds. The proceeds from the sale of the Series 2016-C Bonds to be used to pay the costs of the 2016-C Improvements shall be held in an Acquisition Fund established under the Subordinate Indenture by the Trustee for the benefit of the Board pending disbursement.

Plan of Refunding

In order to advance refund the 2016-C Refunded Bonds, the Board and the Trustee will enter into an escrow agreement (the "2016-C Escrow Agreement") simultaneously with the issuance of the Series 2016-C Bonds, pursuant to which the Board will establish an escrow fund (the "2016-C Escrow Fund") for the benefit of the holders of the 2016-C Refunded Bonds, and will deposit therein (i) a portion of the proceeds of the Series 2016-C Bonds, and (ii) certain monies held in the reserve fund and debt service fund established for the benefit of the 2016-C Refunded Bonds. Money in the 2016-C Escrow Fund will be invested in U.S. Government Securities (herein referred to as the "2016-C Escrow Securities") as allowed under the Subordinate Indenture for the benefit of the holders of the 2016-C Refunded Bonds and will not be available under any circumstances to pay principal of or interest on the Series 2016-C Bonds. The maturing principal and interest on the 2016-C Escrow Securities, together with any cash balance remaining in the 2016-C Escrow Fund after purchase of the 2016-C Escrow Securities, will be

sufficient to pay maturing installments of principal and interest on the 2016-C Refunded Bonds through and including their respective redemption dates, and to pay the redemption prices of the 2016-C Refunded Bonds on their respective redemption dates.

Concurrently with the issuance of the Series 2016-C Bonds, the Verification Agent will verify, from the information provided to it, the mathematical accuracy, as of the date of delivery of the Series 2016-C Bonds, of the computations contained in the provided schedules to determine that the anticipated receipts from the 2016-C Escrow Securities, together with the initial cash deposit, will be sufficient to pay, when due: (1) maturing installments of principal and interest on the 2016-C Refunded Bonds through and including their respective redemption dates and (2) to pay the redemption price of the 2016-C Refunded Bonds on their respective redemption dates.

Transfers and Exchanges

The registered owner of any Series 2016-C Bond may, upon surrender thereof at the principal corporate trust office of the Trustee together with a written instrument of transfer satisfactory to the Trustee and duly executed by the owner thereof or its duly authorized attorney, transfer or exchange such Bond for an equal aggregate principal amount of Series 2016-C Bonds of the same maturity and of any authorized denomination. The Board and the Trustee may deem and treat the person in whose name any Series 2016-C Bond is registered upon the books of the Board as the absolute owner of such bond, for the purpose of receiving payment of, or on account of, the principal of and interest on such bond, for notices required under the Subordinate Indenture and for all other purposes. The Board or the Trustee may charge a person requesting a transfer or exchange of any bonds an amount sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange.

For so long as the Series 2016-C Bonds are registered in the name of DTC or its nominee, the Trustee will transfer and exchange Series 2016-C Bonds only on behalf of DTC or its nominee, in accordance with the preceding paragraph. Neither the Board nor the Trustee will have any responsibility for transferring or exchanging any Beneficial Owner's interest in any Series 2016-C Bonds. See "BOOK ENTRY ONLY SYSTEM" herein.

Neither the Board nor the Trustee shall be required to transfer or exchange any Series 2016-C Bonds during the period of fifteen (15) days immediately preceding any Interest Payment Date or, in the case of any Series 2016-C Bonds called for redemption (in whole or in part), during the period of thirty (30) days immediately preceding the date fixed for such redemption.

Redemption

The Series 2016-C Bonds are not subject to redemption prior to maturity.

BOOK ENTRY ONLY SYSTEM

The information in this section concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from sources the Board and the Underwriters believe to be reliable, but neither the Board nor the Underwriters take responsibility for the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

DTC will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2016 Bond will be issued for each maturity of the Series 2016 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of

1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2016 Bonds, except in the event that use of the book-entry system for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2016 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016 Bonds, such as redemptions, defaults and proposed amendments to the Series 2016 Bonds. For example, Beneficial Owners of Series 2016 Bonds may wish to ascertain that the nominee holding the Series 2016 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2016 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturities to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and distributions on the Series 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to the Board or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2016 Bonds are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series 2016 Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Board believes to be reliable, but the Board takes no responsibility for the accuracy thereof.

SOURCE OF PAYMENT AND SECURITY

The Series 2016-A Bonds will constitute special obligations of the Board payable solely out of, and secured by a pledge and assignment of, the System Revenues (as defined in the Senior Indenture) remaining after the payment of the Operating Expenses of the Board. See "SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE – Definitions" for the definitions contained in the Senior Indenture of the terms "System Revenues" and "Operating Expenses". The Series 2016-A Bonds will be issued as Additional Senior Securities under the Senior Indenture, without preference or priority of one series over the other. The Series 2016-A Bonds will be payable on a parity of lien with the Board's other outstanding Senior Securities, currently outstanding in the aggregate principal amount of \$ _____. See "INDEBTEDNESS OF THE BOARD" herein for a summary of the outstanding Senior Securities.

The Series 2016-B Bonds and the Series 2016-C Bonds will constitute special obligations of the Board payable solely out of, and secured by a subordinate pledge and assignment of, the System Revenues (as defined in the Subordinate Indenture) remaining after the payment of the Operating Expenses of the Board and the Board's obligations under the Senior Securities. See "SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE – Definitions" for the definitions contained in the Subordinate Indenture of the terms "System Revenues" and "Operating Expenses". The Series 2016-B Bonds and the Series 2016-C Bonds will be issued as Additional Subordinate Securities under the Subordinate Indenture, without preference or priority of one series over the other. The Series 2016-B Bonds and the Series 2016-C Bonds will be payable on a parity of lien with the Board's other outstanding Subordinate Securities, currently outstanding in the aggregate principal amount of \$ _____. See "INDEBTEDNESS OF THE BOARD" herein for a summary of the outstanding Subordinate Securities.

THE SERIES 2016 BONDS ARE NOT OBLIGATIONS OF, AND WILL NOT CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER OF, THE STATE OF ALABAMA, THE CITY OF BIRMINGHAM, JEFFERSON COUNTY, OR ANY OTHER MUNICIPALITY, COUNTY OR POLITICAL SUBDIVISION OF THE STATE OF ALABAMA. THE SERIES 2016 BONDS ARE LIMITED OBLIGATIONS OF THE BOARD, PAYABLE SOLELY FROM THE REVENUES TO BE DERIVED FROM THE OPERATION OF THE SYSTEM.

The Series 2016 Bonds will not be secured by any debt service reserve fund.

INDEBTEDNESS OF THE BOARD

Except for obligations under leases, accounts payable and certain other miscellaneous items aggregating less than \$50,000, the Senior Securities that will be outstanding under the Senior Indenture and the Subordinate Securities that will be outstanding under the Subordinate Indenture, all as described below, are the only indebtedness of the Board that will be outstanding immediately following the issuance of the Series 2016 Bonds.

Senior Securities Outstanding Under the Senior Indenture

After the Series 2016 Bonds are issued, the only Senior Securities (other than the Series 2016-A Bonds) outstanding under the Senior Indenture will be as follows:

(a) *Unrefunded Series 2009 A Bonds.* The Series 2009-A Bonds were originally issued in the aggregate principal amount of \$108,305,000 for the purpose of financing capital improvements to the System. Following the issuance of the Series 2016-A Bonds, the Series 2009-A Bonds are expected to remain outstanding in the aggregate principal amount of \$7,180,000 and mature in the years 2017 through 2019.

(b) *Series 2009-B Bonds.* The Water Revenue Refunding Bonds, Series 2009-B, dated May 1, 2009 (the "Series 2009-B Bonds") were originally issued under the Senior Indenture in the aggregate principal amount of \$46,760,000 for the purpose of refinancing certain outstanding debt of the Board. The Series 2009-B Bonds are presently outstanding in the aggregate principal amount of \$19,920,000 and mature in the years 2016 through 2019.

(c) *Series 2010-A Bonds.* The Water Revenue Refunding Bonds, Series 2010-A, dated November 16, 2010 (the "Series 2010-A Bonds") were originally issued under the Senior Indenture in the aggregate principal amount of \$86,975,000 for the purpose of refinancing certain outstanding debt of the Board. The Series 2010-A Bonds are presently outstanding in the aggregate principal amount of \$86,975,000 and mature in the years 2020 through 2029.

(d) *Series 2010-B Bonds.* The Taxable Water Revenue Refunding Bonds, Series 2010-B, dated November 16, 2010 (the "Series 2010-B Bonds") were originally issued under the Senior Indenture in the aggregate principal amount of \$7,525,000 for the purpose of refinancing certain outstanding debt of the Board. The Series 2010-B Bonds are presently outstanding in the aggregate principal amount of \$1,300,000 and mature in the years 2016 through 2017.

(e) *Unrefunded Series 2011 Bonds.* The Water Revenue Bonds, Series 2011, dated June 14, 2011 (the "Series 2011 Bonds") were originally issued under the Indenture in the aggregate principal amount of \$133,565,000 for the purpose of financing certain capital improvements to the System. Following the issuance of the Series 2016-A Bonds, the Series 2011 Bonds are expected to remain outstanding in the aggregate principal amount of \$14,515,000 and mature in the years 2017 through 2021.

(f) *Series 2012-A Bonds.* The Water Revenue Refunding Bonds, Series 2012-A, dated March 15, 2012, (the "Series 2012-A Bonds") were originally issued under the Senior Indenture in the aggregate principal amount of \$51,710,000 for the purpose of refinancing outstanding debt of the Board. The Series 2012-A Bonds are presently outstanding in the aggregate principal amount of \$50,680,000 and mature (or are subject to mandatory redemption) in the years 2016 through 2034.

(g) *Series 2013-A Bonds.* The Water Revenue Refunding Bonds, Series 2013-A, dated April 25, 2013 (the "Series 2013-A Bonds") were originally issued under the Senior Indenture in the aggregate principal amount of \$23,335,000 for the purpose of refinancing outstanding debt of the Board. The Series 2013-A Bonds are presently outstanding in the

aggregate principal amount of \$23,150,000 and mature (or are subject to mandatory redemption) in the years 2016 through 2043.

(h) *Series 2013-B Bonds.* The Water Revenue Bonds, Series 2013-B, dated April 25, 2013 (the "Series 2013-B Bonds") were originally issued under the Senior Indenture in the aggregate principal amount of \$70,785,000 for the purpose of financing certain capital improvements to the System. The Series 2013-B Bonds are presently outstanding in the aggregate principal amount of \$70,785,000 and mature (or are subject to mandatory redemption) in the years 2030 through 2043.

(i) *Series 2015-A Bonds.* The Water Revenue Refunding Bonds, Series 2015-A, dated April 14, 2015 (the "Series 2015-A Bonds") were originally issued under the Senior Indenture in the aggregate principal amount of \$100,205,000 for the purpose of refinancing outstanding debt of the Board. The Series 2015-A Bonds are presently outstanding in the aggregate principal amount of \$99,750,000 and mature (or are subject to mandatory redemption) in the years 2016 through 2042.

(j) *Series 2015-B Bonds.* The Water Revenue Bonds, Series 2015-B, dated April 14, 2015 (the "Series 2015-B Bonds") were originally issued under the Senior Indenture in the aggregate principal amount of \$75,760,000 for the purpose of financing certain capital improvements to the System. The Series 2015-B Bonds are presently outstanding in the aggregate principal amount of \$75,100,000 and mature (or are subject to mandatory redemption) in the years 2016 through 2045.

Subordinate Securities Outstanding Under the Subordinate Indenture

As of the date of issuance of the Series 2016 Bonds, in addition to the Series 2016-B Bonds and the Series 2016-C Bonds, the Board will also have obligations outstanding under the Subordinate Indenture as follows:

(a) *Series 2011-DWSRF-DL Bonds.* The Subordinate Water Revenue Bonds, Series 2011-DWSRF-DL, dated February 25, 2011 (the "2011 SRF Bonds"), were originally issued under the Subordinate Indenture in the aggregate principal amount of \$2,045,000 for the purpose of funding certain capital improvements to the System. The 2011 SRF Bonds are presently outstanding in the aggregate principal amount of \$1,730,000 and mature (or are subject to mandatory redemption) in the years 2016 through 2031.

(b) *Series 2012-DWSRF-DL Bonds.* The Subordinate Water Revenue Bonds, Series 2012-DWSRF-DL, dated February 15, 2012 (the "2012 SRF Bonds"), were originally issued under the Subordinate Indenture in the aggregate principal amount of \$1,365,000 for the purpose of funding certain capital improvements to the System. The 2012 SRF Bonds are presently outstanding in the aggregate principal amount of \$1,205,000 and mature (or are subject to mandatory redemption) in the years 2016 through 2032.

(c) *Series 2013-DWSRF-DL Bonds.* The Subordinate Water Revenue Bonds, Series 2013-DWSRF-DL, dated February 1, 2013 (the "2013 SRF Bonds"), were originally issued under the Subordinate Indenture in the aggregate principal amount of \$5,780,000 for the purpose of funding certain capital improvements to the System. The 2013 SRF Bonds are presently outstanding in the aggregate principal amount of \$5,335,000 and mature (or are subject to mandatory redemption) in the years 2016 through 2033.

(d) *Series 2014-DWSRF-DL Bonds.* The Subordinate Water Revenue Bonds, Series 2014-DWSRF-DL, dated September 15, 2014 (the "2014 SRF Bonds"), were originally issued under the Subordinate Indenture in the aggregate principal amount of \$615,000 for the purpose of funding certain capital improvements to the System. The 2014 SRF Bonds are presently outstanding in the aggregate principal amount of \$615,000 and mature (or are subject to mandatory redemption) in the years 2016 through 2033.

ADDITIONAL SENIOR SECURITIES, ADDITIONAL SUBORDINATE SECURITIES AND RELATED OBLIGATIONS

Additional Senior Securities

One or more series of additional bonds, warrants or other securities (the "Additional Senior Securities") may be issued and delivered from time to time pursuant to the Senior Indenture for the purpose of (i) constructing or otherwise acquiring improvements to the System, (ii) refunding any obligations incurred by the Board to construct or otherwise acquire improvements to the System, (iii) refunding any Senior Securities outstanding under the Senior Indenture, or (iv) for any other purpose at the time permitted by applicable law, and if issued, such Senior Securities will be secured under the Senior Indenture by a lien on the revenues of the Board that ranks on a parity with the lien on such revenues securing the Series 2016-A Bonds and the other Senior Securities outstanding under the Senior Indenture. Any proposed Additional Senior Securities may be issued only if, during the then most recently completed fiscal year or during any 12 consecutive months of the most recent 18 months (the "Test Period"), Net Revenues Available for Debt Service (hereinafter defined) were not less than 125% of the Maximum Annual Debt Service coming due in the current or any future Fiscal Year with respect to the Bonds then outstanding under the Senior Indenture (including any previously issued Additional Senior Securities) and such proposed Additional Senior Securities. The Senior Indenture permits the calculation of Net Revenues Available for Debt Service to be made on a pro forma basis, taking into account rate increases adopted by the Board prior to the issuance of Additional Senior Securities but not in effect throughout the Test Period. The Board expects to issue Additional Senior Securities in subsequent years in amounts not yet determined.

Additional Senior Securities may be issued, without satisfying the aforesaid revenue test, for the sole purpose of refunding all or any part of outstanding Senior Securities if the debt service payable in each Fiscal Year with respect to all Senior Securities that will be outstanding after the issuance of such Additional Senior Securities will not be greater than the debt service payable in such Fiscal Year with respect to all Senior Securities that were outstanding immediately prior to the issuance of such Additional Senior Securities.

Additional Subordinate Securities

One or more series of additional bonds, warrants or other securities (the "Additional Subordinate Securities") may be issued and delivered from time to time pursuant to the Subordinate Indenture for the purpose of (i) constructing or otherwise acquiring improvements to the System, (ii) refunding any obligations incurred by the Board to construct or otherwise acquire improvements to the System, (iii) refunding any Subordinate Securities outstanding under the Subordinate Indenture, or (iv) for any other purpose at the time permitted by applicable law, and if issued, such Subordinate Securities will be secured under the Subordinate Indenture by a subordinate lien on the revenues of the Board that ranks on a parity with the lien on such revenues securing the Series 2016-B Bonds, the Series 2016-C Bonds, and the other Subordinate Securities outstanding under the Subordinate Indenture. Any proposed Additional Subordinate Securities may be issued only if, during the then most recently completed fiscal year or during any 12 consecutive months of the most recent 18 months (the "Test Period"), Net Revenues Available for Debt Service (hereinafter defined) were not less than 100% of the Maximum Annual Debt Service coming due in the current or any future Fiscal Year with respect to (i) any Senior Securities then outstanding under the Senior Indenture, and (ii) the Subordinate Securities then outstanding under the Subordinate Indenture (including such proposed Additional Subordinate Securities). The Subordinate Indenture permits the calculation of Net Revenues Available for Debt Service to be made on a pro forma basis, taking into account rate increases adopted by the Board prior to the issuance of Additional Subordinate Securities but not in effect throughout the Test Period. The Board expects to issue Additional Subordinate Securities in subsequent years in amounts not yet determined.

Related Obligations

The Board may obtain or cause to be obtained letters of credit, lines of credit, bond insurance or similar instruments (collectively, "Credit Facilities") to secure or provide for the payment or purchase of all or a portion of the Senior Securities of any particular series. In connection therewith, the Board may enter into agreements with the issuer of or obligor on any such Credit Facility providing for, among other things, the payment of fees and expenses to such issuer or obligor for the issuance of such Credit Facility, the terms and conditions of such Credit Facility and the series of Senior Securities affected thereby, and the security, if any, to be provided for the issuance of such

Credit Facility and the payment of such fees and expenses or the obligations of the Board with respect thereto. The Board may also, to the extent permitted by law, enter into an interest rate swap agreement, an interest rate cap agreement, an interest rate floor agreement, an interest rate collar agreement or any similar agreement with respect to any series of Senior Securities or portion thereof (collectively, "Qualified Swaps").

The Board may, if it elects to do so, secure all or any portion of its contractual obligations with respect to any Credit Facility or any Qualified Swap (any such contractual obligations being herein called "Related Obligations") by a pledge of the Pledged Revenues which may be on a parity with the pledge made in the Senior Indenture and/or Subordinate Indenture, as applicable (except to the extent that any such pledge secures the payment of any amount payable by the Board as a consequence of an early termination of a Qualified Swap) so long as no default exists on the part of the entity providing such Credit Facility or on the part of the counterparty to such Qualified Swap, as the case may be. Any Related Obligation that is secured by a pledge of the revenues derived from the operation of the System that is on a parity with the pledge made in the Senior Indenture and/or the Subordinate Indenture, as applicable, is referred to herein as a "Secured Related Obligation". Notwithstanding any pledge that may be made as described in the preceding sentence, Secured Related Obligations shall not constitute or be treated as Senior Securities for any purpose in applying the provisions of the Senior Indenture and/or the Subordinate Indenture, as applicable (including, without limitation, the conditions precedent to the issuance of Additional Senior Securities and covenants provided for in such Indenture).

There are no Qualified Swaps or Related Obligations presently outstanding.

DEBT SERVICE REQUIREMENTS

Set forth in the following schedules are the total debt service requirements on the Senior Securities and the Subordinate Securities that will be outstanding after the proposed Series 2016 Bonds are issued. The Senior Securities and the Subordinate Securities will constitute the only outstanding indebtedness of the Board secured by or payable from the Board's revenues. See "INDEBTEDNESS OF THE BOARD." The Board expects to issue Additional Senior Securities and Additional Subordinate Securities in subsequent years in principal amounts not yet determined.

Fiscal Year Ending 12/31	Senior Lien Bonds											Total Senior Lien	Subordinate Bonds and Loans			Total Subordinate	Total
	Series 2009-A	Series 2009-B	Series 2010-A	Series 2010-B	Series 2011	Series 2012-A	Series 2013-A	Series 2013-B	Series 2015-A	Series 2015-B	Series 2016-A*	Debt Service	Series 2016B*	Series 2016C*	Total SRF Loans	Debt Service	Total Debt Service
2016	359,000	7,151,125	4,239,713	1,369,111	643,038	2,223,400	958,075	3,539,250	5,330,125	4,212,775	-	30,025,611	-	-	636,897	636,897	30,662,508
2017	2,577,125	7,148,250	4,239,713	1,322,510	3,236,563	2,272,550	956,175	3,539,250	5,331,400	4,217,600	5,564,388	40,393,146	10,094,885	3,053,853	643,695	12,458,740	52,851,886
2018	2,575,500	7,149,625	4,239,713	-	3,238,219	4,022,775	934,475	3,539,250	5,332,225	3,817,825	7,530,750	42,363,606	13,662,250	5,666,761	641,956	19,962,623	62,326,229
2019	2,577,875	7,149,375	4,239,713	-	3,237,925	4,022,600	957,225	3,539,250	5,332,600	3,794,050	7,530,750	42,364,613	13,662,250	5,677,660	644,861	19,977,392	62,342,004
2020	-	-	10,957,463	-	3,239,125	4,022,000	954,225	3,539,250	5,327,600	4,228,750	9,549,000	41,786,038	13,662,250	5,667,262	642,410	19,965,679	61,751,717
2021	-	-	10,954,213	-	3,239,375	4,025,000	956,150	3,539,250	8,068,625	4,296,125	7,427,250	42,489,988	13,662,250	5,667,168	639,671	19,963,649	62,453,637
2022	-	-	10,957,838	-	-	4,022,000	957,925	3,539,250	8,065,475	4,288,025	10,074,375	41,879,138	13,662,250	5,668,568	641,649	19,968,050	61,847,187
2023	-	-	10,952,463	-	-	4,022,750	954,625	3,539,250	8,067,475	4,293,775	10,080,000	41,885,088	14,876,125	4,445,540	643,148	19,958,480	61,843,568
2024	-	-	10,952,213	-	-	4,025,100	956,250	3,539,250	8,070,225	4,292,150	10,078,375	41,888,813	19,323,250	-	644,213	19,963,713	61,852,525
2025	-	-	10,960,388	-	-	4,021,100	957,725	3,539,250	8,063,475	4,273,650	10,079,250	41,865,713	19,327,125	-	639,925	19,958,425	61,824,138
2026	-	-	10,957,063	-	-	4,020,888	954,125	3,539,250	8,066,725	4,278,025	10,072,375	41,864,950	15,230,500	-	640,281	15,862,406	57,727,356
2027	-	-	10,956,688	-	-	4,025,163	955,450	3,539,250	4,410,225	4,192,100	13,689,625	41,740,625	15,223,250	-	640,204	15,860,204	57,600,829
2028	-	-	10,956,938	-	-	4,022,100	956,463	3,539,250	4,408,925	4,201,650	13,695,500	41,753,700	15,230,000	-	644,624	15,866,499	57,620,199
2029	-	-	10,952,906	-	-	4,025,188	956,988	3,539,250	4,406,563	4,214,250	13,687,500	41,761,144	15,220,500	-	638,688	15,856,188	57,617,331
2030	-	-	-	-	-	4,024,944	957,175	7,029,750	9,680,500	5,035,688	9,531,375	36,233,556	24,828,250	-	642,273	25,462,648	61,696,204
2031	-	-	-	-	-	4,023,753	957,188	7,031,125	8,864,500	4,969,875	9,526,500	35,347,816	24,834,875	-	640,355	25,467,605	60,815,421
2032	-	-	-	-	-	4,025,222	957,025	7,028,125	5,071,500	5,105,625	14,137,750	36,305,747	24,838,000	-	505,105	25,340,605	61,646,352
2033	-	-	-	-	-	4,023,800	956,688	7,030,250	5,070,875	5,195,250	14,143,250	36,396,238	24,841,000	-	412,905	25,246,530	61,642,768
2034	-	-	-	-	-	4,029,000	955,975	7,027,000	5,069,875	5,586,625	14,139,375	36,779,850	24,817,750	-	41,960	24,852,585	61,632,435
2035	-	-	-	-	-	-	954,881	7,027,875	9,251,000	5,435,000	14,140,000	36,786,631	24,821,375	-	40,980	24,860,355	61,646,986
2036	-	-	-	-	-	-	953,600	7,027,250	9,248,500	5,475,125	14,143,625	36,821,850	24,824,250	-	-	24,817,375	61,639,225
2037	-	-	-	-	-	-	957,038	7,029,500	9,253,375	5,468,563	14,143,875	36,827,100	24,829,250	-	-	24,822,625	61,649,725
2038	-	-	-	-	-	-	5,832,006	7,029,000	4,379,625	5,460,594	14,144,375	36,816,475	24,834,125	-	-	24,827,750	61,644,225
2039	-	-	-	-	-	-	703,006	7,030,125	9,501,500	5,451,031	14,148,500	36,806,288	24,841,500	-	-	24,835,375	61,641,663
2040	-	-	-	-	-	-	703,225	7,032,125	9,498,125	7,077,375	7,144,250	31,433,350	24,844,000	-	-	24,838,125	56,271,475
2041	-	-	-	-	-	-	703,256	7,029,375	9,498,375	7,074,000	7,144,250	31,423,631	24,849,125	-	-	24,843,500	56,267,131
2042	-	-	-	-	-	-	4,911,050	7,031,125	5,289,000	7,074,250	-	24,305,425	24,849,250	-	-	24,843,875	49,149,300
2043	-	-	-	-	-	-	10,668,188	7,031,500	-	7,074,625	-	24,774,313	24,861,375	-	-	24,856,250	49,630,563
2044	-	-	-	-	-	-	-	-	-	7,074,375	-	7,074,375	-	-	-	7,074,375	7,074,375
2045	-	-	-	-	-	-	-	-	-	7,077,625	-	7,077,625	-	-	-	7,077,625	7,077,625
Total	8,089,500	28,598,375	126,517,019	2,691,621	16,834,244	72,899,331	44,536,175	147,963,625	187,958,413	154,236,375	275,546,263	1,065,272,438	540,551,010	35,846,811	11,265,798	586,174,145	1,651,446,583

DEBT SERVICE COVERAGE

The following table contains (i) the amount of Net Revenues Available for Debt Service derived from the operation of the System for the Board's most recently completed fiscal years; (ii) the historical coverage ratios for the Annual Debt Service on the Senior Securities, as well as the combined Board obligations, then outstanding (not including the Series 2016 Bonds), based upon such actual operating revenues; and (iii) the resulting coverage ratios for the Maximum Annual Debt Service on the Senior Securities, as well as the combined Board obligations.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Total revenues ⁽¹⁾	\$156,221,818	\$155,672,951	\$165,669,317	\$167,197,579
Less: Total operating expenses ⁽²⁾	<u>88,565,454</u>	<u>90,408,804</u>	<u>87,822,498</u>	<u>98,835,582</u>
Net Revenues Available For Debt Service	<u>\$67,656,364</u>	<u>\$65,264,147</u>	<u>\$77,846,819</u>	<u>\$68,361,997</u>
Annual Debt Service on Senior Securities	\$34,158,265	\$35,238,356	\$39,951,783	\$38,493,840
Annual Debt Service coverage on Senior Securities	1.98x	1.85x	1.95x	1.78x
Annual Debt Service on Senior Securities and Subordinate Securities	\$55,990,143	\$57,144,752	\$62,200,849	\$60,768,640
Annual Debt Service coverage on Senior Securities and Subordinate Bonds	1.21x	1.14x	1.25x	1.12x
<u>Maximum Annual Debt Service</u>				
Maximum Annual Debt Service on Senior Securities	\$36,163,456	\$39,951,783	\$39,951,783	\$43,293,181
Debt Service coverage on Maximum Annual Debt Service on Senior Securities	1.87x	1.63x	1.95x	1.58x
Maximum Annual Debt Service on Senior Securities and Subordinate Securities	\$58,075,063	\$62,200,849	\$62,200,849	\$65,665,509
Debt Service coverage on Maximum Annual Debt Service on Senior Securities and Subordinate Securities	1.16x	1.05x	1.25x	1.04x

(1) Operating revenues and interest income on funds other than construction funds.

(2) Excludes depreciation, amortization and interest. See "RESULTS OF OPERATIONS – Summary of Revenues and Expenses" herein.

RATE COVENANT OF THE BOARD

The Board has agreed in the Senior Indenture to fix reasonable rates sufficient to pay debt service, to provide for payment of the expenses of operating the System and maintaining the System in good repair and working order, and to perform and comply with its covenants under the Senior Indenture. Without limiting the generality of the foregoing, the Board further agreed in the Senior Indenture to fix and maintain such rates for water service as shall produce Net Revenues Available for Debt Service for each Fiscal Year in an amount not less than 125% of debt service on the Senior Securities coming due in such Fiscal Year. In addition, the Board agreed in the Subordinate Indenture to maintain rates that will produce Net Revenues Available for Debt Service for each Fiscal Year in an amount not less than 100% of total debt service coming due in such Fiscal Year on outstanding Senior Securities and Subordinate Securities.

SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds for the plan of financing financed by the proposed Series 2016-A Bonds:

Series 2016-A Bonds

Sources:

Principal amount	\$ _____.
Plus net original issue premium	_____.
Transfers from prior issue debt service funds and reserve funds	_____.
Total	\$ _____.

Uses:

Deposit to Escrow Fund	\$ _____.
Underwriters' Discount	_____.
Costs of issuance (including underwriters' discount, legal, printing, etc.)	_____.
Total	\$ _____.

The following table sets forth the estimated sources and uses of funds for the plan of financing financed by the proposed Series 2016-B Bonds:

Series 2016-B Bonds

Sources:

Principal amount	\$ _____.
Plus net original issue premium	_____.
Transfers from prior issue debt service funds and reserve funds	_____.
Total	\$ _____.

Uses:

Deposit to Escrow Fund	\$ _____.
Deposit to Acquisition Fund	_____.
Underwriters' Discount	_____.
Costs of issuance (including underwriters' discount, legal, printing, etc.)	_____.
Total	\$ _____.

The following table sets forth the estimated sources and uses of funds for the plan of financing financed by the proposed Series 2016-C Bonds:

Series 2016-C Bonds

Sources:

Principal amount	\$ _____.
Plus net original issue premium	_____.
Transfers from prior issue debt service funds and reserve funds	_____.
Total	\$ _____.

Uses:

Deposit to Escrow Fund	\$ _____.
Deposit to Acquisition Fund	_____.
Underwriters' Discount	_____.
Costs of issuance (including underwriters' discount, legal, printing, etc.)	_____.
Total	\$ _____.

BONDHOLDER RISKS

As described under the caption "SOURCE OF PAYMENT AND SECURITY," the Series 2016 Bonds and all other Bonds issued under the Senior Indenture and/or the Subordinate Indenture, as applicable, are payable solely from the revenues to be derived by the Board from the System, as pledged under the applicable indenture. There can be no assurance that revenues will be adequate to pay the expenses of operation and maintenance of the System and to pay the principal of and interest on the Series 2016 Bonds and the other Senior Securities as the same become due.

Water Rate Increases

There can be no assurance that the most recent or future rate increases will not be contested, nor can the effect of any rate litigation on revenues be predicted with any certainty.

Future increases in water rates may result in a reduction in the volume of water used by customers of the System. To the extent that sewer use charges are based upon the volume of water used, future increases in sewer rates by entities other than the Board that provide sewer service within the Board's service area may result in a reduction in the volume of water used by customers of the System.

System Service Area

While development in the service area of the System has been favorable since the original acquisition of the System by the Board, there can be no assurance that the growth heretofore experienced in the service area will continue over the period to the maturity of the Series 2016 Bonds. Adverse trends and shifts in the population in the service area of the System could adversely affect revenues.

The Board cannot predict the impact of general economic conditions in the portions of Jefferson County and surrounding areas in which it operates on the revenues of the System.

Developments within Jefferson County

Jefferson County, the largest county in the State by population, has been experiencing significant financial difficulties since early 2008. On November 9, 2011, the County filed for protection under Chapter 9 of the United States Bankruptcy Code. The Bankruptcy Court entered an order for relief in the County's bankruptcy case on

March 4, 2012. The plan of adjustment proposed by the County has been confirmed by the Bankruptcy Court and had an effective date of December 3, 2013. The plan of adjustment provides for settlement of all claims raised in the bankruptcy and a release of the County from all claims arising prior to the effective date of the plan of adjustment. The Bankruptcy Court's confirmation order has been appealed to the federal district court. No assurances can be given as to the outcome of the appeal.

The plan of adjustment provides for sewer rate increases over time. The impact of these future increases is discussed in the Forecast attached hereto as Appendix D. Potential further sewer rate increases could have a significant and adverse effect on County residents.

Discussion of Jefferson County's Occupational Tax

Jefferson County's Occupational Tax was declared invalid in January 2009 by a state court, and the replacement occupational tax approved by the Alabama legislature in late August, 2009, was held to be unconstitutional in late 2010 by a Jefferson County Circuit Court, which holding was affirmed by the Alabama Supreme Court. Since the Alabama Supreme Court's affirmation of the unconstitutionality of the replacement occupational tax in late 2010, no new legislation establishing a replacement occupational tax has been adopted. The occupational tax revenues accounted for approximately twenty-five percent of the County's general fund revenues. Despite the County's inability to collect any occupational tax and its failure to find a suitable replacement, the County did achieve a balanced budget for fiscal years 2013 and 2014, through a series of cost-cutting measures. The nature and extent of the potential adverse effects on debt obligations of other issuers in the State is impossible to predict due to, among other factors, the unprecedented amount of debt involved in the Jefferson County financial crisis and the limited historical precedent for defaults and Chapter 9 bankruptcy by general purpose governmental entities, but may include, without limitation, a decrease in the market price and liquidity of such obligations. Although the City is located primarily in Jefferson County, the City has no financial obligation with regard to any of Jefferson County's outstanding debt.

As a result of the Occupational Tax being struck down by the courts, the County has been forced to reduce its services and number of employees. Future reductions in employment levels may have a significant and adverse effect on County residents.

Potential Impact of Loss of USX Corporation as Major Industrial Customer

The Board's largest customer for the years ending December 31, 2014, and December 31, 2015, was USX Corporation. It has been announced by USX Corporation that it will most likely shut down its major facility served by the Board, the Fairfield Iron Works. Although the impact of the closing of this facility on the Board cannot be fully determined at this point, the Board has requested that its independent rate consultants review various scenarios based on the partial or full loss of this customer and its impact on the revenues of the Board. The detailed analysis conducted by the independent rate consultants is included in the Report of Independent Rate Consultants included as Appendix D to this Official Statement.

Economic Downturn and Impact on the Secondary Market

The economic downturn and resulting developments in Jefferson County will likely slow economic growth and recovery within the County and neighboring municipalities. As a consequence, customers' ability to pay the contemplated increased sewer rates may be negatively impacted.

Approximately 59% of the Board's customers are served by the Jefferson County sewer system. Although not directly affected by financial developments in the County, it is impossible for the Board to predict the effects ongoing developments in the County will have on municipalities and other entities within the County. The Board cannot predict what action the County or others may take to address the issues presented by the County Warrants and related matters, nor can the Board predict the impact, if any, that such actions may have upon the various municipalities located within the County.

Difficulties and challenges facing the County in the capital markets have negatively impacted secondary trading and the liquidity position for investors holding the County's outstanding Warrants. Because of the failure of

the County to make recent debt service payments and the continued uncertainty of any future payments, there is and may continue to be limited liquidity associated with the bonds and warrants of municipalities in the County, including the Board and the Series 2016 Bonds.

Collection and Franchise Agreements

The Board has entered into collection agreements with Jefferson County, the City of Hoover, Southwest Water Company and the City of Moody, as successor in interest to Governmental Utility Service Corporation of Moody, to collect sewer service charges as a separate item of the Board's water bills. These sewer service providers each set their own rates for sewer charges, which rates may be increased periodically and may be based on volume of water consumed. The Board is subject to the risk of incurring increases in delinquencies and defaults in payments by customers who are also customers of sewer service providers, which could have an adverse effect on the Board because the Board's revenues are derived, in part, from billings that consolidate the Board's charges, for collection purposes, with sewer system charges over which the Board has no control. To date, the Board has not experienced any significant increase in delinquencies or defaults in payments from such sewer system customers. Further, the Board can cancel the collection agreements upon one year's written notice.

The System is located in a number of municipalities in Jefferson County and portions of adjacent counties. The Constitution of Alabama of 1901, as amended, provides that no person, firm, association or corporation shall be authorized or permitted to use the streets, avenues, alleys or public places of any municipality without first obtaining the consent of the proper authorities of such municipality. The Board has franchise agreements with 19 municipalities that the Board serves. The franchise agreements with the municipalities of the City of Birmingham and County Line have expired. The Board's prior franchise agreement with the City of Birmingham expired in 1981. Since the expiration of the prior franchise agreement, the Board has continued to provide services to customers within the City of Birmingham in accordance with all applicable municipal codes and ordinances as well as Alabama state law. The Board remits to the City of Birmingham on an annual basis a fee equal to the maximum amount that could be charged by the City of Birmingham for the rights to provide the Board's services within that municipality. The revenues from customers within the municipality of County Line are immaterial. There is no assurance as to the terms upon which an extension of the agreement with County Line may be negotiated. See "THE BOARD – The Board's Authority to Continue Operation of the System; Municipal Consent."

Possible Divestiture of Assets and Customers in Neighboring Counties

The Board has publicly stated that divestiture of some or all of the Board's assets and customers in neighboring St. Clair County, Walker County and Blount County are presently under consideration by the Board. The Board does not expect that any divestiture will have a material adverse effect on the Board.

Legislation, Regulation and Litigation

Future legislation and regulations affecting publicly owned water works systems, including the grant of the right to condemn such systems or environmental factors, might adversely affect the System.

There can be no assurance that pending litigation will not be decided adversely to the Board, nor can the effect of any such adverse decision on revenues be predicted with any certainty.

Potential Changes to Enabling Law

Two recently enacted bills have the potential to cause certain changes in the Board's composition and operations. In 2015, Act No. 2015-164 was introduced and passed in the Regular Session of the Alabama Legislature as SB89 (the "2015 Act"). In 2016, Act No. 2016-276 was introduced and passed in the Regular Session of the Alabama Legislature as HB399 (the "2016 Act" and, together with the 2015 Act, the "Acts"). Effective January 1, 2017, the Acts will require the Board to be composed of (i) two members appointed by the Birmingham Mayor and four members appointed by the Birmingham City Council, all of whom must be residents of Birmingham, (ii) one member appointed by the Jefferson County Mayor's Association, who must reside in Jefferson County but not in Birmingham, and (iii) one member each to be appointed by the Blount County Commission and the Shelby County Commission, who must reside in the county of the appointing commission. In addition to the

expansion of the Board, the Acts, among other things, impose term limits on Board member service, provide a cap on director compensation, and require public notice and public hearing prior to any vote on a rate increase.

The Board is a plaintiff in a lawsuit currently pending in the Circuit Court of Jefferson County, Alabama seeking to void the application of the Acts. The lawsuit was filed June 24, 2016 and names as defendants the City of Birmingham, Mayor William Bell, the Birmingham City Council, the Jefferson County Mayors' Association, and the Shelby County and Blount County Commissions. The Birmingham Water Works asks in the lawsuit for a judge to order the Acts "null, void, and of no effect." It also seeks preliminary and permanent injunctions against the defendants from taking any actions, including expansion of the Board, under the Acts.

Among the arguments, the Board alleges that the Acts interfere with water works contracts and violate both the Alabama and U.S. Constitutions. Specifically, the lawsuit alleges that the Acts (i) were enacted without adequate published notice, (ii) violate Section 105 of the Alabama Constitution prohibiting special laws in cases provided for under general laws, (iii) violate Section 1.4(18) of the Alabama Constitution prohibiting certain special laws with respect to private or municipal corporations, and (iv) impair the obligation of contracts and violate Article I, Section 22 of the Alabama Constitution and Article I, Section 10, Clause 1 of the U.S. Constitution.

Notwithstanding the outcome of the lawsuit or other intervening litigation or legislation, the Acts do not become effective until January 1, 2017. Accordingly, the current composition of the Board and authority of the Board with respect to the issuance and sale of the Series 2016 Bonds is not impaired by the Acts or the above-referenced lawsuit. In the event that the Board's lawsuit is unsuccessful, effective January 1, 2017 the composition of the Board will change and the Board will be subject to the new restrictions imposed by the Acts.

United States Bankruptcy Code

Chapter 9 of the United States Bankruptcy Code permits municipal corporations, political subdivisions and public agencies or instrumentalities that are insolvent or unable to meet their debts to file petitions for relief in the Federal bankruptcy courts, if authorized under applicable state law to seek such relief. Alabama law does not presently authorize the Board to file a Chapter 9 petition in bankruptcy; however, no assurance can be given that the Alabama Legislature will not adopt a law providing such powers to public corporations, including the Board. If enacted, such a law may specify procedural conditions precedent to the exercise of such powers.

A petition filed under Chapter 9 of the Bankruptcy Code does not operate as a stay of application of pledged special revenues to payment of debt secured by such revenues. Therefore, an automatic stay under Chapter 9 should not be effective to prevent payment of principal and interest on the Series 2016 Bonds from the Net System Revenues. However, since Chapter 9 has been rarely used and there is little precedent concerning what constitutes "pledged special revenues" under Chapter 9, it is possible that a federal bankruptcy court could determine, under the facts of a specific case, that an automatic stay shall apply.

Other Bondholder Risk Factors

There can be no assurance that one or more of the municipalities served by the Board may not seek to acquire the portions of the System located within such municipality, nor can the result of such efforts be predicted with certainty.

The Board has implemented a program to increase its security measures to protect the System against acts of war, terrorism and the like. However, there can be no assurance that the Board's efforts will be adequate to prevent any such acts which, if successful, could disable the System and have a material adverse effect on the revenues and expenses of the Board. The Board's current insurance policies contain typical exclusions for acts of war, with the result that the Board's exposure to these types of risks may be uninsured, depending upon the ultimate characterization of any such act.

For information with respect to events occurring subsequent to the issuance of the Series 2016 Bonds which could cause the interest on the Series 2016 Bonds to become included in gross income of the holders of such bonds for purposes of federal income taxation, see "TAX MATTERS" herein.

If and when a Bondholder elects to sell a Series 2016 Bond prior to its maturity, there is no assurance that a market will exist for the sale of the Series 2016 Bonds subsequent to their issuance.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Board does not plan to issue any updates or revisions to those forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based occur or do not occur.

THE BOARD

General

The Board is a public corporation, incorporated on November 21, 1950, under Sections 11-50-230, et seq., Code of Alabama 1975 (the "Enabling Law"), pursuant to a resolution adopted by the governing body of the City on November 21, 1950. The Board's Certificate of Incorporation contains provisions usually found in the certificates of incorporation of public corporations in Alabama. It also contains a restriction that any agreement with any municipality other than the City for payment from or participation in the revenues of the Board shall be subject to the approval of the governing body of the City. Amendments to the Board's Certificate of Incorporation describe the territory to be served by the Board as all of Jefferson and parts of Blount, Cullman, St. Clair, Shelby and Walker Counties.

The Enabling Law and the Board's Certificate of Incorporation and amendments thereto grant to the Board full power to acquire, purchase, construct, operate, maintain, enlarge, extend and improve a water works and sewer system or systems; to borrow money and issue its bonds; to pledge for the payment of its bonds any revenue from which the bonds are made payable and to pledge or otherwise convey as security for its bonds the system or systems the revenues from which are so pledged; to sell at wholesale all or any part of its water supply or sewage treatment capacity to any other public corporation or municipality for distribution to the inhabitants thereof and the surrounding territory; and to exercise all powers of eminent domain now or hereafter conferred on municipalities in the State. Under the Enabling Law, the Board's Certificate of Incorporation can be amended only by the Board of Directors of the Board adopting a resolution setting forth the proposed amendment which must then be consented to by the governing body of the City and filed for record as the original Certificate of Incorporation was filed. However, the Enabling Law may itself be amended by act of the Alabama Legislature within constitutional restrictions against impairing the obligation of a contract.

Board of Directors and Management

The Board is governed by a Board of Directors consisting of up to five members, elected by the City Council of the City. Though the Enabling Law permits three members of the Board of Directors to be officers of the City, none of the present directors is, as of the date of this Official Statement, either an officer or an employee of the City. Members of the Board of Directors are reimbursed for their expenses in the amount of approximately \$300 per day of service, plus a fee of ten dollars per month may be paid to each director and a fee of fifteen dollars per month may be paid to the Chairman of the Board of Directors. Each director is elected for a six-year term and serves until a successor is elected by the City Council. The terms of office are staggered so that not more than one term expires in any calendar year. The Board of Directors elects officers of the Board annually and may remove them.

The Board is a plaintiff in a lawsuit currently pending in the Circuit Court of Jefferson County, Alabama. The lawsuit was filed June 24, 2016 and names as defendants the City of Birmingham, Mayor William Bell, the Birmingham City Council, the Jefferson County Mayors' Association, and the Shelby County and Blount County Commissions. The lawsuit by the Board seeks to void the application of the Acts. The Board asks in the lawsuit for a judge to order the Acts "null, void, and of no effect." It also seeks preliminary and permanent injunctions against the defendants from taking any actions, including expansion of the Board, under the Acts.

Among the arguments, the Board alleges that the Acts interfere with water works contracts and violate both the Alabama and U.S. Constitutions. Specifically, the lawsuit alleges that the Acts (i) were enacted without adequate published notice, (ii) violate Section 105 of the Alabama Constitution prohibiting special laws in cases provided for under general laws, (iii) violate Section 1.4(18) of the Alabama Constitution prohibiting certain special laws with respect to private or municipal corporations, and (iv) impair the obligation of contracts and violate Article I, Section 22 of the Alabama Constitution and Article I, Section 10, Clause 1 of the U.S. Constitution.

Notwithstanding the outcome of the lawsuit or other intervening litigation or legislation, the Acts do not become effective until January 1, 2017. Accordingly, the current composition of the Board and authority of the Board with respect to the issuance and sale of the Series 2016 Bonds is not impaired by the Acts or the lawsuit. In the event that the Board's lawsuit is unsuccessful, effective January 1, 2017 the composition of the Board will change and the Board will be subject to certain new term restrictions on Board member service and compensation limitations for Board members.

The present members of the Board of Directors and officers of the Board and the date of expiration of their respective terms of office as directors are as follows:

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Ronald A. Mims	Chairman of the Board of Directors and President	April 11, 2021
Kevin McKie	First Vice Chairman of the Board and First Vice President	November 20, 2020
Dr. George Munchus	Secretary/Treasurer	November 11, 2018
Sherry W. Lewis	Assistant Secretary/Treasurer	April 11, 2017
William Muhammad		November 30, 2016

Mac Underwood, the General Manager of the Board, who holds office at the pleasure of the Board, was employed by the Board in 2001, and has since continuously served the Board in various positions.

Arcadis U.S., Inc., Highlands Ranch, Colorado (with offices in Birmingham, Alabama), has been retained as the Independent Engineer of the System (the "Independent Engineer"). The Senior Indenture and the Subordinate Indenture specify that the Independent Engineer be an engineering firm having a wide and favorable nationwide reputation for skill and experience in the engineering, management, construction and operation of water systems, sewer systems and other environmental systems.

Original Acquisition of the System

On July 9, 1951, the Board acquired from The Birmingham Water Works Company (then a privately owned public utility and an affiliate of American Water Works Company, Inc.) all the properties, including franchises, water rights, easements and other properties, real, personal and mixed, which constituted the water works system then owned and operated by said company in the Birmingham area. From its incorporation in 1885 until the sale of its properties to the Board in 1951, The Birmingham Water Works Company had been the primary purveyor of water in the Birmingham area, including much of Jefferson County outside the corporate limits of Birmingham. Since 1951, the Board has continuously operated the properties so acquired, together with certain additional water works systems in its service area which it has from time to time acquired (including the Industrial Water System described below), and various expansions and capital improvements which it is continually making (all of which are included in the "System" as that term is herein defined and used). During this period the System has experienced consistent growth.

In 1994, the Board acquired from the City of Birmingham all of the operating assets and assumed all of the liabilities of the Industrial Water Board. The Industrial Water Board previously owned and operated three separate

but interconnected raw water supply systems (collectively, the "Industrial Water System"), namely the Inland Lake System, the Sipsey System and the Mulberry System. (See "DESCRIPTION OF THE SYSTEM - Sources of Supply" for descriptions of the various components of the Industrial Water System.) The Industrial Water Board supplied untreated water to the Board and to industries in the Birmingham metropolitan area requiring a supply of such water. In previous years, the Board had been the Industrial Water Board's primary customer. For example, in 1992 the Board accounted for approximately 69.4% of the total water sales of the Industrial Water Board.

Sewer Operations

On December 30, 1986, the Board completed the purchase of a sewer system (the "Riverview System") from Cahaba Water Renovation Systems, Inc., along with all its stock, properties, franchises, easements, and other properties, real, personal and mixed, consisting of a treatment plant, collection system and pumping stations. The Riverview System was located within the Board's watershed area in Jefferson and Shelby Counties along U.S. Highway 280. The Board operated the Riverview System together with certain other sewer system properties subsequently acquired and various expansions and capital improvements (all of which are included in the "Sewer System" as that term is herein defined and used) for approximately 20 years. The System and the Sewer System are referred to herein as the "System". Through separate transactions completed in calendar year 2008, the Board sold the assets comprising the Sewer System to other parties with the result that the Board now has no active sewer system operations.

Transfer of System to City; Reconveyance to Board

Prior to September 2, 1998, the Board owned and operated the System and its related assets. Effective September 2, 1998, the Board transferred and conveyed the System to the City, at which time the Board and the City entered into an Assignment, Assumption, Release, and Indemnity Agreement dated September 2, 1998, in and by which (i) substantially all of the contract rights of the Board were assigned to the City, (ii) the City assumed all of the obligations (including all outstanding indebtedness) of the Board, and (iii) the City agreed to provide certain indemnification for the Board and its current officers and directors. The City intended to sell the System to a private enterprise and use the proceeds from the sale to finance other functions and operations of the City, particularly its education system. However, in November, 1998, the voters of the City rejected the proposed sale. During the period from September 2, 1998 to February 23, 2001, the Board provided management services to the City under a Management Contract.

Under an agreement effective February 23, 2001, the Board regained ownership of the System and continued operational management. In conjunction with the terms of this transaction, the Original Senior Indenture and all indebtedness incurred thereunder were assigned to and assumed by the Board.

Regulation by Alabama Public Service Commission

As of the date of this Official Statement, the Board is not subject to regulation by the Alabama Public Service Commission ("APSC"). The Board agreed, in connection with the settlement of claims made by the Attorney General of the State of Alabama in a lawsuit concerning the transfer of the System from the City to the Board, to voluntarily waive its statutory exemption from regulation and jurisdiction of the APSC. Notwithstanding that waiver, the APSC has not exercised any jurisdiction over the Board. The Attorney General was not successful in a legal action filed to obtain a declaratory judgment and order directing that APSC begin regulating the Board. Approval by the APSC of the issuance and sale of the Series 2016 Bonds is not required.

The Board's Authority to Continue Operation of the System; Municipal Consent

Alabama municipalities have the authority to grant a franchise and impose franchise fees or taxes on public utilities under the powers granted to municipalities under (1) Section 220 of the Constitution of Alabama, which provides that no person is authorized to use the public places of a municipality to operate a public utility without the consent of the municipality, (2) Section 228 of the Constitution of Alabama, which limits the grant of certain utility franchises to 30 years, and (3) Sections 11-40-1 and 11-43-62 of the Code of Alabama, which allow, inter alia, a municipality to sell or lease any franchise which it has power to grant. Franchise ordinances, when adopted by a municipality, constitute a contract between the municipality and the utility governing the terms of the provision of

services and the applicable fees charged for the grant of authority to operate. Absent a franchise ordinance, a municipality retains the authority to impose fees on the utility providing services within the municipality, subject to certain statutory limitations.

The City of Adamsville granted the Board a franchise pursuant to Ordinance No. 2006-32 adopted on February 13, 2006. The Town of County Line granted the Board a franchise pursuant to Ordinance No. A-5 adopted on June 22, 1976; this agreement has expired. The City of Fultondale granted the Board a franchise pursuant to Ordinance No. 552 adopted on September 28, 2005. The City of Gardendale granted the Board a franchise pursuant to Ordinance No. 2005-20 adopted on November 7, 2005. The City of Hoover granted the Board a franchise pursuant to Ordinance No. 14-2265 adopted on December 1, 2014. The Town of Kimberly granted the Board a franchise pursuant to Ordinance No. 2005-35 adopted on November 14, 2005. The Town of Morris granted the Board a franchise pursuant to Ordinance No. 05-12 adopted on December 27, 2005. The City of Trussville granted the Board a franchise pursuant to Ordinance No. 519 adopted on November 25, 1986. The City of Warrior granted the Board a franchise pursuant to Ordinance No. 2015-61 adopted on January 22, 2015. The City of Center Point granted the Board a franchise pursuant to Ordinance No. 2003-01 adopted on January 9, 2003. The City of Irondale granted the Board a franchise pursuant to Ordinance No. 2015-05 adopted on March 17, 2015. The City of Leeds granted the Board a franchise pursuant to Ordinance No. 555 adopted on August 3, 1987. The City of Moody granted the Board a franchise pursuant to Ordinance No. M92-03-18A adopted on March 18, 1992. The City of Pleasant Grove granted the Board a franchise pursuant to Ordinance No. 314 adopted on March 29, 1989. The City of Trafford granted the Board a franchise pursuant to Ordinance No. 2005-06 adopted on December 5, 2005. The City of Vestavia Hills granted the Board a franchise pursuant to Ordinance No. 2136 adopted on January 18, 2006. The City of Tarrant granted the Board a franchise pursuant to Ordinance No. 960 adopted on October 17, 2005. The City of Mountain Brook granted the Board a franchise pursuant to Ordinance No. 1600 adopted on October 14, 2003. The City of Leeds granted the Board a franchise pursuant to Ordinance No. 555 adopted on August 3, 1987. The City of Pinson granted the Board a franchise pursuant to Ordinance No. 2004-51 adopted on December 2, 2004. The City of Homewood granted the Board a franchise pursuant to Ordinance No. 2545 adopted on February 9, 2015. The City of Fairfield granted the Board a franchise pursuant to Ordinance No. 991 adopted on April 3, 2006. The City of Clay granted the Board a franchise pursuant to Ordinance No. 2001-23 adopted on October 1, 2001.

Each of the above Ordinances specifies that the franchise will exist for thirty (30) years after the date granted (except for the City of Pinson which is for a period of fifteen (15) years) or is silent on the term, in which case the franchise will would exist for thirty (30) years pursuant to Section 228 of the Constitution.

The Board's franchise agreements with the municipalities of the City of Birmingham and County Line have expired. The Board's prior franchise agreement with the City of Birmingham expired in 1981. Since the expiration of the prior franchise agreement, the Board has continued to provide services to customers within the City of Birmingham in accordance with all applicable municipal codes and ordinances as well as Alabama state law. The Board remits to the City of Birmingham on an annual basis a fee equal to the maximum amount that could be charged by the City of Birmingham for the rights to provide the Board's services within that municipality.

The property and income of the Board are by statute exempt from all taxation in Alabama. The maximum license tax, which a municipality is permitted by law to levy upon the right to operate a water system, is three percent of gross receipts in the municipality during the preceding year and one and one-half percent in the police jurisdiction outside of the corporate limits. The Board pays to municipalities in which its facilities are located a license tax levied at the maximum allowable rate of three percent of gross receipts in the corporate limits and one and one-half percent in the police jurisdiction outside of the corporate limits.

The Board sells water under its regular rate schedules to the following water distribution systems owned by the following public bodies and serving the following areas:

The Water Works and Gas Board of the City of Graysville	Graysville and environs
Water Works Board of the City of Brookside	Brookside and environs
Town of West Jefferson	West Jefferson and environs
The Water Works and Gas Board of the Town of Mulga	Mulga and environs
Pine Bluff Water and Fire Protection Authority	Pine Bluff, Locust Fork and environs
Remlap Water and Fire Protection Authority	Remlap and environs

On September 12, 1990, the Board entered into an agreement with Roupes Valley Water Authority (the "Authority") to purchase a portion of the Authority's water distribution system located in Jefferson and Shelby Counties. In order to recover a portion of the capital expenditures needed to renovate and improve the system so acquired, it was agreed that the rates charged would be, for a specified time period, those rates charged by the Authority at the time of the agreement, which rates are higher than those currently charged by the Board to other customers. The rates are now the same as those currently charged by the Board.

It is possible that one or more of the municipalities where the System is located might seek to purchase or condemn the portion of the System, which serves such municipality. Condemnation of a publicly owned water works system is not presently authorized by statute. There is no legal precedent in Alabama for the condemnation of a water works system owned and operated by a municipality or its public corporation agency without specific statutory grant.

Employees, Retirement and Insurance Plans

As of December 31, 2015, the Board had 622 full-time employees distributed as follows:

	<u>Number of Employees</u>
Main Campus of Headquarters	335
Distribution System	132
Water Purification Plants	63
Electric Machinery and Maintenance Shop	39
Intake Pumping Stations	33
Enviro Lab	<u>20</u>
Total	622

The Board administers a contributory single employer defined benefit retirement plan (the "Plan") that covers all employees of the Board and the employees who were previously employed by the Industrial Water Board. The contribution requirements of Plan members and benefit provisions are established and may be amended by the Board. As required by Statement 45 of the Governmental Accounting Standards Board ("GASB 45"), the Board annually reviews its liabilities and obligations under the Plan. Plan members are required to contribute 7% of their annual covered salary. The Board contributes to the Plan at a rate determined by actuarial analysis. The Board's funding policy is to contribute the employer normal cost plus a 13-year amortization of any unfunded actuarial accrued liability. Pursuant to the latest actuarial valuation report commissioned by the Board (dated as of January 1, 2016), the unfunded actuarial liability equaled approximately \$41,896,584; the actuarial report also recommended a contribution for fiscal year 2016 of approximately \$4,867,200 (representing approximately 12.53% of projected payroll for fiscal year 2016). The administrative costs of the Plan are financed through investment earnings. The Board may suffer an investment loss related to a past investment of Plan assets, which potential loss will not exceed \$4,344,640.00. Although it is impossible to currently determine the amount of the potential loss, the Board engaged

its actuarial firm, Segal Consulting, Atlanta, Georgia, to evaluate the potential impact of the potential loss on the Plan. Segal Consulting conducted a review of its 2016 valuation results assuming the full investment loss of \$4,344,640.00 over a five-year period under the asset smoothing method. Since the Board has adopted a funding policy to increase its pension contribution four percent (4%) each year until the Plan is fully funded, the assumed investment loss would not change the 2016 contribution of \$4,867,200.00. However, the effective amortization period (the period over which the Plan is projected to become fully funded) would increase modestly from 13.96 years to 14.33 years. The assumed investment loss would cause the funded ratio based on the smoothed actuarial value of assets to decrease from 75.91% to 75.41%. On a market value basis, the funded ratio would decrease from 73.20% to 70.71%. The Board is taking all prudent steps to minimize the loss and recover the investment.

The Board purchases stop loss (reinsurance) insurance to protect against high medical claims each year for its active employees and their covered dependents and under 65 retirees and their covered dependents. Currently, the Board's stop loss insurance requires a specific annual deductible of \$150,000 and an aggregating specific annual deductible of \$150,000. Once the annual deductibles are met in a calendar year, then the Board is reimbursed for such medical expenses incurred during the calendar year. There are no maximum dollar limits during the contract period. The Board's cost of health care for active and retired employees was approximately \$7,564,314 in 2014.

As a result of the implementation of GASB 45, the Board reviewed the medical benefits that it provides to retirees and the projected related costs. As a result of that review, the Board decided to implement certain changes to its retiree medical benefit program, effective as of January 1, 2008. Giving effect to those changes, the Board's actuary has calculated its December 31, 2014 unfunded liability for purposes of GASB 45 to be \$12,500,000 and the annual required contribution with respect to such liability as \$2,000,000.

Customer Billing and Accounting

The Board maintains customer records and renders billing information on an IBM System z9. Access to customer information is provided via custom software for various types of data inquiries.

The accounting records are maintained in accordance with the principles set forth in the Uniform System for Water Utilities adopted by the National Association of Regulatory Utility Commissioners.

Sewer Service Collections

By Act No. 886 adopted at the 1961 Regular Session of the Alabama Legislature, Jefferson County was authorized to require the Board to collect service charges for use of the Jefferson County sewage disposal system from the Board's water customers as a separate item on the Board's water bills. Act No. 886 prohibits the payment of one bill without the payment of the other and requires that the Board discontinue water service for nonpayment of either the water or sewer service charge within thirty days after billing. On August 22, 1961, the Board and the County entered into an agreement which in essence implemented the provisions of Act No. 886 (the "Collection Agreement"). Act No. 886 prescribes a collection charge of not less than 5% nor more than 10% of the amount collected as agreed by the Board and the County and, should they fail to agree, a charge of 7½% of such amount. The Collection Agreement has been amended from time to time for purposes of establishing a mutually acceptable collection charge, most recently on November 29, 1994. Under the Collection Agreement, either party can terminate upon one year's written notice. If terminated, the County would either pay the default rate established in Act No. 886 or pursue other means of collection. Sewer service charges have been collected for the County by the Board since 1962. During 2013 and 2014, the Board received \$3,889,046.80 and \$4,082,201.14, respectively, for its collection services under the Collection Agreement.

The Board has entered into similar agreements with the City of Hoover, the City of Moody, and the City of Irondale, under which the Board receives 4% of the collections for the billing and collection services provided to each such City. The Board has also entered into an agreement with the Southwest Water Company for the collection of sewer fees for the Riverview System; the Board receives 4% of the collections for the billing and collection services provided to that entity.

THE INDEPENDENT ENGINEER

The Board's Independent Engineer is Arcadis U.S., Inc., an international environmental consulting engineering firm with expertise and experience in water and wastewater utility operation and management, based in Highlands Ranch, Colorado and with South Region headquarters in Birmingham, Alabama. Arcadis is recognized nationally as a water, wastewater and environmental systems design and consulting firm.

The Independent Engineer provides strategic and programmatic environmental consulting to the Board and performs the functions required of the Independent Engineer under the Senior Indenture and the Subordinate Indenture. The Independent Engineer assists the Board in operating the System efficiently and effectively and participates with the Board to develop a capital program to (i) ensure that the Board maintains an adequate water system for providing water, (ii) meet environmental laws and regulations, and (iii) anticipate Birmingham area growth and prepare to meet the water needs of the Birmingham area. The Independent Engineer assists the Board in planning and executing this capital program.

DESCRIPTION OF THE SYSTEM

The System now serves an area of approximately 700 square miles and approximately 600,000 customers in Jefferson, Blount, St. Clair, Walker and Shelby Counties.

Sources of Supply

The System presently has four separate sources of raw water as described below:

(a) The Lake Purdy-Cahaba River System is a part of the Board's original purchase from The Birmingham Water Works Company. The Cahaba River watershed in Jefferson, St. Clair and Shelby Counties east of Birmingham, drained by the Cahaba and Little Cahaba Rivers, has a drainage area of approximately 196 square miles. This watershed includes an impoundment in Lake Purdy, formed by a dam across the Little Cahaba River. The storage capacity of Lake Purdy is 5.7 billion gallons. The safe yield from the Lake Purdy-Cahaba River System is approximately 52 million gallons per day. The Lake Purdy-Cahaba River System is the primary source of supply to the Board's Shades Mountain Filtration Plant.

(b) The Inland Lake System consists of an impounding reservoir, a booster pumping station, chemical treatment facilities, a balancing reservoir and a transmission pipeline. The impounding dam of earth and rock fill construction is 200 feet high and 1,060 feet long and creates a reservoir with a capacity of 21 billion gallons. The watershed above the dam is about 72 square miles in area. The dam is located approximately 27 miles northeast of the City on the Blackburn Fork of the Black Warrior River in Blount County. The pipeline consists of approximately 44 miles of steel and cast iron supply lines ranging in size from 16 inches to 60 inches in diameter. The Inland Lake reservoir has a safe yield of about 49 million gallons per day. The booster pumping station has a capacity of 88 million gallons per day. Water from Inland Lake is delivered to the Board's H.Y. Carson Filtration Plant, and is also available to the Board's Putnam Filtration Plant.

(c) The Sipsey System, which is operated under a permit from the U.S. Army Corps of Engineers, consists of an intake pumping station immediately below the Alabama Power Company's L. M. Smith dam on the Sipsey Fork of the Black Warrior River in Cullman County 35 miles northwest of the City, a booster pumping station, a transmission pipeline, and terminal control reservoirs. The pipeline consists of approximately 44 miles of 60 inch, 48 inch and 42 inch steel and cast iron supply lines. The Sipsey System has a firm yield of about 74 million gallons per day. At present, the intake pumping station is capable of delivering this maximum quantity of water to the system's booster pumping station. The booster pumping station has a capacity of 90 million gallons per day. Water can be pumped from this station to the Western, Putnam and H.Y. Carson Filtration Plants.

(d) The Mulberry System has as its source the Mulberry Fork of the Black Warrior River in Walker County, Alabama. The intake pumping station is operated under a permit from the U.S. Army Corps of Engineers. Water is withdrawn at a maximum rate not to exceed 85 million gallons per day for a two hour duration, with a maximum of 65 million gallons per day during a twenty-four hour period. Work was completed in 1995 to increase the pump station capacity to the full permitted withdrawal rate. This work included the installation of pumps,

motors and other general improvements. Water from this supply is delivered through approximately 20 miles of welded steel pipe 72 inches in diameter. Surge tanks are installed at various points along the pipeline and four 5-million gallon control reservoirs are located at the terminus at the Board's Western Filtration Plant. The Mulberry System includes a booster pumping station with a 25 million gallon per day capacity located in the vicinity of the control reservoirs. Water can be pumped via this station to the Board's Western and Putnam Filtration Plants.

Water from the above sources is delivered through long transmission lines to the four filtration plants which are a part of the System. The diverse locations of the sources of supply aid in maintaining water service in the event of a partial failure at any plant.

Additional Sources

The Board believes it currently has sufficient supply and will be able to meet its needs through the year 2032.

In 2007, the Board prepared a Water Supply Needs Assessment which examined future needs for water supply through 2075. In 2009, the Board prepared a Report on Plans for Improving Water Supply Reliability and Evaluation of Alternatives to Meet Future Water Demands which examined alternatives for additional water supply and improving connectivity among its sources and filtration plants.

By adding additional supply from existing water resources in the Warrior River Basin at Holt Lake, and making other improvements to its raw water delivery system, the Board can meet the expected demands of the Birmingham area through 2075. While obtaining additional water supply from existing water resources will require additional capital improvements to transport water from Holt Lake to the filtration plants, this cost is lower than developing a new source of supply.

Between now and 2032, the Board will work toward acquiring necessary property, permitting a new intake at Holt Lake, and other project development activities. The Board believes, upon completion of the Holt Lake improvements, it will have sufficient supply to meet its needs through the year 2075.

Annual Rainfall

The average annual rainfall since 1900, established by records of the United States Weather Bureau, has been approximately 55 inches. The lowest annual rainfall on record, recorded in 2007, was 28.86 inches. The absence of any great seasonal variations in rainfall in the Birmingham area usually provides a dependable surface supply of water.

Filtration Plants

Four water filtration plants process and treat the raw water from the above sources of supply. The rated capacity and sources of supply of the filtration plants are as follows:

<u>Filtration Plant</u>	<u>Rated Capacity</u>	<u>Source of Supply</u>
Shades Mountain	80 MGD	Cahaba River – Lake Purdy
Putnam	24 MGD	Mulberry Fork, Smith Lake or Inland Lake
Western	60 MGD	Mulberry Fork or Smith Lake
H. Y. Carson	25 MGD	Inland Lake, Smith Lake or Mulberry Fork

The present maximum capacity of the four filtration plants is 189 MGD. The four filtration plants of the Board feed into an integrated distribution system increasing the overall reliability of supply. (See "DESCRIPTION OF THE SYSTEM - Sources of Supply".)

Pumping Facilities

Pumping facilities at each of the four filtration plants deliver water into the thirteen major and seven minor service areas of the distribution system. In addition to these pumping facilities, the System has sixteen major pumping stations, ranging in size from 1,000,000 gallons to 28,000,000 gallons per day. These pumps deliver water from lower service areas to higher service areas. In addition to the above, there are a number of small booster pumping stations delivering water to isolated areas at higher elevations. These stations range in pumping capacity from 20 to 400 gallons per minute.

Tanks and Stand Pipes

Storage is provided in the distribution system by 51 elevated tanks or stand pipes having a total capacity of 75.7 million gallons. The tanks, ranging in size from 100,000 gallons to 6,300,000 gallons capacity, improve the flow and pressure throughout the distribution system. All but two of the tanks have been built or acquired by the Board since it purchased the System in 1951. In addition to the above distribution storage, the Board has a total of 9,000,000 gallons of filtered water storage capacity in clear wells at its various filtration plants. The Board also has a raw water storage of 36,000,000 gallons at its Shades Mountain Filtration Plant.

Transmission and Distribution Lines

The general topography of the Birmingham area, ranging in elevation from 300 to 1,200 feet above sea level, requires that the distribution system be separated into thirteen major and seven minor areas, and this requires long transmission and supply mains. These mains are interconnected with loops to form a completed arterial system which supplies a grid system of small secondary mains, particularly in congested areas. This distribution system is supplied with water pumped from the four filtration plants in such a way that maximum reliability of service is afforded to all areas.

In the past several years, the Board's distribution system has been extended into outlying rural areas, particularly in the north and northeast in Blount and Walker Counties, to the south in Shelby County, and to the east in St. Clair County. As a result, the service area has more than quadrupled in size since 1951.

Environmental Matters

The Board is subject to various governmental laws and regulations relating to water treatment, pollution control and other environmental matters. The Board cannot predict whether or not additional legislation or regulations may be adopted and what the impact, if any, of any such legislation or regulations might be. The Board has in service residual removal systems at its Shades Mountain, Western and Putnam Filtration Plants. Dewatered residuals from these plants are transported to either of two landfills, operated by the Board, with remaining useful lives ranging from 15 to 60 years.

WATER RATES

Since the transfer of the System from the City to the Board, water rates are fixed by resolution of the Board in compliance with the rate covenants in the Senior Indenture and the Subordinate Indenture (see "RATE COVENANT OF THE BOARD" herein). In the future, the Board's water rates may become subject to review and regulation by the APSC (see "THE BOARD – Regulation by Alabama Public Service Commission" herein).

From the time the Board acquired the System in 1951 until the System was acquired by the City in 1998, the Board imposed rate increases from time to time. While the System was owned by the City, no rate increases were imposed. The annual rate increases since 2003 are as follows:

<u>Year</u>	<u>Percent Increase</u>
2004	8.8%
2005 (January)	7.3%
2005 (June)	6.5%
2006	8.75%
2007	7.75%
2008	7.7%
2009	13.2%
2010	6.9%
2011	6.9%
2012	3.9%
2013	4.9%
2014	3.9%
2015	3.9%
2016	4.9%

The Board adopted the use of a Rate Stabilization and Equalization Model ("RSE") to determine necessary rate adjustments beginning in 2006. The RSE will calculate and automatically adjust the rates which, when implemented, will provide the appropriate levels of debt service coverage for the Board's obligations.

Current water rates are as follows (effective January 1, 2016):

Typical Rates for Each 100 Cubic Feet of Water Delivered*

<u>Residential and Irrigation Rates</u>	<u>Rate</u>
For the first 300 cubic feet per month	\$ 2.27
For 400 to 1,500 cubic feet per month	\$ 2.69
All over 1,500 cubic feet per month	\$ 4.01
 <u>All Other Water Users Rates</u>	
Per cubic feet per month	\$ 3.51
Monthly base charge – per month for 5/8" meter (in addition to the above)	\$ 24.25
Varied monthly base charges for other meter sizes	\$ 32.16 – 1,882.70
First Service Rental Rates (per year) (based on size)	\$ 278.28 – 6,969.48
Fire Hydrants (per year)	\$ 196.08

* These rates apply for approximately 90% of all revenues generated from water supply service.

Comparison of Water Rates with Other Systems

A comparison of the Board's residential water charges based on average customer usage of 10 ccf (7,480 gallons) of water per month, 5/8-inch meter, with that of other regional surface water systems follows:

<u>City</u>	<u>Charge*</u>
Charlottesville, Virginia	\$58.59
Chapel Hill, North Carolina	\$58.56
Atlanta, Georgia	\$55.11
Asheville, North Carolina	\$49.93
Birmingham, Alabama	\$49.89
New Orleans, Louisiana	\$47.99
Norfolk, Virginia	\$47.70
Chattanooga, Tennessee	\$40.41
Jackson, Mississippi	\$39.54
Knoxville, Tennessee	\$35.70
Louisville, Kentucky	\$31.11
San Antonio, Texas	\$30.49
Montgomery, Alabama	\$28.27
Mobile, Alabama	\$25.19
Nashville, Tennessee	\$21.77
Average (w/o Birmingham)	\$40.74
Median (w/o Birmingham)	\$39.97

* Based on residential rates as of July 20, 2016, customer usage of 10 ccf (7,481 gallons) per month, 5/8-inch meter.

** Rate is an average of summer and winter rates.

RESULTS OF OPERATIONS

Operation Statistics

The following table sets forth certain operation statistics for the System:

	<u>Year Ended December 31</u>			
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Number of customers	195,866	193,349	194,618	196,714
Miles of mains in service	3,970	3,972	3,981	3,997
Number of fire hydrants	14,038	13,551	13,594	13,679
Capacity of storage tanks (in thousand gallons)	75,172	75,172	75,172	75,172
Water delivered to the distribution system (in billion gallons)	35.9	36.2	38.1	37.8
Single day, peak day demand (in million gallons)	131.8	117.8	131.2	122.3

* Unaudited.

Major Industrial/Governmental Customers

The following table contains the ten largest customers of the System during the periods indicated and the gross revenues derived from each of such customers. The Board's largest customer for the years ending December 31, 2014, and December 31, 2015, was USX Corporation. It has been announced by USX Corporation that it will most likely shut down its major facility served by the Board, the Fairfield Iron Works. Although the impact of the closing of this facility on the Board cannot be fully determined at this point, the Board has requested that its independent rate consultants review various scenarios based on the partial or full loss of this customer and its impact on the revenues of the Board. The detailed analysis conducted by the independent rate consultants is included in the Report of Independent Rate Consultants included as Appendix D to this Official Statement.

	<u>Amount</u>	<u>% of Total Revenues</u>
Year Ended December 31, 2014 ⁽¹⁾		
USX Corporation	\$10,773,074	6.6%
University of Alabama - Birmingham	8,292,982	5.1%
Birmingham Housing Authority	5,540,929	3.4%
Samford University	1,947,929	1.2%
Brookwood Hospital	1,640,098	1.0%
Sloss Industries	1,441,819	0.9%
Graysville Water Company	1,287,884	0.8%
Coca Cola	1,264,590	0.8%
Colonial Realty	1,211,858	0.7%
Barber's Pure Milk Company	1,148,519	0.7%
	<u>\$34,549,682.00</u>	<u>21.2%</u>

(1) Total operating revenues for the year ended December 31, 2014 were \$162,768,209.

	<u>Amount</u>	<u>% of Total Revenues</u>
Year Ended December 31, 2015 ⁽¹⁾		
USX Corporation	\$9,749,623	5.9%
University of Alabama - Birmingham	8,993,247	5.5%
Birmingham Housing Authority	6,030,062	3.7%
Brookwood Medical Center	1,896,821	1.2%
Samford University	1,652,830	1.0%
City of Birmingham	1,559,642	0.9%
St. Vincent's Hospital	1,494,052	0.9%
Graysville Water Company	1,431,339	0.9%
Barber's Pure Milk Company	1,397,289	0.8%
Buffalo Rock Co.	1,315,157	0.8%
	<u>\$35,520,062</u>	<u>21.5%</u>

(1) Total operating revenues for the year ended December 31, 2015 were \$164,940,807.

Summary of Revenues and Expenses

The following table contains a summary of revenues and expenses for the periods indicated.

The Water Works Board of the City of Birmingham Summary of Revenues and Expenses

	Year ended <u>12/31/10</u>	Year ended <u>12/31/11</u>	Year ended <u>12/31/12</u>	Year ended <u>12/31/13</u>	Year ended <u>12/31/14</u>	Year ended <u>12/31/15</u>
REVENUES AND EXPENSES						
Revenues:						
Operating revenues:						
Sale of Water:						
Residential	\$70,516,057	\$73,669,691	\$73,838,668	\$74,247,192	\$80,049,692	\$80,494,895
Commercial	53,239,690	57,092,263	57,456,470	57,488,800	59,883,968	62,043,582
Industrial	2,203,492	2,513,454	2,557,069	2,480,647	2,978,035	2,612,631
Other water utilities	3,068,877	3,457,114	3,290,297	3,533,706	3,511,902	3,690,832
Municipal	1,514,546	1,609,713	1,501,887	1,329,953	1,352,450	1,332,034
Public and private fire protection	2,914,179	3,094,769	3,114,585	3,396,189	3,822,889	4,164,476
Raw water	<u>7,711,278</u>	<u>7,292,656</u>	<u>8,238,706</u>	<u>7,859,161</u>	<u>8,094,652</u>	<u>7,156,657</u>
	141,168,119	148,729,660	149,997,682	150,335,648	159,693,588	161,495,107
Rent from Utility Properties (principally fire hydrants)	332,688	337,812	393,137	365,824	391,427	381,651
Other Operating Revenues	<u>1,940,884</u>	<u>2,706,945</u>	<u>3,034,327</u>	<u>2,496,602</u>	<u>2,683,193</u>	<u>3,064,049</u>
Total Operating Revenues	143,441,691	151,774,417	153,425,146	153,198,074	162,768,208	164,940,807
Interest Earned on Trustee Fund						
Investments	6,655,088	5,426,938	3,176,666	2,625,956	2,577,113	2,721,239
Other Income	<u>0</u>	<u>0</u>	<u>0</u>	<u>90,514</u>	<u>448,814</u>	<u>292,124</u>
Total Revenues	<u>\$150,096,779</u>	<u>\$157,201,355</u>	<u>\$156,601,812</u>	<u>\$155,914,544</u>	<u>\$165,794,136</u>	<u>\$167,954,170</u>
Expenses:						
Operating Expenses:						
Source of Supply	1,981,437	2,215,496	2,095,302	2,080,756	2,160,259	2,125,024
Power and Pumping	11,777,129	12,870,073	12,175,263	11,775,319	12,181,985	12,000,639
Purification	10,434,461	10,805,103	11,028,230	11,134,383	11,294,364	11,151,607
Transmission and Distribution	19,607,954	20,131,901	19,057,807	19,815,677	21,309,641	18,236,884
Customer Accounting and Collecting	5,881,566	6,595,519	7,013,644	7,425,468	7,525,413	7,166,586
Administrative and General	30,043,243	31,812,352	33,454,548	34,264,996	29,218,681	44,109,056
Payments to City of Birmingham for License Fees	1,469,568	1,665,006	1,749,009	1,807,151	1,828,286	1,876,715
Payments for License Fees-Other Than the City of Birmingham	<u>1,502,538</u>	<u>1,889,629</u>	<u>1,991,651</u>	<u>2,105,054</u>	<u>2,159,017</u>	<u>2,169,071</u>
Total Operating Expenses excluding Depreciation	82,697,896	87,985,079	88,565,454	90,408,804	87,677,646	98,835,582
Provisions for Depreciation	19,239,823	22,127,381	20,403,248	19,479,493	21,089,739	24,370,094
Interest on Long-Term Debt	41,717,315	42,227,517	41,351,441	43,285,107	43,938,583	46,992,601
Other Expenses	3,817,602	<u>1,300,798</u>	<u>990,620</u>	<u>1,077,999</u>	<u>731,884</u>	<u>759,913</u>
Total Expenses	<u>147,472,636</u>	<u>153,640,775</u>	<u>151,310,763</u>	<u>154,251,403</u>	<u>153,437,552</u>	<u>170,958,190</u>
Net Income (Loss)	<u>\$2,624,143</u>	<u>\$3,560,580</u>	<u>\$5,291,049</u>	<u>\$1,663,141</u>	<u>\$12,356,283</u>	<u>(\$3,004,020)</u>

The following table presents a summary of the Board's consolidated statement of revenue and expenses and changes in net assets for the fiscal years ended December 31, 2013, 2014 and 2015.

	Audited	Audited ⁽³⁾	Audited
	2013	2014	2015
Operating revenues:			
Sale of water:			
Residential	\$74,247,192	\$80,049,692	\$80,494,895
Commercial	57,488,800	59,883,968	62,043,582
Industrial	2,480,647	2,978,035	2,612,631
Other water utilities	3,533,706	3,511,902	3,690,832
Municipal	1,329,953	1,352,450	1,332,034
Public and private fire protection	3,396,189	3,822,889	4,164,476
Raw water	<u>7,859,161</u>	<u>8,094,652</u>	<u>7,156,657</u>
	150,335,648	159,693,588	161,495,107
Rent from utility properties	365,824	391,427	381,651
Miscellaneous operating revenue	<u>2,496,602</u>	<u>2,683,193</u>	<u>3,064,049</u>
Total operating revenue	153,198,074	162,768,208	164,940,807
Operating expenses:			
Source of supply	2,080,756	2,160,259	2,125,024
Power and pumping	11,775,319	12,181,985	12,000,639
Purification	11,134,383	11,294,364	11,151,607
Transmission and distribution	19,815,677	21,309,641	18,236,884
Customer accounting and collection	7,425,468	7,525,413	7,166,586
Administrative and general ⁽¹⁾	34,264,996	29,218,681	44,109,056
License fees	<u>3,912,205</u>	<u>3,987,303</u>	<u>4,045,786</u>
Total operating expenses	90,408,804	87,677,646	98,835,582
Depreciation	<u>19,479,493</u>	<u>21,089,739</u>	<u>24,370,094</u>
	109,888,297	108,767,385	123,205,676
Operating income	43,309,777	54,000,823	41,735,131
Nonoperating revenues (expenses):			
Other income (expenses), primarily interest	1,638,470	2,297,608	2,256,772
Interest expense	(43,285,107)	(43,942,148)	(46,995,923)
Total nonoperating revenues (expenses)	(41,646,637)	(41,644,540)	(44,739,151)
Income (loss) before contributions	1,663,140	12,356,283	(3,004,020)
Capital contributions and extraordinary items	-	<u>4,581,969</u>	<u>12,848,409</u>
Change in net assets	1,663,140	16,938,252	9,844,389
Net assets, beginning of the year	\$46,372,289	\$37,090,030	\$18,580,631
Adjustment for Adoption of GASB 68 ⁽²⁾		(35,447,651)	
Net assets at beginning of year, as restated	\$46,372,289	\$1,642,379	\$18,580,631
Net assets, end of the year	\$48,035,429	\$18,580,631	\$28,425,020

- (1) The implementation of new governmental accounting standards related to pension liabilities (GASB 68 & 71) resulted in a substantial increase in administrative and general expenses in 2015.
- (2) The implementation of new governmental accounting standards related to pension liabilities (GASB 68 & 71) resulted in adjustment of net position of approximately \$35.4 million as of January 1, 2014.
- (3) Figures in this column are based upon the restatement of the Board's 2014 audited financial statements contained in the Board's 2015 audit report.

Summary Balance Sheet Information

The following table contains a summary of certain balance sheet information as of the dates indicated. This summary is derived from the Board's audited financial statements for the relevant fiscal years.

	<u>12/31/09</u>	<u>12/31/10</u>	<u>12/31/11</u>	<u>12/31/12</u>	<u>12/31/13</u>	<u>12/31/14⁽¹⁾</u>	<u>12/31/15</u>
Net Utility Plant	\$605,637,007	\$650,798,677	\$692,021,933	\$731,233,831	\$763,642,011	\$790,546,032	\$827,705,999
Trusteed funds assets	188,112,410	98,671,008	200,341,398	187,627,979	208,480,630	205,350,339	255,025,518
Current assets	53,309,670	74,112,792	80,142,760	35,781,131	60,391,638	36,835,341	40,803,898
Other assets	<u>9,682,215</u>	<u>27,331,671</u>	<u>27,611,369</u>	<u>15,471,846</u>	<u>30,293,703</u>	<u>4,490,213</u>	<u>4,431,399</u>
	<u>\$856,741,302</u>	<u>\$850,914,148</u>	<u>\$1,000,117,460</u>	<u>\$970,114,787</u>	<u>\$1,062,807,982</u>	<u>\$1,037,221,925</u>	<u>\$1,127,966,814</u>
Retained earnings (accumulated deficit)	\$24,604,287	\$30,667,739	\$39,682,537	\$48,256,222	\$48,035,430	\$64,862,159	\$64,862,159
Contributed capital for construction	-	-	-	-	-	-	-
Long-term debt	778,063,668	770,064,297	892,666,067	871,075,818	947,449,051	920,206,210	920,206,210
Trusteed funds	17,484,810	16,315,632	21,547,748	22,189,182	23,067,236	21,964,748	21,964,748
Current liabilities	27,248,905	25,009,147	37,304,263	19,872,514	31,910,936	30,418,779	30,418,779
Deferred credits: Customer advances for construction	<u>9,339,632</u>	<u>8,857,333</u>	<u>8,916,845</u>	<u>8,721,051</u>	<u>12,345,329</u>	<u>12,201,837</u>	<u>12,201,837</u>
	<u>\$856,741,302</u>	<u>\$850,914,148</u>	<u>\$1,000,117,460</u>	<u>\$970,114,787</u>	<u>\$1,062,807,982</u>	<u>\$1,049,653,733</u>	<u>\$1,049,653,733</u>

(1) Figures in this column are based upon the restatement of the Board's 2014 audited financial statements contained in the Board's 2015 audit report.

ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE SERVICE AREA OF THE BOARD

Certain economic and demographic information relating to the Board's service area is included in Appendix A to this Official Statement.

SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE

The following constitutes a summary of certain portions of the Senior Indenture pursuant to which the outstanding Senior Securities have been issued and the Series 2016-A Bonds and any Additional Senior Securities will be issued. This summary should be qualified by reference to other provisions of the Senior Indenture referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Indenture in this Official Statement are qualified by reference to the exact terms of the Senior Indenture, a copy of which may be obtained from the Trustee.

Definitions

Capitalized terms used without being defined herein shall have the meanings assigned to such terms elsewhere in this Official Statement.

"Additional Senior Securities" shall have the same meaning, for purposes of this Summary, as "Additional Parity Securities" under the Senior Indenture, and will be secured by the Pledged Revenues on parity with the pledge thereof in favor of outstanding Senior Securities and the Series 2016-A Bonds.

"Eligible Bank Obligations" means demand and time deposits (whether or not interest-bearing and whether or not evidenced by certificates of deposit) in banks and acceptances by banks, provided that the banks obligated with respect to such deposits or acceptances, as the case may be, are organized under the laws of the United States of America or any state thereof and have, at the time any moneys are invested in such deposits or acceptances pursuant to the provisions of the Indenture, combined capital, surplus and undivided profits of not less than \$50,000,000; provided that the bank obligated with respect to any such deposit or acceptance shall continuously secure such deposit or acceptance, to the extent not insured by the Federal Deposit Insurance Corporation (or any department, agency or instrumentality of the United States of America that may succeed to the functions of such corporation), by depositing with an independent third party, as collateral security therefor, Federal Obligations having a market value (exclusive of accrued interest) not less than the amount of the deposit or acceptance being secured.

"Eligible Investments" means any of the following: (i) Federal Obligations; (ii) Eligible Bank Obligations; (iii) obligations issued by any state of the United States of America or political subdivision or instrumentality thereof that are fully payable, as to principal, premium (if any) and interest, from payments of principal of or interest on any Federal Obligations held in an irrevocable trust, and that are rated not less favorably than AAA by S&P and Aaa by Moody's; (iv) any share or other investment unit representing a beneficial interest in an investment company or investment trust which is registered under the Investment Company Act of 1940, as from time to time amended (or successor provision of federal law), provided that the investment portfolio of such investment company or investment trust consists exclusively of obligations or securities that would independently qualify as Eligible Investments if directly acquired by the Board; (v) to the extent at the time permitted by applicable law, either of the following: (A) any repurchase agreement or collateralized investment agreement issued or guaranteed by any financial institution which has a long-term rating of at least A- by S&P or A3 by Moody's, provided that (1) the obligations or securities subject to any such agreement shall be of the kind described in clauses (i), (ii) and (iii) of this definition, (2) no transfer of moneys shall be made by the Board to invest in any such agreement unless the Board obtains a security interest in all obligations and securities covered by such agreement that shall be perfected, prior to or simultaneously with the transfer of such moneys, through the physical delivery of such obligations and securities to the Board or to an independent third party, and (3) such obligations and securities shall be supplemented by additional collateral from time to time to the extent required to continuously maintain collateral having an aggregate market value (exclusive of accrued interest) that is not less than the amount invested pursuant to such agreement; or (B) any investment agreement issued or guaranteed by any financial institution which has a long-

term rating of at least AA- by S&P or Aa3 by Moody's; and (vi) any other investments at the time permitted by applicable law.

"Federal Obligations" means (i) any direct general obligations of the United States of America, (ii) obligations the payment of the principal of and the interest on which is unconditionally and irrevocably guaranteed by, or entitled to the full faith and credit of, the United States of America, (iii) custodial receipts evidencing the right to receive payments of principal and interest with respect to obligations described in either of the preceding clauses, and (iv) any share or other investment unit representing a beneficial interest in an investment company or investment trust which is registered under the Investment Company Act of 1940, as from time to time amended (or successor provision of federal law), provided that the investment portfolio of such investment company or investment trust consists exclusively of obligations or securities that are described in clause (i) or (ii) of this definition.

"Fiscal Year" means any twelve-month period ending on December 31 (or any other twelve-month period established by the Board as the fiscal year for the System).

"Independent Engineer" means an engineer or engineering firm licensed to engage in the independent practice of engineering under the laws of the State of Alabama (i) that has no continuing employment or business relationship or other connection with the City which, in the opinion of the Trustee, might compromise or interfere with the independent judgment of such engineer or engineering firm in the performance of any services to be performed as an Independent Engineer, and (ii) that has a favorable nationwide reputation for skill and experience in the engineering, management, construction and operation of water systems, sewer systems and other environmental systems.

"Maximum Annual Debt Service" means the maximum amount payable in a Fiscal Year as principal of and interest on the Senior Securities then outstanding and any Additional Senior Securities proposed to be issued, subject to the following assumptions and adjustments:

(1) the principal amount of any such securities required by the terms thereof to be redeemed or prepaid during any Fiscal Year shall, for purposes of this definition, be considered as maturing in the Fiscal Year during which such redemption or prepayment is required and not in the Fiscal Year in which their stated maturity or due date occurs;

(2) for purposes of determining the amounts of principal and interest due in any Fiscal Year on any Senior Securities that constitute Tender Indebtedness, the options or obligations of the owners of such Senior Securities to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which owners of such Senior Securities may or are required to tender such Senior Securities for purchase or payment, except that any such option or obligation to tender Senior Securities shall be ignored and not treated as a principal maturity, and such Senior Securities shall be deemed to mature in accordance with their stated maturity schedule, if (i) such Senior Securities are rated in one of the two highest long-term rating categories (without reference to gradations such as "plus" or "minus") by at least two Rating Agencies or such Senior Securities are rated in the highest short-term, note or commercial paper rating categories (without reference to gradations such as "plus" or "minus") by at least two Rating Agencies, and (ii) the obligation, if any, the Board may have to the issuer of a letter of credit that secures such Senior Securities shall either be subordinated to the obligation of the Board on the Senior Securities or be incurred under the conditions and satisfy the tests for the issuance of Additional Senior Securities set forth in the Senior Indenture;

(3) the interest rate on any outstanding or proposed Variable Rate Securities subsequent to the date of calculation shall be assumed to be the lowest of (A) the maximum rate of interest that may be applicable to such Senior Securities, under the provisions thereof, (B) for so long as any hedging agreement that establishes a cap rate for such Senior Securities is in effect, such cap rate, and (C) the highest of (i) the actual interest rate on the date of calculation, or if the Variable Rate Securities in question are not yet outstanding, the initial rate (if established and binding), (ii) if the Variable Rate Securities in question have been outstanding for at least twelve

months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Variable Rate Securities in question is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest on such Variable Rate Securities is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities plus fifty (50) basis points;

(4) the debt service payable with respect to any Senior Securities for which the Board has entered into a Qualified Swap pursuant to which the Board has agreed to make payments calculated by reference to a fixed rate of interest shall be calculated as if the Senior Securities bore interest at such fixed rate during the term of such Qualified Swap;

(5) the debt service payable with respect to any Senior Securities for which the Board has entered into a Qualified Swap pursuant to which the Board has agreed to make payments calculated by reference to variable interest rates shall be calculated as if the Senior Securities in question bore interest, during the term of such Qualified Swap, at a rate equal to the lowest of (A) for so long as any hedging agreement that establishes a cap rate with respect to such Qualified Swap remains in effect, such cap rate, or (B) the highest of (i) the actual rate of such Qualified Swap on the date of calculation, or if such Qualified Swap is not yet in effect, the initial rate (if established and binding), (ii) if the Qualified Swap has been in effect for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Senior Securities to which such Qualified Swap is referable is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest on such Senior Securities is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities plus fifty (50) basis points; and

(6) there shall be excluded any principal of or interest on any Senior Securities to the extent there are available and held in escrow or under a trust agreement (i) moneys sufficient to pay such principal or interest, (ii) Permitted Defeasance Obligations which, if the principal thereof and the interest thereon are paid according to their tenor, will produce moneys sufficient to pay such principal of interest, or (iii) both moneys and such Permitted Defeasance Obligations which together will produce funds sufficient to pay such principal or interest.

In any case where, for purposes of determining Maximum Annual Debt Service, a portion of the principal of any Senior Securities is to be excluded, there shall also be excluded interest on the principal so excluded.

"Moody's" means Moody's Investors Service and any successor thereto.

"Net Revenues Available for Debt Service" means, for any period, the difference between (A) the sum of (i) the total amount of System Revenues (other than insurance proceeds, interest earned on monies held in any construction fund, impact fees and monies received from the sale or other disposition of components of the System) accrued during such period, and (ii) the amount of interest earned during such period on moneys held in the Indenture Funds (to the extent that such interest is not taken into account pursuant to the preceding clause (i)) and (B) the total amount of Operating Expenses incurred during such period (determined in accordance with generally accepted accounting principles).

"Operating Expenses" means, for the applicable period or periods, (a) the reasonable and necessary expenses of efficiently and economically administering and operating the System, including, without limitation, the costs of all items of labor, materials, supplies, equipment (other than equipment chargeable to fixed capital account), premiums on insurance policies and fidelity bonds maintained with respect to the System (including casualty, liability and any other types of insurance), taxes and license fees, fees for engineers, attorneys and accountants (except where such fees are chargeable to fixed capital account) and all other items, except depreciation, amortization, interest and payments made pursuant to Qualified Swaps, that by generally accepted accounting principles are properly chargeable to expenses of administration and operation and are not characterized as

extraordinary items, (b) the expenses of maintaining the System in good repair and in good operating condition, but not including items that by generally accepted accounting principles are properly chargeable to fixed capital account, and (c) the fees and charges of the Trustee.

"Permitted Defeasance Obligations" means any combination of (i) Federal Obligations and (ii) obligations issued by any state of the United States of America or political subdivision or instrumentality thereof that bear interest exempt from federal income taxation, that are fully payable, as to principal, premium (if any) and interest, from payments of principal of or interest on any Federal Obligations held in an irrevocable trust, and that are rated not less favorably than AAA by S&P or Aaa by Moody's.

"Pledged Revenues" means the System Revenues that remain after the payment of Operating Expenses.

"Qualified Swap" means, with respect to a series of Senior Securities or any portion thereof, any financial arrangement (i) that is entered into by the Board with an entity that is a Qualified Swap Provider at the time of the execution and delivery of the documents governing such arrangement; (ii) that provides (a) that the Board shall pay to such entity an amount based on the interest accruing at a fixed rate on a notional amount equal to all or a portion of the principal amount of the outstanding Senior Securities of such series, and that such entity shall pay to the Board an amount based on the interest accruing on the same notional amount, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Senior Securities), or that one shall pay to the other any net amount due under such arrangement, or (b) that the Board shall pay to such entity an amount based on the interest accruing on a notional amount equal to all or a portion of the principal amount of the outstanding Senior Securities of such series at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the Board an amount based on interest accruing on the same notional amount at an agreed fixed rate, or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Trustee by the Board as a Qualified Swap with respect to any of the Senior Securities.

"Qualified Swap Provider" means an entity whose senior long term debt obligations, other senior unsecured long-term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long-term debt obligations, other senior unsecured long-term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least AA- by S&P and at least Aa3 by Moody's.

"Rating Agency" means Moody's, S&P or any other nationally recognized securities rating agency.

"Reserve Fund Requirement" means, as of the date of any determination thereof, the lesser of (a) 125% of the average annual debt service on all Senior Securities at the time outstanding and secured by the Reserve Fund, (b) the maximum annual debt service on all Senior Securities at the time outstanding and secured by the Reserve Fund, or (c) an amount equal to the aggregate of 10% of the original principal amount (or, in the case of any series of Senior Securities sold with original issue discount in an amount greater than 2% of its original principal amount, the issue price) of each series of Senior Securities at the time outstanding and secured by the Reserve Fund. Any calculation of average annual debt service or maximum annual debt service for the purpose of determining the applicable Reserve Fund Requirement shall be made in accordance with the requirements and limitations imposed by the provisions of the Internal Revenue Code and the regulations promulgated thereunder that pertain to reasonably required reserve or replacement funds.

"Revenue Certificate" means a certificate signed by an independent accountant or the Board's primary financial officer that states that the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Senior Securities was not less than 125% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Senior Securities and the Additional Senior Securities with respect to which such certificate is made. If rates and charges for services furnished by the System were increased and put into effect by the Board after the beginning of the Fiscal Year or other twelve-month period to which a Revenue Certificate refers and not thereafter reduced, an independent engineer may certify the amount of gross revenues from the System that would have been received by the Board had such increased rates and charges been in effect during the entire Fiscal Year or other

twelve-month period, and the independent accountant or the Board's primary financial officer, as the case may be, preparing and signing the Revenue Certificate may compute Net Revenues Available for Debt Service during such Fiscal Year or other twelve-month period based on the amount of revenues that would have been derived from the System during such period with such increased rates and charges, as so certified by such Independent Engineer

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto.

"**Secured Related Obligations**" means any contractual obligations of the Board incurred with respect to any credit facility or any Qualified Swap and secured by a pledge of the Pledged Revenues on parity with the pledge thereof made in the Senior Indenture.

"**Senior Indenture**" shall mean that certain Trust Indenture dated as of December 1, 1998, as amended and supplemented from time to time.

"**Senior Securities**" shall have the same meaning, for purposes of this Summary, as "Parity Securities" under the Senior Indenture, and will be secured by the Pledged Revenues on parity with the pledge thereof in favor of other outstanding Senior Securities and the Series 2016-A Bonds.

"**System Revenues**" means all revenues, receipts, income and other moneys hereafter received by or on behalf of the Board from whatever source derived from the operation of the System, including, without limitation, the fees, deposits and charges paid by users of the System and interest earnings on the special funds established pursuant to the Senior Indenture and any other funds held by the Board or its agents that are attributable to or traceable from moneys derived from the operation of the System, but excluding, however, any tax revenues or any federal or state grants to the Board in respect of the System and any income derived from such grants.

"**Tender Indebtedness**" means any Senior Securities that are payable, at the option of the holder thereof, prior to their stated maturity or due date, or that the Board (or an agent thereof) is required, at the option of such holder, to purchase prior to their stated maturity or due date.

Creation of Funds and Accounts; Flow of Funds

General. The Senior Indenture provides for the creation and maintenance of a number of special funds, namely the Revenue Account, the Debt Service Fund, the Reserve Fund and the Improvement Fund. The Board's chief financial officer has the right to designate from time to time the depository or depositories for the Revenue Account. The Trustee is the depository, custodian and disbursing agent for all of the other special funds created in the Senior Indenture.

Revenue Account. The Board is required to deposit in the Revenue Account, as received by it, all of the System Revenues. Moneys in the Revenue Account are applied first for the payment of Operating Expenses. From the moneys that remain after payment of Operating Expenses, the Board is required to make periodic transfers to the Debt Service Fund, the Reserve Fund and the Improvement Fund in accordance with the provisions of the Senior Indenture and as hereinafter summarized. Any moneys that remain in the Revenue Account on the last business day of any month after all required transfers therefrom have been made shall be deemed "surplus revenues" and may be withdrawn from the Revenue Account and used by the Board for any lawful purpose related to the Board's ownership and operation of the System.

Debt Service Fund. On or before the last business day of each month, the Board will be required to transfer from the Revenue Account to the Debt Service Fund an amount equal to the sum of (i) one-sixth (1/6) of the semiannual installment of interest that will become due with respect to the Series 2016-A Bonds on the then next succeeding interest payment date, plus (ii) one-twelfth (1/12) of the principal, if any, of the Series 2016-A Bonds that will mature or be required to be redeemed on the then next succeeding January 1; provided that there shall be credited against such deposits any original proceeds of the Series 2016-A Bonds that represent accrued interest (if any) and that are to be used to pay interest on the Series 2016-A Bonds. Such deposits shall be in addition to the deposits required to pay the principal of and interest on the other outstanding Senior Securities. The Board will also be required to transfer into the Debt Service Fund certain payments in the event of the issuance of any Additional

Senior Securities or the incurrence of any Secured Related Obligations. Until the Senior Securities have been paid in full, moneys on deposit in the Debt Service Fund are to be used only for the payment of the principal of and the interest and premium (if any) on the Senior Securities or for the payment of Secured Related Obligations.

Reserve Fund. The Series 2016-A Bonds will not be secured by the Reserve Fund established pursuant to the Senior Indenture. If the Board issues Additional Senior Securities and elects to secure the same by the Reserve Fund, then moneys in an aggregate amount equal to the increase in the Reserve Fund Requirement resulting from the issuance of such Additional Senior Securities must be added to the Reserve Fund. The moneys to be so added to the Reserve Fund may be proceeds of such Additional Senior Securities or System Revenues. Any such addition of moneys to the Reserve Fund may be effected through (i) a single deposit to the Reserve Fund made at the time of the issuance of such Additional Senior Securities, (ii) a series of ten equal semiannual deposits to the Reserve Fund, or (iii) any other series of deposits that will result in a faster accumulation of moneys. If at any time a surety's rating is downgraded, the Senior Indenture requires a replenishment of the Reserve Fund as further described in Section 11.9 thereof.

Moneys forming a part of the Reserve Fund are held as a reserve for the payment of the principal of and the interest on the Senior Securities secured thereby, but shall be used for such purpose only when moneys are not otherwise available in the Debt Service Fund. In the event that moneys are withdrawn from the Reserve Fund to provide for the payment of the principal of or the interest on any of the Senior Securities, the Board will restore the moneys so withdrawn within six months of the date of such withdrawal by making transfers from the Revenue Account into the Reserve Fund.

In lieu of all or any portion of the required amount to be on deposit in the Reserve Fund, the Board may deposit with the Trustee to the credit of such fund (i) a surety bond or insurance policy issued by a municipal bond insurer whose claims-paying ability is rated "AAA" by S&P or "Aaa" by Moody's, (ii) a surety bond or insurance policy issued by an entity other than a municipal bond insurer if such entity and the form and substance of such instrument are approved by each insurer of then outstanding Senior Securities, or (iii) an irrevocable letter of credit issued by a bank that is rated at least "AA" by S&P or "Aa" by Moody's.

Improvement Fund. At any time when the total amount held in the Improvement Fund is less than \$1,200,000, the Board shall pay into the Improvement Fund from the Revenue Account, on or before the last business day of each month and after there shall have been made from the Revenue Account all payments required to be made on or before such date into the Debt Service Fund and the Reserve Fund, the sum of \$100,000. If on any such date the moneys available in the Revenue Account are not sufficient to permit a deposit of said sum into the Improvement Fund, such shortfall shall not increase the required amount of any subsequent deposit to the Improvement Fund. Moneys held in the Improvement Fund may be withdrawn from time to time by the Board, but only to pay Improvement Costs, to make deposits to the Debt Service Fund or to purchase or redeem Senior Securities. As of August 1, 2016, approximately \$_____ was held in the Improvement Fund.

Investment of Funds. The Board may at its option from time to time cause any or all of the moneys on deposit in the Debt Service Fund to be invested in Federal Obligations having a specified maturity, or being redeemable at the option of the holder, prior to the date when such moneys will be needed to pay principal of or interest on the Senior Securities. Similarly, the Board may at its option from time to time cause any or all of the moneys on deposit in any of the other special funds established under the Senior Indenture to be invested in any Eligible Investments which have a specified maturity, or which are redeemable at the option of the holder thereof, prior to the date on which it is anticipated by the Board that such moneys will be needed. Any investment acquired with moneys from one of the funds established under the Senior Indenture, together with all income therefrom, shall become a part of the fund from which moneys were used to make such investment, and shall be held by the depository for such fund to the same extent as if it constituted moneys on deposit therein. So long as the amount on deposit in the Reserve Fund is not reduced to an amount less than the then applicable Reserve Fund Requirement, any income derived from the investment of moneys on deposit in the Reserve Fund shall be transferred to the Debt Service Fund.

Additional Senior Securities

Upon the satisfaction of certain conditions, the Board may issue Additional Senior Securities under the Senior Indenture. Such conditions include the adoption by the Board of a resolution approving the issuance of the proposed Additional Senior Securities, the execution and delivery of a supplemental Indenture setting forth the terms of such Additional Senior Securities, the delivery of appropriate approving legal opinions and, except in certain circumstances, the delivery of a Revenue Certificate. No Revenue Certificate is required when the Additional Senior Securities are issued for refunding purposes if the debt service payable in each Fiscal Year with respect to all Senior Securities that will be outstanding after the issuance of such Additional Senior Securities will not be greater than the debt service payable in such Fiscal Year with respect to all Senior Securities outstanding immediately prior to the issuance of such Additional Senior Securities.

Particular Covenants of the Board

The Senior Indenture contains the following covenants of the Board, among others:

Maintenance of Books and Records. The Board will maintain complete and separate books and records pertaining to the System and all receipts and disbursements with respect thereto.

Annual Audits. Within 90 days following the close of each Fiscal Year, the Board will provide the Trustee with financial statements respecting the System prepared by the Board. The Board will also provide the Trustee with audited financial statements prepared by an independent certified public accountant within 180 days after the end of each Fiscal Year.

No Free Service. The Board will not furnish or permit to be furnished from the System any free service of any kind to any county or incorporated municipality or to any other person. All services furnished from the System will be charged for at the rates at the time established therefor.

Maintenance of Rates. The Board will make and maintain such rates and charges for the services supplied from the System and make collections from the users thereof in such manner as shall provide, in each Fiscal Year, Net Revenues Available for Debt Service in an amount that shall not be less than 125% of the aggregate amount payable during such Fiscal Year as debt service on all outstanding Senior Securities (such requirement being referred to herein as the "Rate Covenant").

For purposes of the Rate Covenant, (a) debt service on the Senior Securities shall not include any interest (i.e., accrued interest or capitalized interest) paid with proceeds of Senior Securities, (b) debt service shall be reduced by any amounts received by the Board during the Fiscal Year in question pursuant to Qualified Swaps, and (c) debt service shall be increased by any amounts paid by the Board during such Fiscal Year pursuant to Qualified Swaps. The Board will from time to time make such increases and other changes in such rates and charges as may be necessary to comply with the Rate Covenant.

Priority of Pledge. The pledge of the Pledged Revenues for the benefit of the Series 2016-A Bonds and the Board's other outstanding Senior Securities shall be prior and superior to any pledge thereof hereafter made for the benefit of any securities hereafter issued or any contract hereafter made by the Board, other than any of the Additional Senior Securities or any Secured Related Obligation.

Continued Operation of System. The Board will not sell or lease the whole or any essential part of the System, will continuously operate the System in an economical and efficient manner, and will keep the System in good repair and efficient operating condition. The Board may, however, sell or otherwise dispose of portions of the System which, in its opinion, are no longer necessary for the continued efficient and economical operation of the System. The Board may transfer the System as an entirety to a public corporation or political subdivision (other than the City) if the property and income of such public corporation or political subdivision are not subject to taxation and, upon any such transfer, the due and punctual payment of the principal of and interest on the Senior Securities and the observance of the agreements contained in the Senior Indenture are expressly assumed in writing by the corporation or political subdivision to which the System shall be transferred as an entirety; provided that a condition to any such transfer shall be the delivery to the Trustee of an opinion of nationally recognized bond

counsel to the effect that such transfer will not result in the interest on the Senior Securities becoming subject to federal income taxation.

Employment of Independent Engineer. For so long as Senior Securities are outstanding, the Board will employ an Independent Engineer whose duties shall include making annual examinations of the System and preparing annual reports to the Board, which reports shall include (i) such recommendations concerning the operation, repair and maintenance of the System, including new construction and the making of renewals and replacements as may be deemed necessary or appropriate, (ii) an estimate of the amount of money necessary for such purposes during the next ensuing year, (iii) any recommendations of the Independent Engineer with respect to changes to the rates for the System, and (iv) the opinion of the Independent Engineer with respect to the reasonableness of System rates (including any proposed increases).

Insurance Required

The Board will keep all portions of the System that are of the character and type customarily insured by governmental entities operating utility systems similar to the System insured against loss by fire or other casualty to the extent of the full insurable value thereof. The Board will also carry worker's compensation insurance and public liability insurance in such amounts as are customarily carried with respect to utility systems similar in size and character to the System, provided that the Board may, at its election, be self-insured for such risks to the extent customary at the time for such utility systems.

Damage and Destruction Provisions

If the System is damaged or partially destroyed to such extent that the loss thereto is not greater than \$10,000,000, the Board is required by the Senior Indenture promptly to repair, replace or restore the property damaged or destroyed, applying for such purposes the insurance proceeds referable thereto, as well as providing any other funds required therefor. The Board is required to pay into the Revenue Account established under the Senior Indenture any of such insurance proceeds not needed for such repair, replacement or restoration. The Senior Indenture further provides that if the System is damaged or destroyed to such extent that the loss thereto is greater than \$10,000,000 the insurance proceeds shall be paid to the Trustee and the Trustee will, in accordance with the directions of the Board, cause such insurance proceeds to be applied either for the repair, replacement or restoration of the property damaged or destroyed, or for the retirement of Senior Securities prior to maturity through the redemption thereof, or for any combination of such applications. Any insurance proceeds to be applied for the redemption of Senior Securities prior to maturity shall be deposited in the Debt Service Fund established under the Senior Indenture. The Senior Indenture obligates the Board to pay any costs of repairing, replacing or restoring any property damaged or destroyed that are in excess of the insurance proceeds available therefor, and any insurance proceeds intended to be used for the payment of the costs of such repair, replacement or restoration but not needed therefor shall be deposited in the Revenue Account.

Events of Default and Remedies

Events of Default. The following constitute events of default under the Senior Indenture:

- (a) failure by the Board to pay the principal of or the interest or premium (if any) on any of the Senior Securities when such principal, interest and premium respectively become due and payable, whether at maturity or otherwise;
- (b) failure by the Board to satisfy the Rate Covenant, provided that any such failure shall not constitute an Event of Default if the Board employs a utility system consultant to review the System and its existing rates and fees and makes a good faith effort to comply with the recommendations of such consultant;
- (c) failure by the Board to perform or observe any agreement, covenant or condition required by the Senior Indenture to be performed or observed by it [other than the Rate Covenant or its agreement to pay the principal of and the interest and premium (if any) on the Senior Securities] after thirty (30) days written notice to it of such failure given by the Trustee or by the

holders of not less than twenty-five percent (25%) in aggregate principal amount of any series of the Senior Securities then outstanding under the Senior Indenture, unless during such period or any extension thereof the Board has commenced and is diligently pursuing appropriate corrective action;

(d) any material warranty, representation or other statement by or on behalf of the Board contained in the Senior Indenture, or in any document furnished by the Board in connection with the issuance and sale of any of the Senior Securities, being false or misleading in any material respect at the time made; or

(e) an order, judgment or decree shall be entered by any court of competent jurisdiction (i) appointing a receiver, trustee or liquidator for the System, (ii) approving a petition filed against the Board under the federal or any state bankruptcy laws, (iii) granting relief to the Board under federal or state bankruptcy laws or relief substantially similar to that afforded under the said laws or (iv) assuming the custody or control of the System (or any part thereof) under the provisions of any other law for the relief or aid of debtors, and such order, judgment or decree shall not be vacated or set aside or stayed within ninety days from the date of the entry thereof, or the Board shall file a petition in bankruptcy or make an assignment for the benefit of its creditors or consent to the appointment of a receiver of the whole or any substantial part of its properties or shall file a petition or answer seeking relief under the federal or any state bankruptcy laws.

Remedies on Default. Upon the occurrence of an event of default under the Senior Indenture, the Trustee shall have the following rights and remedies:

(a) Acceleration. The Trustee may declare the principal of and the interest accrued on all the Senior Securities to be immediately due and payable, and thereupon they shall so be, anything in the Senior Indenture or in the Senior Securities to the contrary notwithstanding. If, however, the Board shall thereafter make good that default and every other default under the Senior Indenture (except for those installments of principal and interest so declared due and payable that would, absent such declaration, not be due and payable), with interest on all overdue payments of principal and interest, and make reimbursement of all the reasonable expenses of the Trustee, then such event of default shall be deemed waived and such declaration and its consequences rescinded and annulled, but no such waiver, rescission and annulment shall affect any subsequent default or right relative thereto.

(b) Suits at Law or in Equity. The Trustee may, by civil action, mandamus or other proceedings, protect, enforce and compel performance of all duties of the officials of the Board, including the fixing of sufficient rates, the collection of revenues, the proper segregation of the revenues of the System and the proper application thereof.

(c) Receivership. The Trustee shall be entitled upon or at any time after the commencement of any proceedings instituted with respect to an event of default, as a matter of strict right, upon the order of any court of competent jurisdiction, to the appointment of a receiver to administer and operate the System, with power to fix and charge rates and collect revenues sufficient to provide for the payment of the Senior Securities and any other obligations outstanding against the System or the revenues thereof and for the payment of expenses of operating and maintaining the System and with power to apply the income and revenues of the System in conformity with the Senior Indenture.

Application of Moneys Collected. All moneys collected by the Trustee pursuant to any of the aforesaid remedies, together with all other moneys derived from the System and held by the Board or the Trustee, shall, after payment of all charges and expenses of the Trustee under the Senior Indenture, be applied to the payment of the following items in the following order:

(a) Unless the principal of all the Senior Securities shall have become or shall have been declared due and payable, such moneys shall be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Senior Securities, with interest on overdue installments of interest, and, if the amount available shall not be sufficient to pay in full all such installments plus said interest thereon, then to the proportionate payment of all such installments and the interest thereon, according to the amounts thereof, without preference or priority of any installment of interest over any other installment or any discrimination or privilege among the persons entitled thereto;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Senior Securities which shall have become due (other than Senior Securities matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Senior Indenture), with interest on overdue installments of principal and premium, if any, and, if the amount available shall not be sufficient to pay in full all such principal and premium, if any, together with such interest, then to the proportionate payment of such principal, premium, if any, and interest, according to the amounts thereof, without preference or priority of any installment of principal over any other installment or any discrimination or privilege among the persons entitled thereto;

THIRD: the surplus, if any, to the Revenue Account.

(b) If the principal of all the Senior Securities shall have become or been declared due and payable, all such moneys shall be applied as follows:

FIRST: to the payment of the principal and interest then due and payable upon the Senior Securities (with interest on overdue principal and interest), without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Parity Security over any other Parity Security, in proportion to the amounts for both principal and interest due respectively to the persons entitled thereto, without any discrimination or privilege among such persons; and

SECOND: the surplus, if any, to the Board or to whomsoever may be entitled thereto.

Remedies Vested in Trustee for Benefit of Parity Securityholders. All remedies under the Senior Indenture are vested exclusively in the Trustee for the equal and pro rata benefit of all holders of the Senior Securities, unless the Trustee fails to act within thirty days after written request so to act addressed to the Trustee by the holders of not less than 25% in principal amount of the Senior Securities then outstanding, accompanied by indemnity satisfactory to the Trustee and no direction inconsistent with such request has been given to the Trustee by the holders of a majority in principal amount of the Senior Securities then outstanding, in which event the holder of any of the Senior Securities may thereupon so act in the name and behalf of the Trustee or may so act in his own name and behalf in lieu of action by or in the name and behalf of the Trustee. Except as provided in the preceding sentence, no holder of any of the Senior Securities shall have the right to enforce any remedy under the Senior Indenture. Any action taken by any Parity Securityholder to enforce any provision of the Senior Indenture shall be for the equal and pro rata benefit of the holders of all the Senior Securities.

Concerning the Trustee

Limitation of Liability. The Trustee shall not be liable under the Senior Indenture except for its noncompliance with the provisions thereof, its willful misconduct or its gross negligence.

Institution of Suit. The Trustee may, in its own name and at any time, institute or intervene in any suit for the enforcement of all rights under the Senior Indenture without the necessity of joining as parties to such suit or proceedings any holders of the Senior Securities. The holders of the Senior Securities, by their acceptance of the provisions of the Senior Indenture, will appoint the Trustee as their irrevocable agent and attorney in fact for the purpose of enforcing all such rights of action, but such appointment will not include the power to agree to accept new securities of any nature in lieu of the Senior Securities or to alter or amend the terms of the Senior Indenture except as therein provided.

Resignation and Discharge. The Trustee may resign at any time by giving written notice to the Board. The Trustee may at any time be removed by a written instrument signed by the holders of a majority in principal amount of the Senior Securities or, if no Event of Default exists, by the Board. No resignation or removal of the Trustee shall become effective until the acceptance of appointment by a successor Trustee.

Appointment of Successor Trustee. If the Trustee resigns, is removed or is otherwise incapable of acting, a successor may be appointed by the holders of a majority in principal amount of the Senior Securities and, in the interim, by the Board.

Modification of the Senior Indenture

Without the consent of the holders of any Senior Securities, the Board and the Trustee may amend the Senior Indenture for any of the following purposes: (a) to add to the covenants and agreements of the Board; (b) to provide for the surrender by the Board of any right or power conferred upon the Board in the Senior Indenture; (c) to cure any ambiguity or defect or for any other purpose if the Board and the Trustee consider such provisions to be necessary or desirable and such provisions are not inconsistent with the provisions of the Senior Indenture and do not adversely affect the interests of the holders of the Senior Securities; (d) to subject to the lien and pledge of the Senior Indenture additional revenues, properties and collateral; (e) to authorize the issuance of Additional Senior Securities; (f) to grant to or confer upon the Trustee any additional rights, remedies, powers, liabilities or duties which are not inconsistent with the Senior Indenture as theretofore in effect; and (g) to amend the Senior Indenture in any other respect which is not materially adverse to the Parity Securityholders and which does not involve a change described in the succeeding paragraph.

With the written consent of the holders of not less than a majority in principal amount of the outstanding Senior Securities, the Board and the Trustee may amend the Senior Indenture for the purposes of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained therein; provided, however, that no such amendment shall, without the consent of the holder of each outstanding Parity Security adversely affected thereby,

- (1) change the security for, the stated maturity or mandatory redemption date of the principal of, or any installment of interest on, any Parity Security, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, change the coin or currency in which any Parity Security or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or
- (2) reduce the percentage in principal amount of the outstanding Senior Securities, the consent of whose holders is required for any such amendment, or
- (3) eliminate or modify any provision of the Senior Indenture, the elimination or modification of which by its terms requires the consent of the holder of each Parity Security affected thereby, or
- (4) create a lien or charge on the revenues from the System ranking prior to or on a parity of lien with the lien and pledge thereon contained in the Senior Indenture (other than for Additional Senior Securities), or
- (5) establish any preference or priority as between the Senior Securities.

Satisfaction of the Senior Indenture

Whenever the entire indebtedness secured by the Senior Indenture, including all proper charges of the Trustee thereunder, shall have been fully paid, the Trustee shall cancel, satisfy and discharge the lien of the Senior Indenture. For purposes of the Senior Indenture (including, without limitation, the provisions pertaining to the issuance of Additional Senior Securities), any of the Senior Securities shall be deemed to have been paid when there shall have been irrevocably deposited with the Trustee by the Board (or by another party with the Board's express

written approval) for payment thereof the entire amount (principal and interest) due or to be due thereon until and at maturity, and, further, any Parity Security subject to redemption shall also be deemed to have been paid when the Board (or another party acting with the Board's express written approval) shall have deposited with the Trustee the applicable redemption price of such Parity Security (including any applicable redemption premium), together with evidence that such Parity Security has been called for redemption in accordance with the Senior Indenture.

In addition, any Senior Securities shall for all purposes of the Senior Indenture be deemed fully paid if the Board and the Trustee enter into a trust agreement making provision for the retirement of such Senior Securities by creating for that purpose an irrevocable trust fund sufficient to provide for payment and retirement of such Senior Securities (including payment of the interest that will mature thereon until and on the dates they are retired, as such interest becomes due and payable), either by redemption prior to their respective maturities, by payment at their respective maturities or by payment of part thereof at their respective maturities and redemption of the remainder prior to their respective maturities, which said trust fund shall consist of (a) Permitted Defeasance Obligations which are not subject to redemption prior to their respective maturities at the option of the issuer and which, if the principal thereof and the interest thereon are paid at their respective maturities, will produce funds sufficient to provide for the payment and retirement of such Senior Securities, or (b) both cash and Permitted Defeasance Obligations which together will produce funds sufficient for such purpose, or (c) cash sufficient for such purpose. In no event shall a trust fund established without the express written approval of the Board result in a determination that the Senior Securities payable from such fund have been fully paid for purposes of the Senior Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE

The following constitutes a summary of certain portions of the Subordinate Indenture pursuant to which the outstanding Subordinate Securities have been issued and the Series 2016-A Bonds and any Additional Subordinate Securities will be issued. This summary should be qualified by reference to other provisions of the Subordinate Indenture referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Indenture in this Official Statement are qualified by reference to the exact terms of the Subordinate Indenture, a copy of which may be obtained from the Trustee.

Definitions

Capitalized terms used without being defined herein shall have the meanings assigned to such terms elsewhere in this Official Statement.

"Additional Subordinate Securities" shall have the same meaning, for purposes of this Summary, as "Additional Parity Securities" under the Subordinate Indenture, and will be secured by the Pledged Revenues on parity with the pledge thereof in favor of outstanding Subordinate Securities, the Series 2016-B Bonds and the Series 2016-C Bonds but subordinate to the Senior Securities.

"Federal Obligations" means (i) any direct general obligations of the United States of America, (ii) obligations the payment of the principal of and the interest on which is unconditionally and irrevocably guaranteed by, or entitled to the full faith and credit of, the United States of America, (iii) custodial receipts evidencing the right to receive payments of principal and interest with respect to obligations described in either of the preceding clauses, and (iv) any share or other investment unit representing a beneficial interest in an investment company or investment trust which is registered under the Investment Company Act of 1940, as from time to time amended (or successor provision of federal law), provided that the investment portfolio of such investment company or investment trust consists exclusively of obligations or securities that are described in clause (i) or (ii) of this definition.

"Fiscal Year" means any twelve-month period ending on December 31 (or any other twelve-month period established by the Board as the fiscal year for the System).

"Independent Engineer" means an engineer or engineering firm licensed to engage in the independent practice of engineering under the laws of the State of Alabama (i) that has no continuing employment or business relationship or other connection with the City which, in the opinion of the Trustee, might compromise or interfere with the independent judgment of such engineer or engineering firm in the performance of any services to be performed as an Independent Engineer, and (ii) that has a favorable nationwide reputation for skill and experience in

the engineering, management, construction and operation of water systems, sewer systems and other environmental systems.

"Maximum Annual Debt Service" means the maximum amount payable in a Fiscal Year as principal of and interest on the Senior Securities, the Subordinate Securities then outstanding and any Additional Subordinate Securities proposed to be issued, subject to the following assumptions and adjustments:

(1) the principal amount of any such securities required by the terms thereof to be redeemed or prepaid during any Fiscal Year shall, for purposes of this definition, be considered as maturing in the Fiscal Year during which such redemption or prepayment is required and not in the Fiscal Year in which their stated maturity or due date occurs;

(2) for purposes of determining the amounts of principal and interest due in any Fiscal Year on any Senior Securities or Subordinate Securities that constitute Tender Indebtedness, the options or obligations of the owners of such Senior Securities or Subordinate Securities to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which owners of such Senior Securities or Subordinate Securities may or are required to tender such Senior Securities or Subordinate Securities for purchase or payment, except that any such option or obligation to tender Senior Securities or Subordinate Securities shall be ignored and not treated as a principal maturity, and such Senior Securities or Subordinate Securities shall be deemed to mature in accordance with their stated maturity schedule, if (i) such Senior Securities or Subordinate Securities are rated in one of the two highest long-term rating categories (without reference to gradations such as "plus" or "minus") by at least two Rating Agencies or such Senior Securities or Subordinate Securities are rated in the highest short-term, note or commercial paper rating categories (without reference to gradations such as "plus" or "minus") by at least two Rating Agencies, and (ii) the obligation, if any, the Board may have to the issuer of a letter of credit that secures such Senior Securities or Subordinate Securities shall either be subordinated to the obligation of the Board on the Senior Securities or Subordinate Securities or be incurred under the conditions and satisfy the tests for the issuance of Additional Subordinate Securities set forth in the Subordinate Indenture;

(3) the interest rate on any outstanding or proposed Variable Rate Securities subsequent to the date of calculation shall be assumed to be the lowest of (A) the maximum rate of interest that may be applicable to such Senior Securities or Subordinate Securities, under the provisions thereof, (B) for so long as any hedging agreement that establishes a cap rate for such Senior Securities or Subordinate Securities is in effect, such cap rate, and (C) the highest of (i) the actual interest rate on the date of calculation, or if the Variable Rate Securities in question are not yet outstanding, the initial rate (if established and binding), (ii) if the Variable Rate Securities in question have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Variable Rate Securities in question is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest on such Variable Rate Securities is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities plus fifty (50) basis points;

(4) the debt service payable with respect to any Senior Securities or Subordinate Securities for which the Board has entered into a Qualified Swap pursuant to which the Board has agreed to make payments calculated by reference to a fixed rate of interest shall be calculated as if the Senior Securities or Subordinate Securities bore interest at such fixed rate during the term of such Qualified Swap;

(5) the debt service payable with respect to any Senior Securities or Subordinate Securities for which the Board has entered into a Qualified Swap pursuant to which the Board has agreed to make payments calculated by reference to variable interest rates shall be calculated as if

the Senior Securities or Subordinate Securities in question bore interest, during the term of such Qualified Swap, at a rate equal to the lowest of (A) for so long as any hedging agreement that establishes a cap rate with respect to such Qualified Swap remains in effect, such cap rate, or (B) the highest of (i) the actual rate of such Qualified Swap on the date of calculation, or if such Qualified Swap is not yet in effect, the initial rate (if established and binding), (ii) if the Qualified Swap has been in effect for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Senior Securities or Subordinate Securities to which such Qualified Swap is referable is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest on such Senior Securities or Subordinate Securities is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities plus fifty (50) basis points; and

(6) there shall be excluded any principal of or interest on any Senior Securities or Subordinate Securities to the extent there are available and held in escrow or under a trust agreement (i) moneys sufficient to pay such principal or interest, (ii) Permitted Defeasance Obligations which, if the principal thereof and the interest thereon are paid according to their tenor, will produce moneys sufficient to pay such principal of interest, or (iii) both moneys and such Permitted Defeasance Obligations which together will produce funds sufficient to pay such principal or interest.

In any case where, for purposes of determining Maximum Annual Debt Service, a portion of the principal of any Senior Securities or Subordinate Securities is to be excluded, there shall also be excluded interest on the principal so excluded.

"**Moody's**" means Moody's Investors Service and any successor thereto.

"**Net Revenues Available for Debt Service**" means, for any period, the difference between (A) the sum of (i) the total amount of System Revenues (other than insurance proceeds, interest earned on monies held in any construction fund, impact fees and monies received from the sale or other disposition of components of the System) accrued during such period, and (ii) the amount of interest earned during such period on moneys held in the Indenture Funds (to the extent that such interest is not taken into account pursuant to the preceding clause (i)) and (B) the total amount of Operating Expenses incurred during such period (determined in accordance with generally accepted accounting principles).

"**Operating Expenses**" means, for the applicable period or periods, (a) the reasonable and necessary expenses of efficiently and economically administering and operating the System, including, without limitation, the costs of all items of labor, materials, supplies, equipment (other than equipment chargeable to fixed capital account), premiums on insurance policies and fidelity bonds maintained with respect to the System (including casualty, liability and any other types of insurance), taxes and license fees, fees for engineers, attorneys and accountants (except where such fees are chargeable to fixed capital account) and all other items, except depreciation, amortization, interest and payments made pursuant to Qualified Swaps, that by generally accepted accounting principles are properly chargeable to expenses of administration and operation and are not characterized as extraordinary items, (b) the expenses of maintaining the System in good repair and in good operating condition, but not including items that by generally accepted accounting principles are properly chargeable to fixed capital account, and (c) the fees and charges of the Trustee.

"**Permitted Defeasance Obligations**" means any combination of (i) Federal Obligations and (ii) obligations issued by any state of the United States of America or political subdivision or instrumentality thereof that bear interest exempt from federal income taxation, that are fully payable, as to principal, premium (if any) and interest, from payments of principal of or interest on any Federal Obligations held in an irrevocable trust, and that are rated not less favorably than AAA by S&P or Aaa by Moody's.

"**Pledged Revenues**" means the System Revenues that remain after the payment of Operating Expenses.

"Qualified Swap" means, with respect to a series of Subordinate Securities or any portion thereof, any financial arrangement (i) that is entered into by the Board with an entity that is a Qualified Swap Provider at the time of the execution and delivery of the documents governing such arrangement; (ii) that provides (a) that the Board shall pay to such entity an amount based on the interest accruing at a fixed rate on a notional amount equal to all or a portion of the principal amount of the outstanding Subordinate Securities of such series, and that such entity shall pay to the Board an amount based on the interest accruing on the same notional amount, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Subordinate Securities), or that one shall pay to the other any net amount due under such arrangement, or (b) that the Board shall pay to such entity an amount based on the interest accruing on a notional amount equal to all or a portion of the principal amount of the outstanding Subordinate Securities of such series at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the Board an amount based on interest accruing on the same notional amount at an agreed fixed rate, or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Trustee by the Board as a Qualified Swap with respect to any of the Subordinate Securities.

"Qualified Swap Provider" means an entity whose senior long term debt obligations, other senior unsecured long-term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long-term debt obligations, other senior unsecured long-term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least AA- by S&P and at least Aa3 by Moody's.

"Rating Agency" means Moody's, S&P or any other nationally recognized securities rating agency.

"Reserve Fund Requirement" means, as of the date of any determination thereof, the lesser of (a) 125% of the average annual debt service on all Subordinate Securities at the time outstanding and secured by the Reserve Fund, (b) the maximum annual debt service on all Subordinate Securities at the time outstanding and secured by the Reserve Fund, or (c) an amount equal to the aggregate of 10% of the original principal amount (or, in the case of any series of Subordinate Securities sold with original issue discount in an amount greater than 2% of its original principal amount, the issue price) of each series of Subordinate Securities at the time outstanding and secured by the Reserve Fund. Any calculation of average annual debt service or maximum annual debt service for the purpose of determining the applicable Reserve Fund Requirement shall be made in accordance with the requirements and limitations imposed by the provisions of the Internal Revenue Code and the regulations promulgated thereunder that pertain to reasonably required reserve or replacement funds.

"Revenue Certificate" means a certificate signed by an independent accountant or the Board's primary financial officer that states that the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Subordinate Securities was not less than 110% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Subordinate Securities and the Additional Subordinate Securities with respect to which such certificate is made. If rates and charges for services furnished by the System were increased and put into effect by the Board after the beginning of the Fiscal Year or other twelve-month period to which a Revenue Certificate refers and not thereafter reduced, an independent engineer may certify the amount of gross revenues from the System that would have been received by the Board had such increased rates and charges been in effect during the entire Fiscal Year or other twelve-month period, and the independent accountant or the Board's primary financial officer, as the case may be, preparing and signing the Revenue Certificate may compute Net Revenues Available for Debt Service during such Fiscal Year or other twelve-month period based on the amount of revenues that would have been derived from the System during such period with such increased rates and charges, as so certified by such Independent Engineer

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto.

"Secured Related Obligations" means any contractual obligations of the Board incurred with respect to any credit facility or any Qualified Swap and secured by a pledge of the Pledged Revenues on parity with the pledge thereof made in the Subordinate Indenture.

"Senior Indenture" means that certain Trust Indenture dated as of October 1, 1998 between the Board and the Trustee, as the same shall be amended and supplemented from time to time.

"Senior Securities" means Subordinate Securities issued pursuant to the Senior Indenture.

"Subordinate Indenture" means that certain Trust Indenture dated as of March 1, 2007 between the Board and the Trustee, as the same shall be amended and supplemented from time to time.

"Subordinate Securities" shall have the same meaning, for purposes of this Summary, as "Parity Securities" under the Subordinate Indenture, and will be secured by the Pledged Revenues on parity with the pledge thereof in favor of other outstanding Subordinate Securities, the Series 2016-B Bonds and the Series 2016-C Bonds but subordinate to the Senior Securities.

"System Revenues" means all revenues, receipts, income and other moneys hereafter received by or on behalf of the Board from whatever source derived from the operation of the System, including, without limitation, the fees, deposits and charges paid by users of the System and interest earnings on the special funds established pursuant to the Subordinate Indenture and any other funds held by the Board or its agents that are attributable to or traceable from moneys derived from the operation of the System, but excluding, however, any tax revenues or any federal or state grants to the Board in respect of the System and any income derived from such grants.

"Tender Indebtedness" means any Subordinate Securities that are payable, at the option of the holder thereof, prior to their stated maturity or due date, or that the Board (or an agent thereof) is required, at the option of such holder, to purchase prior to their stated maturity or due date.

Creation of Funds and Accounts; Flow of Funds

General. The Subordinate Indenture provides for the creation and maintenance of a number of special funds, namely the Revenue Account, the Debt Service Fund, the Reserve Fund and the Improvement Fund. The Board's chief financial officer has the right to designate from time to time the depository or depositories for the Revenue Account. The Trustee is the depository, custodian and disbursing agent for all of the other special funds created in the Subordinate Indenture.

Revenue Account. The Board is required to deposit in the Revenue Account, as received by it, all of the System Revenues. Moneys in the Revenue Account are applied first for the payment of Operating Expenses. From the moneys that remain after payment of Operating Expenses, the Board is required to make periodic transfers to the Debt Service Fund, the Reserve Fund and the Improvement Fund in accordance with the provisions of the Subordinate Indenture and as hereinafter summarized. Any moneys that remain in the Revenue Account on the last business day of any month after all required transfers therefrom have been made shall be deemed "surplus revenues" and may be withdrawn from the Revenue Account and used by the Board for any lawful purpose related to the Board's ownership and operation of the System.

Debt Service Fund. A separate Debt Service Fund has been established for the Series 2016-B Bonds and the Series 2016-C Bonds. On or before the last business day of each month, the Board will be required to transfer from the Revenue Account to each of said Debt Service Funds an amount equal to the sum of (i) one-sixth (1/6) of the semiannual installment of interest that will become due with respect to the Series 2016-B Bonds and Series 2016-C Bonds, respectively, on the then next succeeding interest payment date, plus (ii) one-twelfth (1/12) of the principal, if any, of the Series 2016-B Bonds and Series 2016-C Bonds that will mature or be required to be redeemed on the then next succeeding January 1; provided that there shall be credited against such deposits any original Bond proceeds that represent accrued interest on the Series 2016-B Bonds or Series 2016-C Bonds. Such deposits shall be in addition to the deposits required to pay the principal of and interest on the other outstanding Subordinate Securities. The Board will also be required to transfer into each of the Debt Service Funds certain payments in the event of the issuance of any Additional Subordinate Securities or the incurrence of any Secured Related Obligations. Until such Subordinate Securities have been paid in full, moneys on deposit in such Debt Service Fund are to be used only for the payment of the principal of and the interest and premium (if any) on such Subordinate Securities or for the payment of Secured Related Obligations.

Reserve Fund. The Series 2016-B Bonds and Series 2016-C Bonds will not be secured by the Reserve Fund established pursuant to the Subordinate Indenture. If the Board issues Additional Subordinate Securities and elects to secure the same by the Reserve Fund, then moneys in an aggregate amount equal to the increase in the Reserve Fund Requirement resulting from the issuance of such Additional Subordinate Securities must be added to the Reserve Fund. The moneys to be so added to the Reserve Fund may be proceeds of such Additional Subordinate Securities or System Revenues. Any such addition of moneys to the Reserve Fund may be effected through (i) a single deposit to the Reserve Fund made at the time of the issuance of such Additional Subordinate Securities, (ii) a series of ten equal semiannual deposits to the Reserve Fund, or (iii) any other series of deposits that will result in a faster accumulation of moneys. If at any time a surety's rating is downgraded, the Subordinate Indenture requires a replenishment of the Reserve Fund as further described in Section 11.9 thereof.

Moneys forming a part of the Reserve Fund are held as a reserve for the payment of the principal of and the interest on the Subordinate Securities secured thereby, but shall be used for such purpose only when moneys are not otherwise available in the Debt Service Fund. In the event that moneys are withdrawn from the Reserve Fund to provide for the payment of the principal of or the interest on any of the Subordinate Securities, the Board will restore the moneys so withdrawn within six months of the date of such withdrawal by making transfers from the Revenue Account into the Reserve Fund.

In lieu of all or any portion of the required amount to be on deposit in the Reserve Fund, the Board may deposit with the Trustee to the credit of such fund (i) a surety bond or insurance policy issued by a municipal bond insurer whose claims-paying ability is rated "AAA" by S&P or "Aaa" by Moody's, (ii) a surety bond or insurance policy issued by an entity other than a municipal bond insurer if such entity and the form and substance of such instrument are approved by each insurer of then outstanding Subordinate Securities, or (iii) an irrevocable letter of credit issued by a bank that is rated at least "AA" by S&P or "Aa" by Moody's.

Rate Stabilization Fund. A Rate Stabilization Fund has been established under the Subordinate Indenture, which is intended to allow the Board to smooth the flow of System Revenues on a year-to year basis in order to minimize the size of rate increases each year. Monies in the Rate Stabilization Fund are not pledged as security for the Subordinate Securities (including the Series 2016-B Bonds and Series 2016-C Bonds) and the Board may, at any time in its sole discretion, deposit System Revenues into the Rate Stabilization Fund or withdraw System Revenues from the Rate Stabilization Fund for use for any lawful purpose. For purposes of determining compliance with the Rate Covenant in the Subordinate Indenture, deposits to the Rate Stabilization Fund shall decrease Net Revenues Available for Debt Service by an equivalent amount for the Fiscal Year in which such deposits are made and withdrawals from the Rate Stabilization Fund shall increase Net Revenues Available for Debt Service by an equivalent amount in the Fiscal Year in which they are made, provided that (i) only amounts withdrawn from the Rate Stabilization Fund that are deposited in the Revenue Account shall be counted as an increase in Net Revenues Available for Debt Service, (ii) amounts deposited or withdrawn within 90 days after the end of a Fiscal Year may apply to such Fiscal Year, at the option of the Board and (iii) the aggregate net withdrawals from the Rate Stabilization Fund in any Fiscal Year may not exceed 10% of the Net Revenues Available for Debt Service for such Fiscal Year.

Investment of Funds. The Board may at its option from time to time cause any or all of the moneys on deposit in the Debt Service Fund to be invested in Federal Obligations having a specified maturity, or being redeemable at the option of the holder, prior to the date when such moneys will be needed to pay principal of or interest on the Subordinate Securities. Similarly, the Board may at its option from time to time cause any or all of the moneys on deposit in any of the other special funds established under the Subordinate Indenture to be invested in any Eligible Investments which have a specified maturity, or which are redeemable at the option of the holder thereof, prior to the date on which it is anticipated by the Board that such moneys will be needed. Any investment acquired with moneys from one of the funds established under the Subordinate Indenture, together with all income therefrom, shall become a part of the fund from which moneys were used to make such investment, and shall be held by the depository for such fund to the same extent as if it constituted moneys on deposit therein. So long as the amount on deposit in the Reserve Fund is not reduced to an amount less than the then applicable Reserve Fund Requirement, any income derived from the investment of moneys on deposit in the Reserve Fund shall be transferred to the Debt Service Fund.

Additional Subordinate Securities

Upon the satisfaction of certain conditions, the Board may issue Additional Subordinate Securities under the Subordinate Indenture. Such conditions include the adoption by the Board of a resolution approving the issuance of the proposed Additional Subordinate Securities, the execution and delivery of a supplemental Indenture setting forth the terms of such Additional Subordinate Securities, the delivery of appropriate approving legal opinions and, except in certain circumstances, the delivery of a Revenue Certificate. No Revenue Certificate is required when the Additional Subordinate Securities are issued for refunding purposes if the debt service payable in each Fiscal Year with respect to all Subordinate Securities that will be outstanding after the issuance of such Additional Subordinate Securities will not be greater than the debt service payable in such Fiscal Year with respect to all Subordinate Securities outstanding immediately prior to the issuance of such Additional Subordinate Securities.

Particular Covenants of the Board

The Subordinate Indenture contains the following covenants of the Board, among others:

Maintenance of Books and Records. The Board will maintain complete and separate books and records pertaining to the System and all receipts and disbursements with respect thereto.

Annual Audits. Within 90 days following the close of each Fiscal Year, the Board will provide the Trustee with financial statements respecting the System prepared by the Board. The Board will also provide the Trustee with audited financial statements prepared by an independent certified public accountant within 180 days after the end of each Fiscal Year.

No Free Service. The Board will not furnish or permit to be furnished from the System any free service of any kind to any county or incorporated municipality or to any other person. All services furnished from the System will be charged for at the rates at the time established therefor.

Maintenance of Rates. The Board will make and maintain such rates and charges for the services supplied from the System and make collections from the users thereof in such manner as shall provide, in each Fiscal Year, Net Revenues Available for Debt Service in an amount that shall not be less than 100% of the aggregate amount payable during such Fiscal Year as debt service on the Senior Securities and all outstanding Subordinate Securities (such requirement being referred to herein as the "Rate Covenant").

For purposes of the Rate Covenant, (a) debt service on Senior Securities or the Subordinate Securities shall not include any interest (i.e., accrued interest or capitalized interest) paid with proceeds of Senior Securities or Subordinate Securities, (b) debt service shall be reduced by any amounts received by the Board during the Fiscal Year in question pursuant to Qualified Swaps, and (c) debt service shall be increased by any amounts paid by the Board during such Fiscal Year pursuant to Qualified Swaps. The Board will from time to time make such increases and other changes in such rates and charges as may be necessary to comply with the Rate Covenant.

Priority of Pledge. The pledge of the Pledged Revenues for the benefit of the Series 2016-B Bonds and the Series 2016-C Bonds and the Board's other outstanding Subordinate Securities shall be prior and superior to any pledge thereof hereafter made for the benefit of any securities hereafter issued or any contract hereafter made by the Board, other than the Senior Securities, any of the Additional Subordinate Securities or any Secured Related Obligation.

Continued Operation of System. The Board will not sell or lease the whole or any essential part of the System, will continuously operate the System in an economical and efficient manner, and will keep the System in good repair and efficient operating condition. The Board may, however, sell or otherwise dispose of portions of the System which, in its opinion, are no longer necessary for the continued efficient and economical operation of the System. The Board may transfer the System as an entirety to a public corporation or political subdivision (other than the City) if the property and income of such public corporation or political subdivision are not subject to taxation and, upon any such transfer, the due and punctual payment of the principal of and interest on the Subordinate Securities and the observance of the agreements contained in the Subordinate Indenture are expressly assumed in writing by the corporation or political subdivision to which the System shall be transferred as an

entirety; provided that a condition to any such transfer shall be the delivery to the Trustee of an opinion of nationally recognized bond counsel to the effect that such transfer will not result in the interest on the Subordinate Securities becoming subject to federal income taxation.

Employment of Independent Engineer. For so long as Subordinate Securities are outstanding, the Board will employ an Independent Engineer whose duties shall include making annual examinations of the System and preparing annual reports to the Board, which reports shall include (i) such recommendations concerning the operation, repair and maintenance of the System, including new construction and the making of renewals and replacements as may be deemed necessary or appropriate, (ii) an estimate of the amount of money necessary for such purposes during the next ensuing year, (iii) any recommendations of the Independent Engineer with respect to changes to the rates for the System, and (iv) the opinion of the Independent Engineer with respect to the reasonableness of System rates (including any proposed increases).

Insurance Required

The Board will keep all portions of the System that are of the character and type customarily insured by governmental entities operating utility systems similar to the System insured against loss by fire or other casualty to the extent of the full insurable value thereof. The Board will also carry worker's compensation insurance and public liability insurance in such amounts as are customarily carried with respect to utility systems similar in size and character to the System, provided that the Board may, at its election, be self-insured for such risks to the extent customary at the time for such utility systems.

Damage and Destruction Provisions

If the System is damaged or partially destroyed to such extent that the loss thereto is not greater than \$10,000,000, the Board is required by the Subordinate Indenture promptly to repair, replace or restore the property damaged or destroyed, applying for such purposes the insurance proceeds referable thereto, as well as providing any other funds required therefor. The Board is required to pay into the Revenue Account established under the Subordinate Indenture any of such insurance proceeds not needed for such repair, replacement or restoration. The Subordinate Indenture further provides that if the System is damaged or destroyed to such extent that the loss thereto is greater than \$10,000,000 the insurance proceeds shall be paid to the Trustee and the Trustee will, in accordance with the directions of the Board, cause such insurance proceeds to be applied either for the repair, replacement or restoration of the property damaged or destroyed, or for the retirement of Subordinate Securities prior to maturity through the redemption thereof, or for any combination of such applications. Any insurance proceeds to be applied for the redemption of Subordinate Securities prior to maturity shall be deposited in the Debt Service Fund established under the Subordinate Indenture. The Subordinate Indenture obligates the Board to pay any costs of repairing, replacing or restoring any property damaged or destroyed that are in excess of the insurance proceeds available therefor, and any insurance proceeds intended to be used for the payment of the costs of such repair, replacement or restoration but not needed therefor shall be deposited in the Revenue Account.

Events of Default and Remedies

Events of Default. The following constitute events of default under the Subordinate Indenture:

- (a) failure by the Board to pay the principal of or the interest or premium (if any) on any of the Subordinate Securities when such principal, interest and premium respectively become due and payable, whether at maturity or otherwise;
- (b) failure by the Board to satisfy the Rate Covenant, provided that any such failure shall not constitute an Event of Default if the Board employs a utility system consultant to review the System and its existing rates and fees and makes a good faith effort to comply with the recommendations of such consultant;
- (c) failure by the Board to perform or observe any agreement, covenant or condition required by the Subordinate Indenture to be performed or observed by it [other than the Rate Covenant or its agreement to pay the principal of and the interest and premium (if any) on the

Subordinate Securities] after thirty (30) days written notice to it of such failure given by the Trustee or by the holders of not less than twenty-five percent (25%) in aggregate principal amount of any series of the Subordinate Securities then outstanding under the Subordinate Indenture, unless during such period or any extension thereof the Board has commenced and is diligently pursuing appropriate corrective action;

(d) any material warranty, representation or other statement by or on behalf of the Board contained in the Subordinate Indenture, or in any document furnished by the Board in connection with the issuance and sale of any of the Subordinate Securities, being false or misleading in any material respect at the time made; or

(e) an order, judgment or decree shall be entered by any court of competent jurisdiction (i) appointing a receiver, trustee or liquidator for the System, (ii) approving a petition filed against the Board under the federal or any state bankruptcy laws, (iii) granting relief to the Board under federal or state bankruptcy laws or relief substantially similar to that afforded under the said laws or (iv) assuming the custody or control of the System (or any part thereof) under the provisions of any other law for the relief or aid of debtors, and such order, judgment or decree shall not be vacated or set aside or stayed within ninety days from the date of the entry thereof, or the Board shall file a petition in bankruptcy or make an assignment for the benefit of its creditors or consent to the appointment of a receiver of the whole or any substantial part of its properties or shall file a petition or answer seeking relief under the federal or any state bankruptcy laws.

Remedies on Default. Upon the occurrence of an event of default under the Subordinate Indenture, the Trustee shall have the following rights and remedies:

(a) Acceleration. The Trustee may declare the principal of and the interest accrued on all the Subordinate Securities to be immediately due and payable, and thereupon they shall so be, anything in the Subordinate Indenture or in the Subordinate Securities to the contrary notwithstanding. If, however, the Board shall thereafter make good that default and every other default under the Subordinate Indenture (except for those installments of principal and interest so declared due and payable that would, absent such declaration, not be due and payable), with interest on all overdue payments of principal and interest, and make reimbursement of all the reasonable expenses of the Trustee, then such event of default shall be deemed waived and such declaration and its consequences rescinded and annulled, but no such waiver, rescission and annulment shall affect any subsequent default or right relative thereto.

(b) Suits at Law or in Equity. The Trustee may, by civil action, mandamus or other proceedings, protect, enforce and compel performance of all duties of the officials of the Board, including the fixing of sufficient rates, the collection of revenues, the proper segregation of the revenues of the System and the proper application thereof.

(c) Receivership. The Trustee shall be entitled upon or at any time after the commencement of any proceedings instituted with respect to an event of default, as a matter of strict right, upon the order of any court of competent jurisdiction, to the appointment of a receiver to administer and operate the System, with power to fix and charge rates and collect revenues sufficient to provide for the payment of the Subordinate Securities and any other obligations outstanding against the System or the revenues thereof and for the payment of expenses of operating and maintaining the System and with power to apply the income and revenues of the System in conformity with the Subordinate Indenture.

Application of Moneys Collected. All moneys collected by the Trustee pursuant to any of the aforesaid remedies, together with all other moneys derived from the System and held by the Board or the Trustee, shall, after payment of all charges and expenses of the Trustee under the Subordinate Indenture, be applied to the payment of the following items in the following order:

(a) Unless the principal of all the Subordinate Securities shall have become or shall have been declared due and payable, such moneys shall be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Subordinate Securities, with interest on overdue installments of interest, and, if the amount available shall not be sufficient to pay in full all such installments plus said interest thereon, then to the proportionate payment of all such installments and the interest thereon, according to the amounts thereof, without preference or priority of any installment of interest over any other installment or any discrimination or privilege among the persons entitled thereto;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Subordinate Securities which shall have become due (other than Subordinate Securities matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Subordinate Indenture), with interest on overdue installments of principal and premium, if any, and, if the amount available shall not be sufficient to pay in full all such principal and premium, if any, together with such interest, then to the proportionate payment of such principal, premium, if any, and interest, according to the amounts thereof, without preference or priority of any installment of principal over any other installment or any discrimination or privilege among the persons entitled thereto;

THIRD: the surplus, if any, to the Revenue Account.

(b) If the principal of all the Subordinate Securities shall have become or been declared due and payable, all such moneys shall be applied as follows:

FIRST: to the payment of the principal and interest then due and payable upon the Subordinate Securities (with interest on overdue principal and interest), without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Parity Security over any other Parity Security, in proportion to the amounts for both principal and interest due respectively to the persons entitled thereto, without any discrimination or privilege among such persons; and

SECOND: the surplus, if any, to the Board or to whomsoever may be entitled thereto.

Remedies Vested in Trustee for Benefit of Parity Securityholders. All remedies under the Subordinate Indenture are vested exclusively in the Trustee for the equal and pro rata benefit of all holders of the Subordinate Securities, unless the Trustee fails to act within thirty days after written request so to act addressed to the Trustee by the holders of not less than 25% in principal amount of the Subordinate Securities then outstanding, accompanied by indemnity satisfactory to the Trustee and no direction inconsistent with such request has been given to the Trustee by the holders of a majority in principal amount of the Subordinate Securities then outstanding, in which event the holder of any of the Subordinate Securities may thereupon so act in the name and behalf of the Trustee or may so act in his own name and behalf in lieu of action by or in the name and behalf of the Trustee. Except as provided in the preceding sentence, no holder of any of the Subordinate Securities shall have the right to enforce any remedy under the Subordinate Indenture. Any action taken by any Parity Securityholder to enforce any provision of the Subordinate Indenture shall be for the equal and pro rata benefit of the holders of all the Subordinate Securities.

Concerning the Trustee

Limitation of Liability. The Trustee shall not be liable under the Subordinate Indenture except for its noncompliance with the provisions thereof, its willful misconduct or its gross negligence.

Institution of Suit. The Trustee may, in its own name and at any time, institute or intervene in any suit for the enforcement of all rights under the Subordinate Indenture without the necessity of joining as parties to such suit or proceedings any holders of the Subordinate Securities. The holders of the Subordinate Securities, by their acceptance of the provisions of the Subordinate Indenture, will appoint the Trustee as their irrevocable agent and attorney in fact for the purpose of enforcing all such rights of action, but such appointment will not include the

power to agree to accept new securities of any nature in lieu of the Subordinate Securities or to alter or amend the terms of the Subordinate Indenture except as therein provided.

Resignation and Discharge. The Trustee may resign at any time by giving written notice to the Board. The Trustee may at any time be removed by a written instrument signed by the holders of a majority in principal amount of the Subordinate Securities or, if no Event of Default exists, by the Board. No resignation or removal of the Trustee shall become effective until the acceptance of appointment by a successor Trustee.

Appointment of Successor Trustee. If the Trustee resigns, is removed or is otherwise incapable of acting, a successor may be appointed by the holders of a majority in principal amount of the Subordinate Securities and, in the interim, by the Board.

Modification of the Subordinate Indenture

Without the consent of the holders of any Subordinate Securities, the Board and the Trustee may amend the Subordinate Indenture for any of the following purposes: (a) to add to the covenants and agreements of the Board; (b) to provide for the surrender by the Board of any right or power conferred upon the Board in the Subordinate Indenture; (c) to cure any ambiguity or defect or for any other purpose if the Board and the Trustee consider such provisions to be necessary or desirable and such provisions are not inconsistent with the provisions of the Subordinate Indenture and do not adversely affect the interests of the holders of the Subordinate Securities; (d) to subject to the lien and pledge of the Subordinate Indenture additional revenues, properties and collateral; (e) to authorize the issuance of Additional Subordinate Securities; (f) to grant to or confer upon the Trustee any additional rights, remedies, powers, liabilities or duties which are not inconsistent with the Subordinate Indenture as theretofore in effect; and (g) to amend the Subordinate Indenture in any other respect which is not materially adverse to the Parity Securityholders and which does not involve a change described in the succeeding paragraph.

With the written consent of the holders of not less than a majority in principal amount of the outstanding Subordinate Securities, the Board and the Trustee may amend the Subordinate Indenture for the purposes of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained therein; provided, however, that no such amendment shall, without the consent of the holder of each outstanding Parity Security adversely affected thereby,

- (1) change the security for, the stated maturity or mandatory redemption date of the principal of, or any installment of interest on, any Parity Security, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, change the coin or currency in which any Parity Security or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or
- (2) reduce the percentage in principal amount of the outstanding Subordinate Securities, the consent of whose holders is required for any such amendment, or
- (3) eliminate or modify any provision of the Subordinate Indenture, the elimination or modification of which by its terms requires the consent of the holder of each Parity Security affected thereby, or
- (4) create a lien or charge on the revenues from the System ranking prior to or on a parity of lien with the lien and pledge thereon contained in the Subordinate Indenture (other than for Additional Subordinate Securities), or
- (5) establish any preference or priority as between the Subordinate Securities.

Satisfaction of the Subordinate Indenture

Whenever the entire indebtedness secured by the Subordinate Indenture, including all proper charges of the Trustee thereunder, shall have been fully paid, the Trustee shall cancel, satisfy and discharge the lien of the

Subordinate Indenture. For purposes of the Subordinate Indenture (including, without limitation, the provisions pertaining to the issuance of Additional Subordinate Securities), any of the Subordinate Securities shall be deemed to have been paid when there shall have been irrevocably deposited with the Trustee by the Board (or by another party with the Board's express written approval) for payment thereof the entire amount (principal and interest) due or to be due thereon until and at maturity, and, further, any Parity Security subject to redemption shall also be deemed to have been paid when the Board (or another party acting with the Board's express written approval) shall have deposited with the Trustee the applicable redemption price of such Parity Security (including any applicable redemption premium), together with evidence that such Parity Security has been called for redemption in accordance with the Subordinate Indenture.

In addition, any Subordinate Securities shall for all purposes of the Subordinate Indenture be deemed fully paid if the Board and the Trustee enter into a trust agreement making provision for the retirement of such Subordinate Securities by creating for that purpose an irrevocable trust fund sufficient to provide for payment and retirement of such Subordinate Securities (including payment of the interest that will mature thereon until and on the dates they are retired, as such interest becomes due and payable), either by redemption prior to their respective maturities, by payment at their respective maturities or by payment of part thereof at their respective maturities and redemption of the remainder prior to their respective maturities, which said trust fund shall consist of (a) Permitted Defeasance Obligations which are not subject to redemption prior to their respective maturities at the option of the issuer and which, if the principal thereof and the interest thereon are paid at their respective maturities, will produce funds sufficient to provide for the payment and retirement of such Subordinate Securities, or (b) both cash and Permitted Defeasance Obligations which together will produce funds sufficient for such purpose, or (c) cash sufficient for such purpose. In no event shall a trust fund established without the express written approval of the Board result in a determination that the Subordinate Securities payable from such fund have been fully paid for purposes of the Subordinate Indenture.

SOURCES OF INFORMATION

All information contained in this Official Statement has been obtained from sources that are believed to be reliable; however, all such information is subject, in all respects, to the complete body of information contained in the original sources thereof, and no guaranty, warranty or other representation is made by the Board respecting accuracy and completeness of information. In all instances reference is invited to be made to the sources of information mentioned therein, including, but not limited to, the legal opinions of Co-Bond Counsel to the Board, the legal opinion of Disclosure Counsel to the Board, the Senior Indenture, the Subordinate Indenture, and the financial statements of the Board for the fiscal years ended December 31, 2014, and December 31, 2015 (audited), which are available from the Board upon request and contained in Appendix B.

Neither the delivery of this Official Statement nor any sale of Series 2016 Bonds made in connection herewith, shall, under any circumstances, create any implication that there has been no change in the affairs of the Board or of the municipalities and areas which may be served through the System since the date of this Official Statement or the earlier stated date as of which certain information contained herein is given.

LITIGATION

There is no litigation pending or, to the knowledge of the Board, threatened, attacking or contesting the validity of or seeking to restrain or enjoin the issuance or sale of the Series 2016 Bonds.

The Board is a plaintiff in a lawsuit currently pending in the Circuit Court of Jefferson County, Alabama. The lawsuit was filed June 24, 2016 and names as defendants the City of Birmingham, Mayor William Bell, the Birmingham City Council, the Jefferson County Mayors' Association, and the Shelby County and Blount County Commissions. The lawsuit by the Board seeks to void the application of the Acts. The Birmingham Water Works asks in the lawsuit for a judge to order the Acts "null, void, and of no effect." It also seeks preliminary and permanent injunctions against the defendants from taking any actions, including expansion of the Board, under the Acts.

Among the arguments, the Board alleges that the Acts interfere with water works contracts and violate both the Alabama and U.S. Constitutions. Specifically, the lawsuit alleges that the Acts (i) were enacted without

adequate published notice, (ii) violate Section 105 of the Alabama Constitution prohibiting special laws in cases provided for under general laws, (iii) violate Section 1.4(18) of the Alabama Constitution prohibiting certain special laws with respect to private or municipal corporations, and (iv) impair the obligation of contracts and violate Article I, Section 22 of the Alabama Constitution and Article I, Section 10, Clause 1 of the U.S. Constitution.

Notwithstanding the outcome of the lawsuit or other intervening litigation or legislation, the Acts do not become effective until January 1, 2017. Accordingly, the current composition of the Board and authority of the Board with respect to the issuance and sale of the Series 2016 Bonds is not impaired by the Acts or the lawsuit. In the event that the Board's lawsuit is unsuccessful, effective January 1, 2017 the composition of the Board will change and the Board will be subject to certain new term restrictions on Board member service and compensation limitations for Board members.

The Board is a defendant in numerous legal proceedings alleging civil rights violations, personal injury and property damage, breach of contract, negligence, employment discrimination and improper collection of service charges. The Board believes that any monetary liability resulting from such suits if determined adversely to the Board will be adequately covered by liability insurance and by funds of the Board which will be available to dispose of such liability with no material adverse impact on the ability of the Board to perform its other obligations, including payment of the Series 2016 Bonds.

LEGAL MATTERS

The legality and validity of the Series 2016 Bonds are being approved by Maynard, Cooper & Gale, P.C., Birmingham, Alabama, and Yvonne Green Davis, P.C., Birmingham, Alabama, Co-Bond Counsel, whose approving opinions will be delivered simultaneously with the issuance of the Series 2016 Bonds. Certain matters will be passed upon by Sirote & Permutt, P.C., Birmingham, Alabama, Disclosure Counsel to the Board. Certain legal matters will be passed upon for the benefit of the Board by its counsel, Fuston, Petway & French, LLP.

Co-Bond Counsel have been employed primarily for the purpose of preparing certain legal documents and supporting certificates, reviewing the transcript of proceedings by which the Series 2016 Bonds have been authorized to be issued, and rendering their opinions as to the validity and legality of the Series 2016 Bonds, the excludability of interest on the Series 2016 Bonds from gross income for purposes of federal income taxation, and the exemption of interest on the Series 2016 Bonds from State of Alabama income taxes. Although Co-Bond Counsel assisted in the preparation of certain portions of this Official Statement and is of the opinion that the statements made herein under the captions "THE SERIES 2016-A BONDS", "THE SERIES 2016-B BONDS", "THE SERIES 2016-C BONDS", "SOURCE OF PAYMENT AND SECURITY", "ADDITIONAL SENIOR SECURITIES, ADDITIONAL SUBORDINATE SECURITIES AND RELATED OBLIGATIONS", "SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE", "SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE" and "TAX MATTERS" fairly summarize the matters therein referred to, Co-Bond Counsel have not been requested to express any opinion with respect to the adequacy, accuracy, completeness or fairness of any other information contained in this Official Statement. It is anticipated that the approving opinions of Co-Bond Counsel will be in substantially the forms attached hereto in Appendix C-1 and Appendix C-2.

The various legal opinions to be delivered concurrently with the delivery of the Series 2016 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the authoring firm or attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of parties to the transaction, and the rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction.

TAX MATTERS

In the opinion of Co-Bond Counsel, under existing law interest on the Series 2016 Bonds will be excluded from gross income for federal income tax purposes if the Board complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), that must be satisfied subsequent to the issuance of the Series 2016 Bonds in order that interest thereon be and remain excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Series 2016 Bonds to be included in gross income,

retroactively to the date of issuance of the Series 2016 Bonds. The Board has covenanted to comply with all such requirements.

Co-Bond Counsel is also of the opinion that under existing law interest on the Series 2016 Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the case of corporations, interest on the Series 2016 Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations.

Co-Bond Counsel will express no opinion regarding federal tax consequences arising with regard to the Series 2016 Bonds other than the opinions expressed in the two preceding paragraphs. The forms of Co-Bond Counsel's opinions with respect to the Series 2016 Bonds are expected to be substantially as set forth in Appendix C-1 and Appendix C-2 to this Official Statement.

Co-Bond Counsel is also of the opinion that under existing law interest on the Series 2016 Bonds will be exempt from State of Alabama income taxation.

The Internal Revenue Code and the regulations promulgated thereunder contain a number of requirements which must be satisfied subsequent to the issuance of the Series 2016 Bonds in order for the interest on such Bonds to be and remain excluded from gross income for purposes of federal income taxation. Examples include the requirement to rebate certain excess earnings on proceeds of the Series 2016 Bonds and amounts treated as proceeds to the United States Treasury; restrictions on the investment of such proceeds and other amounts; and restrictions on the ownership and use of the facilities financed with proceeds of the Series 2016 Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Internal Revenue Code, but is illustrative of the requirements which must be satisfied by the Board subsequent to the issuance of the Series 2016 Bonds to maintain the exclusion of interest on such Bonds from income for federal income taxation purposes. Failure to comply with such requirements, or to remedy such non-compliance when permitted by applicable law or regulation, may cause the interest on the Series 2016 Bonds to be included in gross income retroactively to the date of issuance. The Board has covenanted in the Senior Indenture to comply with the requirements which must be satisfied to maintain the exclusion of interest on the Series 2016 Bonds from gross income for federal income tax purposes. However, neither the Senior Indenture nor the Subordinate Indenture requires the Board to redeem the Series 2016 Bonds or to pay any additional interest or penalty in the event the interest on the Series 2016 Bonds becomes taxable. Further, the opinion of Co-Bond Counsel delivered at the time of issuance of the Series 2016 Bonds is conditioned upon compliance by the Board with such requirements and Co-Bond Counsel has not been retained by the Board to monitor the compliance by the Board with the requirements described above subsequent to the issuance of the Series 2016 Bonds.

From time to time, there are legislative proposals pending in Congress that, if enacted into law, could alter or amend one or more of the federal tax matters described above including, without limitation, the excludability from gross income of interest on the Series 2016 Bonds, adversely affect the market price or marketability of the Series 2016 Bonds, or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. It cannot be predicted whether or in what form any such proposal may be enacted, or whether, if enacted, any such proposal would apply to the Series 2016 Bonds. The President of the United States recommended the introduction of legislation which includes a provision that subjects a portion of the interest on tax-exempt obligations (including the Series 2016 Bonds) held by taxpayers with incomes above certain thresholds to taxation. There can be no assurance that this legislation will be enacted, and if enacted, whether it will be enacted in its current form or in a modified form. If enacted into law, this legislation could affect the market price or marketability of the Series 2016 Bonds.

Original Issue Discount

Under existing law, the original issue discount in the selling price of any Series 2016 Bond sold at a discount at the time of the initial offering, to the extent properly allocable to each holder of such Series 2016 Bond, is excluded from gross income for federal income tax purposes with respect to such holder. The original issue discount is the excess of the stated redemption price at maturity of such Series 2016 Bond over its initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Series 2016 Bonds of such maturity were sold.

Under Section 1288 of the Internal Revenue Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Series 2016 Bond during any accrual period generally equals (i) the issue price of such Series 2016 Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Series 2016 Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (iii) any interest payable on such Series 2016 Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the holder's tax basis in such Series 2016 Bond. Purchasers of any Series 2016 Bonds at an original issue discount should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes, and with respect to state and local tax consequences of owning such Series 2016 Bonds.

Original Issue Premium

An amount equal to the excess of the purchase price of a Series 2016 Bond over its stated redemption price at maturity constitutes premium on such Series 2016 Bond. A purchaser of a Series 2016 Bond must amortize any premium over such Series 2016 Bond's term using constant yield principles, based on the Series 2016 Bond's yield to maturity. As premium is amortized, the purchaser's basis in such Series 2016 Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of such Series 2016 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Series 2016 Bond at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes, and with respect to state and local tax consequences of owning such Series 2016 Bonds.

Collateral Tax Consequences

Prospective purchasers of the Series 2016 Bonds should be aware that Section 265 of the Internal Revenue Code will deny a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2016 Bonds and, in the case of a financial institution, that portion of the holder's interest expense allocated to the Series 2016 Bonds.

Prospective purchasers of the Series 2016 Bonds should also be aware that ownership of the Series 2016 Bonds may result in other collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred certain expenses allocable to the Series 2016 Bonds. Co-Bond Counsel does not express any opinion regarding such collateral tax consequences. Prospective purchasers of the Series 2016 Bonds should consult their tax advisors regarding collateral federal income tax consequences.

UNDERWRITING

The Series 2016-A Bonds are being purchased from the Board by Goldman, Sachs & Co., Citigroup Global Markets, Inc., Morgan Stanley, The Frazer Lanier Company, Securities Capital Corporation, and NW Capital Markets Inc. (collectively, the "Underwriters"). The Underwriters have agreed to purchase the Series 2016-A Bonds for an aggregate purchase price of \$ _____ (representing the par amount of the Series 2016-A Bonds, plus net original issue _____ in the amount of \$ _____, and less the underwriters' discount in the amount of \$ _____). The initial public offering price set forth on the inside cover page hereof may be changed by the Underwriters, and the Underwriters may offer and sell the Series 2016-A Bonds to certain dealers (including dealers depositing the Series 2016-A Bonds into investment trusts) and others at prices lower than the offering price set forth on the inside of the cover page hereof.

The Series 2016-B Bonds are being purchased from the Board by the Underwriters. The Underwriters have agreed to purchase the Series 2016-B Bonds for an aggregate purchase price of \$ _____ (representing the par amount of the Series 2016-B Bonds, plus net original issue _____ in the amount of \$ _____, and less the underwriters' discount in the amount of \$ _____). The initial public offering price set forth on the inside cover page hereof may be changed by the Underwriters, and the Underwriters may offer and sell the Series 2016-B Bonds to certain dealers (including dealers depositing the Series 2016-B Bonds into investment trusts) and others at prices lower than the offering price set forth on the inside of the cover page hereof.

The Series 2016-C Bonds are being purchased from the Board by the Underwriters. The Underwriters have agreed to purchase the Series 2016-C Bonds for an aggregate purchase price of \$ _____ (representing the par amount of the Series 2016-C Bonds, plus net original issue _____ in the amount of \$ _____, and less the underwriters' discount in the amount of \$ _____). The initial public offering price set forth on the inside cover page hereof may be changed by the Underwriters, and the Underwriters may offer and sell the Series 2016-C Bonds to certain dealers (including dealers depositing the Series 2016-C Bonds into investment trusts) and others at prices lower than the offering price set forth on the inside of the cover page hereof.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the issuer and to persons and entities with relationships with the issuer, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Morgan Stanley, parent company of Morgan Stanley & CO. LLC, an underwriter of the Series 2016 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2016 Bonds.

Citigroup Global Markets Inc. ("CGMI") has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, CGMI may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, CGMI may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Series 2016 Bonds.

FINANCIAL ADVISOR

Terminus Municipal Advisors, LLC, is serving as Financial Advisor to the Board with respect to the sale of the Series 2016 Bonds. The Financial Advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2016 Bonds and provided other advice. The Financial Advisor does not guaranty the accuracy or completeness of the information in this Official Statement.

Terminus Municipal Advisors, LLC, is an independent financial and investment advisor, based in Atlanta, Georgia, and regularly engaged in the business of providing financial and advisory services. The Financial Advisor will not participate in underwriting any of the Series 2016 Bonds.

FINANCIAL STATEMENTS

The financial statements of the Board as of December 31, 2015, and for the year then ended, included in this Official Statement as Appendix B-1, have been audited by Banks, Finley, White & Co., independent certified public accountants, which report also appears in Appendix B-1; the December 31, 2015 audit report also restates the financial statements of the Board for the year ending December 31, 2014, as required to reflect changes in governmental accounting standards and certain reclassifications of accounts for that year. The financial statements of the Board as of December 31, 2014, and for the year then ended, included in this Official Statement as Appendix B-2, were originally audited by Carr, Riggs & Ingram, LLC, and Sheppard-Harris & Associates, P.C., independent certified public accountants, which original report also appears in Appendix B-2.

RATINGS

The Series 2016 Bonds have been assigned a rating of "___" by Moody's Investor Services, Inc. and "___" by Standard & Poor's Rating Service, a division of the McGraw Hill Companies, Inc. The ratings reflect only the views of such organizations, and an explanation of the significance of each such rating may be obtained from the agency furnishing the same. The Board has furnished to the rating agencies the information contained in this Official Statement and certain other information respecting the Board and the Series 2016 Bonds. Generally, rating agencies base their ratings on such materials and information, as well as on their own investigation, studies and assumptions. There is no assurance that such ratings will continue for any given period of time or that either or both will not be lowered or withdrawn entirely by the rating agencies, or either of them, if, in their respective judgments, circumstances so warrant. A downward change in or withdrawal of such ratings, or either of them, may have an adverse effect on the market prices of the Series 2016 Bonds.

The ratings indicated on the cover page are not recommendations to buy, sell or hold the Series 2016 Bonds, and any such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any or all of such ratings may have an adverse effect on the market price of the affected Series 2016 Bonds. Neither the Board nor the Underwriters have undertaken any responsibility either to bring to the attention of the holders of the Series 2016 Bonds any proposed revision, suspension or withdrawal of a rating or to oppose any such revision, suspension or withdrawal.

Additionally, due to the ongoing uncertainty regarding the debt of the United States of America, including without limitation, the general economic conditions in the country, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Series 2016 Bonds, could be subject to a rating downgrade. Furthermore, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, such as the Series 2016 Bonds.

CONTINUING DISCLOSURE AGREEMENT

General

The Board has covenanted for the benefit of the holders of the Series 2016 Bonds, in accordance with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission of the United States of America (the "Commission"), to provide or cause to be provided through the EMMA system described below (or such other system as may be subsequently authorized by the Municipal Securities Rulemaking Board ("MSRB")), (i) certain financial information and operating data relating to the Board on an annual basis (the "Annual Financial Information") within 180 days after the end of its fiscal year, and (ii) notices ("Material Event Notices") of the occurrence of certain material events described below.

The Annual Financial Information will include audited financial statements prepared in accordance with accounting principles described in the audited financial statements included in this Official Statement as Appendix B, and to the extent not otherwise included therein, the statistical data and financial information of the type included in this Official Statement under the caption "Results of Operations". The material events for which Material Events Notices are required to be made (which such notices must be provided within ten (10) business days of the occurrence of the event), include the following:

1. A delinquency in payment of principal of or interest on the Series 2016 Bonds.
2. Non-payment related defaults under the proceedings of the Board authorizing the Series 2016 Bonds, if material.
3. Unscheduled draws on the debt service reserve fund reflecting financial difficulties of the Board.
4. Unscheduled draws on any credit enhancement or liquidity facility with respect to the Series 2016 Bonds reflecting financial difficulties of the Board.
5. Substitution of a credit enhancer for the one originally described in the Official Statement, or the failure of any credit enhancer respecting the Series 2016 Bonds to perform its obligations under the agreement between the Board and such credit enhancer.
6. Adverse tax opinion with respect to the Series 2016 Bonds, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2016 Bonds, or other material events affecting the tax-exempt status of interest on the Series 2016 Bonds.
7. Any modification of the rights of the registered owners of the Series 2016 Bonds, if material.
8. Redemption of any of the Series 2016 Bonds prior to the stated maturity or mandatory redemption date thereof, if material, or tender offers.
9. Defeasance of the lien of any of the Series 2016 Bonds or the occurrence of circumstances which, pursuant to such authorizing proceedings, would cause the Series 2016 Bonds, or any of them, to be no longer regarded as outstanding thereunder.
10. The release, substitution or sale of the property securing repayment of the Series 2016 Bonds, if material.
11. Any changes in published ratings affecting the Series 2016 Bonds.
12. Bankruptcy, insolvency, receivership or similar event of the Board.
13. The Consummation of a merger, consolidation, or acquisition involving the Board or the sale of all or substantially all of the assets of the Board, other than in the ordinary course of business, the entry into a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Board must also provide notice in the event it fails to timely file its Annual Financial Information on or before the date required.

The Annual Financial Information is required to be filed with the Electronic Municipal Market Access system ("EMMA") as designated by the Securities and Exchange Commission and with any Alabama state information depository. Material Event Notices are required to be filed with EMMA and any Alabama state information depository or the Municipal Securities Rulemaking Board and any Alabama state information repository.

The Board shall not be in default of any of its obligations to furnish the required information until 10 days after it has received notice from a holder of any of the Series 2016 Bonds that such default has occurred; provided, that such period shall be extended to 30 days if, upon receipt of such notice, the Board has begun to comply with the provisions hereof and has taken all steps then available to it to assure compliance, but, because of circumstances beyond the Board's control, it is not able to accomplish such compliance within such 10-day period.

The Board shall never be subject to money damages for its failure to comply with its obligations to provide the required information. The only remedy available to the holders of the Series 2016 Bonds for breach by the Board of its obligations to provide the required information shall be the remedy of specific performance or mandamus against appropriate officials of the Board. The failure by the Board to provide the required information shall not be

an event of default with respect to the Series 2016 Bonds under the Senior Indenture and/or the Subordinate Indenture, as applicable.

No person other than the Board shall have any liability or responsibility for compliance by the Board with its obligations to provide information. The Trustee has not undertaken any responsibility with respect to any required reports, notices or disclosures.

The Board retains the right to modify its obligations described above as long as such modification is done in a manner consistent with Rule 15c2-12 of the Securities and Exchange Commission.

Compliance with Prior Undertakings

Except as otherwise stated below, the Board has not failed to comply, in all material respects, with its previous continuing disclosure undertakings in connection with the issuance of its securities.

In February, 2012, S&P upgraded its rating of the Board's Subordinate Securities from "A+" to "AA-", and on May, 2013, upgraded its rating on the Board's Senior Securities from "AA-" to "AA". The Board did not file a timely notice on EMMA regarding such underlying ratings changes by Moody's or S&P.

Finally, certain of the Board's filings of Annual Financial Information may not have been properly linked to all requisite CUSIP numbers for the Board's bonds.

PREPARATION AND CIRCULATION OF OFFICIAL STATEMENT

The information in this Official Statement has been provided by the Board based on information and data which it believes to be correct, but such information is not guaranteed as to accuracy or completeness. All estimates and assumptions contained herein are believed to be reliable, but no representation is made that such estimates or assumptions are correct or will be realized.

MISCELLANEOUS

All of the descriptions and summaries of the statutes, resolutions, opinions, agreements, financial data, revenue projections, engineering studies, and other related reports described in this Official Statement and the appendices hereto are made subject to all of the provisions of such documents. The descriptions and summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are either publicly available or available for inspection during normal business hours at:

The Water Works Board of the City of Birmingham
3600 First Avenue North
Birmingham, Alabama 35222
(205) 251-3261

The distribution of this Official Statement has been approved by the Board.

THE WATER WORKS BOARD
OF THE CITY OF BIRMINGHAM

By _____
Chairman of the Board of Directors

Date: October ____, 2016

APPENDIX A

**Economic and Demographic Information Relating
to the Service Area of the Board**

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APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE SERVICE AREA OF THE BOARD

Jefferson County, Alabama's most populous county (the "County"), is the principal center of finance, trade, manufacturing, transportation, medicine and education in the State. Birmingham, the State's largest city (the "City"), and 34 other municipalities are located within the County's 1,124 square miles. The County, with an estimated 2015 Census population of approximately 662,843, is the center of the seven-County Birmingham-Hoover Metropolitan Statistical Area (MSA) which covers approximately 5,370 square miles. The total population of the Birmingham-Hoover MSA was 1,140,300 in 2013.

AS USED HEREIN, THE TERM "BIRMINGHAM MSA" AND RELATED STATISTICAL DATA REFER TO THE FOUR-COUNTY BIRMINGHAM MSA AS DESIGNATED BY THE FEDERAL OFFICE OF MANAGEMENT AND BUDGET ("OMB") IN 1983. THE TERM "BIRMINGHAM-HOOVER MSA" REFERS TO THE SEVEN-COUNTY BIRMINGHAM-HOOVER MSA AS DESIGNATED BY OMB IN MID-2003. ONLY LIMITED STATISTICAL DATA IS CURRENTLY AVAILABLE FOR THE BIRMINGHAM-HOOVER MSA.

Population

The County and the Birmingham MSA have experienced steady population growth over the years. The Birmingham-Hoover MSA grew 1.6 percent from 2010 to 2015. The suburban counties of Blount, Shelby and St. Clair experienced some of the fastest growth in population in the State. It is anticipated that most of the population growth in the Birmingham-Hoover MSA will continue to occur outside the present City limits of Birmingham and that the City of Birmingham will continue to serve as an employment, service and cultural center for residents of the suburban areas. The following table summarizes historical population growth for the County, the Birmingham MSA, the Birmingham-Hoover MSA and the State.

POPULATION TRENDS				
<u>Year</u>	<u>Jefferson County</u>	<u>Birmingham MSA</u>	<u>Birmingham-Hoover MSA</u>	<u>Alabama</u>
2015	660,367		1,145,647	4,858,979
2013	659,479		1,140,300	4,833,996
2010	658,466		1,128,047	4,779,736
2000	662,047	921,106	1,052,238	4,447,100
1990	651,520	907,810	956,668	4,040,389
1980	671,371	847,480	930,328	3,894,025
1970	644,991	739,274	833,075	3,444,736
1960	634,864	721,207	772,044	3,266,740

Source: United States Department of Commerce, Bureau of the Census; Birmingham Regional Chamber of Commerce

2010, 2000 and 1990 CENSUSES OF POPULATION, PERCENT CHANGE 1990, 2000, 2010

The following table shows the percent population change for Jefferson County municipalities.

<u>Municipalities</u>	<u>2014*</u>	<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>2000 – 2010</u> <u>% Change</u>	<u>1990 – 2000</u> <u>% Change</u>
Adamsville	4,435	4,522	4,965	4,161	-8.9%	19.3%
Bessemer	26,949	27,456	29,672	33,497	-7.5%	-11.4%
Birmingham	212,247	212,237	242,820	265,968	-12.6%	-8.7%
Brighton	2,885	2,945	3,640	4,518	-19.1%	-19.4%
Brookside	1,340	1,828	1,393	1,365	31.2%	2.1%
Cahaba Heights	-----	-----	5,203	4,778	-----%	8.9%
Center Point	16,777	16,921	22,784	22,658	-25.7%	0.6%
Clay	9,700	9,708	257	----	96.2%	----%
County Line	261	258	12,381	189	0.4%	36.0%
Fairfield	10,988	11,117	10,509	12,200	-10.2%	1.5%
Forestdale	----	10,162	6,595	10,395	-3.3%	1.1%
Fultondale	8,908	8,380	11,626	6,400	27.1%	3.0%
Gardendale	13,729	13,893	2,344	9,251	19.5%	25.7%
Graysville	2,114	2,165	25,043	2,241	-7.6%	4.6%
Helena	17,883	16,793	62,742	3,918	63.1%	162.8%
Homewood	25,802	25,167	15,364	22,922	0.5%	9.3%
Hoover	84,353	81,619	9,813	39,788	30.1%	57.7%
Hueytown	15,815	16,105	1,801	15,280	4.8%	0.5%
Irondale	12,444	12,349	10,455	9,454	25.8%	3.8%
Kimberly	2,835	2,711	2,458	1,096	50.5%	64.3%
Leeds	11,939	11,773	435	9,946	12.6%	5.1%
Lipscomb	2,175	2,210	5,626	2,892	-10.1%	-15.0%
Maytown	376	385	1,827	651	-11.5%	-33.2%
Midfield	5,263	5,365	20,604	5,559	-4.6%	1.2%
Morris	1,912	1,859	973	1,136	1.8%	60.8%
Mountain Brook	20,734	20,413	142	19,810	-0.9%	4.0%
Mulga	822	836	9,983	261	-14.1%	272.8%
North Johns	143	145	1,465	177	2.1%	-19.8%
Pinson	7,143	7,163	7,022	10,987	42.3%	-54.2%
Pleasant Grove	10,325	10,110	523	8,458	1.3%	18.0%
Sylvan Springs	1,533	1,542	12,924	1,470	5.3%	-0.3%
Tarrant	6,257	6,397	24,476	8,046	-8.9%	-12.7%
Trafford	640	646	3,169	739	23.5%	-29.2%
Trussville	20,702	19,933	344	8,266	54.2%	56.4%
Vestavia Hills	34,1248	34,033		19,749	39.0%	23.9%
Warrior	3,190	3,176		3,280	0.2%	-3.4%
West Jefferson	338	338		388	-1.7%	-11.3%

Source: U.S. Census Bureau; The University of Alabama, Center for Business and Economic Research

*Estimate

Overview of Economy

The 2000 Census provided the key data for expanding the Birmingham-Hoover metro area to encompass seven counties: Jefferson, Shelby, St. Clair, Blount, Bibb, Chilton and Walker. As so enlarged, the metro area has a population in excess of 1.1 million persons and an employed workforce of approximately 497,897 as of January 31, 2016. Additionally, the metro area benefits from the employment at three large automobile plants, all of which are located outside the Birmingham-Hoover metro area.

Birmingham Non-Agricultural Employment shared in the recent recession and has continued steady recovery and expansion over the intervening years. Unemployment in the Birmingham-Hoover metro area reached a high of 10.3% in 2009 but has significantly improved to a current unemployment rate of 5.3% as of May 31, 2016.

Automobile manufacturing has been essential to the growth in Alabama. Hyundai, Honda, Toyota and Mercedes-Benz all have original equipment manufacturing locations in Alabama and the automotive industry represents Alabama's number one export. The Automobile Manufacturing Employment sector (including motor vehicle parts) has grown from less than 1,000 jobs in 1995 to more than 30,000 today. While many of the automobile plants are located in counties outside of the Birmingham metro area, many of their employees reside within the Birmingham metro area.

Professional and Business Services sector continue to be a strong Birmingham area employment sector, employing approximately 64,200 individuals as of January 31, 2016. Leisure and Hospitality jobs added 5,700 net new jobs between January 31, 2011 and January 31, 2016, while Education and Health Services added 5,600 net new jobs over that same period. The largest employer in the metro area is the University of Alabama at Birmingham, which has a very large medical school, hospital and related clinics, all of which are recognized across the country for their excellence and which are attractive to many healthcare and bio-tech employers. The Birmingham-Shuttlesworth International Airport served approximately 2,695,399 passengers during 2015.

Birmingham has recovered significantly from former bank consolidations affecting the region. SouthTrust Bank was acquired by Wachovia Bank in 2004, which was subsequently acquired by Wells Fargo Bank. AmSouth and Regions merged in 2006. In 2007, Compass Bank was bought by BBVA of Spain to expand its U.S. operations. In 2008, First American Bank was bought by the Royal Bank of Canada ("RBC"). RBC was acquired by PNC Bank in 2012. As various larger banks have consolidated, a number of smaller banks have been established, which has contributed to additional jobs in the Financial Activities Sector. The Financial Activities Sector has remained relatively stable, adding 2,100 employees between January 31, 2011 and January 31, 2016.

Source: Birmingham Business Alliance, 2009 Economic Analysis and Inventory of Development Projects; Birmingham Business Alliance; US Census Bureau

Jefferson County Labor Force and Unemployment

The following chart presents certain information with respect to Jefferson County unemployment and available labor force.

JEFFERSON COUNTY LABOR FORCE AND UNEMPLOYMENT

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Civilian Labor Force	305,296	308,121	305,884	302,924	298,625	308,203	314,739
Employment	277,595	282,922	285,701	284,733	283,839	289,982	297,196
Unemployment	27,701	25,199	20,183	18,191	14,786	18,221	17,543
Unemployment Rate	9.1%	8.2%	6.6%	6.0%	5.0%	5.9%	5.6%

Source: U. S. Department of Labor, Bureau of Labor Statistics; Alabama Department of Industrial Relations.

*Preliminary (May 2016)

The following table presents certain information with respect to employment in the Birmingham-Hoover MSA.

**BIRMINGHAM-HOOVER MSA
EMPLOYMENT CHANGE IN SELECT INDUSTRY GROUPS
ANNUAL AVERAGES**

Industry Title	2009	2010	2011	2012	2013	2014	2015*
Total Nonagricultural Employment	499,800	491,800	493,600	501,700	507,100	511,300	513,200
Goods Producing	66,300	61,800	62,800	65,100	66,100	66,200	65,500
Natural Resources and Mining	2,800	3,000	3,400	3,500	3,200	3,000	2,900
Manufacturing	36,700	34,700	35,100	37,000	38,200	38,700	38,200
Construction	26,800	24,200	24,300	24,600	24,800	24,500	24,400
Service Providing	433,500	430,000	430,800	436,600	441,000	445,100	447,700
Trade, Transportation, Warehousing and Utilities	107,600	105,500	105,900	107,500	108,600	109,300	109,500
Educational and Health Services	64,800	65,600	65,600	67,000	68,500	69,200	69,200
Professional and Business Services	60,000	59,600	60,700	62,900	62,500	63,300	66,300
Leisure and Hospitality	43,000	42,500	43,500	44,500	46,200	47,700	47,300
Financial Activities	40,300	39,500	40,000	40,600	41,700	42,300	42,300
Government	83,800	84,100	82,700	81,400	80,800	81,100	81,300
Other Services	23,800	23,700	23,400	23,700	23,700	23,800	23,600
Information	10,100	9,500	9,000	8,900	8,900	8,500	8,200

Source: U.S. Department of Labor, Bureau of Labor Statistics; Alabama Department of Labor

*Preliminary (January 2015)

The following table lists the largest employers in the Birmingham-Hoover MSA:

**BIRMINGHAM-HOOVER MSA
LARGEST EMPLOYERS
2014**

<u>Employer</u>	<u>Service or Product</u>	<u>Number of Employees</u>
University of Alabama at Birmingham	Education, healthcare	23,000
Regions Financial Corp./AmSouth	Banking and financial services	7,668
AT&T	Telecommunications	5,750
St. Vincent's Health System	Healthcare	4,644
Honda Manufacturing of Alabama	Manufacturing	4,500
Children's of Alabama	Healthcare	4,497
Blue Cross - Blue Shield of Alabama	Healthcare	4,000
Alabama Power Company	Utilities	3,982
Mercedes-Benz U.S. International, Inc.	Automobile dealers; related	3,500
Baptist Health System, Inc.	Healthcare, management services	3,200
BBVA Compass Bank	Banking and financial services	2,606
American Cast Iron Pipe Company	Manufacturing	2,400
Buffalo Rock Company	Manufacturing	2,200
Southern Company Services	Electricity, gas and sanitary services	2,116
Brookwood Medical Center	Healthcare	2,037

Source: Birmingham Business Alliance

The following table provides information about unemployment rates for the City of Birmingham, Jefferson County, the Birmingham-Hoover MSA, Shelby County, the State and the nation.

**COMPARATIVE EMPLOYMENT AND UNEMPLOYMENT TRENDS
ANNUAL AVERAGES**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Birmingham						
Employment	83,892	85,177	85,772	86,092	85,699	85,348
Unemployment	12,336	11,078	8,686	7,797	7,319	6,615
Unemployment Rate	12.8%	11.5%	9.2%	8.3%	7.9%	7.2%
Jefferson County						
Employment	285,627	289,916	292,810	293,461	292,502	291,303
Unemployment	32,893	29,736	23,439	20,954	19,699	17,926
Unemployment Rate	10.3%	9.3%	7.4%	6.7%	6.3%	5.8%
Birmingham-Hoover MSA						
Employment	486,786	495,500	502,096	504,843	503,766	501,999
Unemployment	52,965	47,561	37,700	34,017	32,116	29,230
Unemployment Rate	9.8%	8.8	7.0%	6.3%	6.0%	5.5%
Shelby County						
Employment	95,110	97,727	100,086	101,719	102,399	101,981
Unemployment	7,262	6,487	5,303	4,949	4,825	4,510
Rate	7.1%	6.2%	5.0%	4.6%	4.5%	4.2%
Alabama						
Employment	1,964,559	1,990,413	2,001,849	2,010,431	2,014,284	2,015,189
Unemployment	231,483	212,257	173,123	156,807	147,029	130,968
Unemployment Rate	10.5%	9.6%	8.0%	7.2%	6.8%	6.1%
United States						
Employment	139,889,000	139,869,000	142,469,000	143,929,000	146,305,000	148,833,000
Unemployment	14,825,000	13,747,000	12,506,000	11,460,000	9,616,000	8,296,000
Unemployment Rate	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%

Source: U.S. Department of Labor, Bureau of Labor Statistics; Alabama Department of Labor (unadjusted for seasonal changes)

Per Capita Personal Income

"Per Capita Personal Income" is defined as the current income from all sources received by one resident in an area. It is measured before deduction of income and other personal taxes, but after deduction of personal contributions for social security, government retirement, and other social insurance programs. Per capita personal income in the Birmingham-Hoover MSA and the County are above average for the State. Per capita personal income in the Birmingham-Hoover MSA has been slightly above national averages in recent years, while per capita personal income in the County is generally higher than the national average.

PER CAPITA PERSONAL INCOME

	<u>Jefferson County</u>		<u>Birmingham-Hoover MSA</u>		<u>Alabama</u>		<u>United States</u>	
	<u>Income</u>	<u>% of National Average</u>	<u>Income</u>	<u>% of National Average</u>	<u>Income</u>	<u>% of National Average</u>	<u>Income</u>	<u>% of National Average</u>
2015	*	*	*	*	\$38,965	82%	\$47,669	100%
2014	48,582	106%	44,256	96%	37,512	81%	46,049	100%
2013	45,961	103%	42,570	95%	36,481	81%	44,765	100%
2012	45,414	103%	42,124	95%	35,942	81%	44,200	100%
2011	44,074	102%	40,816	95%	34,880	81%	43,169	100%
2010	42,256	102%	39,368	93%	33,516	79%	42,331	100%
2009	41,745	105%	38,592	97%	33,411	84%	39,635	100%
2008	43,308	106%	39,949	98%	33,928	83%	40,674	100%
2007	42,824	111%	39,401	102%	32,419	84%	38,615	100%
2006	40,581	111%	37,331	102%	30,894	84%	36,714	100%
2005	38,373	110%	35,448	102%	29,306	84%	34,757	100%
2004	36,939	112%	33,900	102%	28,007	85%	33,123	100%
2003	33,991	108%	31,361	100%	26,371	84%	31,504	100%
2002	33,038	107%	30,572	99%	25,461	83%	30,821	100%
2001	31,799	104%	29,590	97%	24,740	81%	30,574	100%
2000	30,399	102%	28,382	95%	23,767	80%	29,845	100%
1990	19,054	98%	18,024	93%	15,723	81%	19,477	100%
1980	9,608	95%	9,078	90%	7,836	77%	10,114	100%
1970	3,591	88%	3,373	83%	2,957	72%	4,085	100%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

*2015 Data Unavailable

Median Family Income

Median Family Income is defined by the U.S. Census as the amount which divides the income distribution of families into two equal groups, half having incomes above the median, half having incomes below the median. In 2015, the median family income in the Birmingham-Hoover MSA was estimated to be \$3,300 less than the median family income of the United States. In 2015, the median family income in the United States was estimated to be \$10,300 greater than the median family income in Alabama. The following table illustrates this data.

**NATIONAL, STATE AND BIRMINGHAM-HOOVER MSA
MEDIAN FAMILY INCOME**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016*</u>
United States	\$64,400	\$64,200	\$65,000	\$64,400	\$63,900	\$65,800	\$65,700
Alabama	54,100	54,600	55,400	53,600	54,100	55,500	55,500
Birmingham-Hoover MSA	61,700	62,000	62,800	57,100	61,000	62,500	64,000

*Estimates

Source: U.S. Department of Housing and Urban Development, Office of Economic Affairs

Housing

The following table presents certain information about housing in the Birmingham area.

BIRMINGHAM AREA HOUSING UNITS

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>	<u>2012*</u>	<u>2013*</u>	<u>2014*</u>
Bibb County	8,602	8,785	8,981	8,985	8,982	8,936	8,985
Blount County	21,766	22,018	23,887	23,933	23,879	23,746	23,868
Chilton County	18,618	18,854	19,278	19,276	19,266	19,155	19,246
Jefferson County	310,623	312,111	300,552	300,346	301,257	301,949	302,599
Shelby County	78,924	79,980	80,970	81,094	81,540	81,877	82,242
St. Clair County	31,365	31,803	35,541	35,669	35,637	35,523	35,718
Walker County	33,368	33,742	30,816	30,761	30,789	30,614	30,772

Source: United States Department of Commerce, Bureau of Census, American Community Survey 5-Year Estimates

* Estimates

Transportation

Commercial airline service is available through Birmingham's airport, which is served by four major carriers (American Airlines, Delta Air Lines, Southwest Airlines, and United Express Airlines). The Birmingham-Shuttlesworth International Airport is classified by the Federal Aviation Administration as a small hub airport and was ranked in 2011 by the Airport Council International – North America as the 80th largest airport in the United States based on total passengers.

BIRMINGHAM-SHUTTLESWORTH INTERNATIONAL AIRPORT PASSENGERS ARRIVING & DEPARTING

<u>Year</u>	<u># of Passengers</u>
2015	2,695,399
2014	2,624,665
2013	2,686,393
2012	2,864,058
2011	2,902,086
2010	2,950,429
2009	2,934,317
2008	3,111,767
2007	3,222,869
2006	3,052,058
2005	3,138,429
2004	2,890,091
2003	2,672,637
2002	2,810,990
2001	3,012,729
2000	3,067,777
1999	3,046,220

Source: Birmingham Airport Authority

Almost 100 truck lines have terminals in the area. Additionally, Birmingham is served by three Class I railroads – Norfolk Southern, CSX Transportation, and Burlington Northern Santa Fe Railroad Company. Amtrak passenger service is also available.

Birmingham is also the nexus for four interstate highways: I-65 links Birmingham to Nashville, Tennessee and Montgomery; I-59 links Birmingham to Chattanooga, Tennessee and New Orleans, Louisiana; I-20 connects Birmingham and Atlanta, Georgia; and I-22 connects Birmingham to Memphis, Tennessee.

Alabama contains one of the largest networks of inland river systems in the nation. From the northern section of the State down to the Gulf of Mexico, flows of waters of four major rivers offer barge transportation to industries and business that depend on the movement of large, heavy or bulky cargoes. Barge transportation is available from several barge lines through private dock facilities at the Birmingham port in western Jefferson County. These facilities are part of the Warrior-Tombigbee waterway system, which provides access to the Port of Mobile in south Alabama. The area is linked with the Tennessee-Tombigbee Water Development Authority, a 234-mile waterway which connects the Tennessee River with the Tombigbee River and thereby connecting the waterways of mid-America with the Gulf of Mexico through the Port of Mobile.

Health Care

The County is a major center for health care and biomedical research. Altogether, 29 hospitals are located in the County.

The Birmingham City Council announced approval of the \$55 million in tax incentives to Trinity Medical Center to move its operations to U.S. 280 after Trinity Medical Center decided not to relocate to Irondale. The City will give 20 years of occupational tax rebates to Trinity Medical Center. The City expects to gain \$65 million in tax revenues over the same period of time and over 2,000 jobs will be retained while 800 more will be created.

In March 2010, the University of Alabama at Birmingham (UAB) began construction on nine-story, 640,000 square foot facilities. The school is currently building two new facilities on the same block of property in a highly congested area. The total cost of the project was budgeted at \$160 million. U.S. News and World Report ranked The University of Alabama at Birmingham among the top 50 graduate medicine schools specializing in research and primary care. In addition, it was ranked among the top 50 hospitals by U.S. News and World Report, with specialties in cancer, respiratory disorders, gynecology, kidney disease, urology, geriatrics, ear, nose and throat, rheumatology and heart and heart surgery. The UAB Health System encompasses a cluster of highly specialized healthcare establishments and is a partnership between UAB and the University of Alabama Health Services Foundation. Ranked as the fourth largest academic medical center in the U.S., the UAB Health System is anchored by the highly acclaimed UAB Hospital, the Kirklin Clinic, Callahan Eye Foundation Hospital, UAB Women's and Infants Center, UAB Highlands and the Spain Rehabilitation Center. UAB ranks 44th out of 965 institutions in the National Science Foundation Total R&D Expenditures.

Benjamin Russell Hospital for Children is the third largest pediatric medical facility in the U.S., with ten pediatric specialties ranked among the top programs by U.S. News and World Report. Children's Hospital completed a \$570 million expansion in downtown Birmingham in 2012.

Source: Regional Chamber of Commerce, 2009 Economic Analysis and Inventory of Development Projects; Birmingham Business Alliance

Manufacturing

The Alabama steel industry has experienced changes in recent years, including the 2015 closure of a U.S. Steel plant located in Fairfield Alabama, a significant employer. However, metals manufacturing continues to materially contribute to Alabama's manufacturing sector. According to the U.S. Bureau of Labor Statistics, in 2015 the metropolitan Birmingham's Primary Metal Manufacturing sector employed approximately 6,268. Significant employers include American Cast Iron Pipe Company, McWane, Inc., U.S. Pipe and Foundry, Grede, Sloss Industries Corporation and O'Neal Steel Inc.

Source: U.S. Bureau of Labor Statistics ; Birmingham Business Alliance

Construction

Recent residential construction activities in the City and the Birmingham-Hoover MSA are summarized in the following tables.

NEW PRIVATELY-OWNED RESIDENTIAL BUILDING PERMITS CITY OF BIRMINGHAM

<u>Year</u>	Single-Family		Multi-Family (Two or more families)		
	<u>Permits Issued</u>	<u>Construction Cost</u>	<u>Permits Issued</u>	<u>Units</u>	<u>Construction Cost</u>
2000	118	\$14,605,141	13	328	\$14,655,118
2001	108	13,833,579	2	24	1,113,202
2002	188	25,489,678	12	76	4,275,520
2003	152	23,868,552	7	238	18,180,256
2004	144	23,581,209	53	828	57,407,006
2005	220	39,153,094	22	445	34,579,125
2006	303	54,557,389	56	980	71,538,630
2007	232	44,084,170	11	234	18,883,836
2008	132	24,723,795	18	312	23,204,909
2009	75	13,541,203	21	62	6,108,792
2010	110	18,861,792	7	347	35,716,750
2011	121	21,706,831	2	105	7,151,833
2012	88	17,220,866	31	857	64,275,126
2013	80	19,852,216	26	481	48,288,233
2014	76	17,203,631	23	929	87,808,445
2015	36	10,457,536	7	742	71,120,558

Source: U.S. Census Bureau.

NEW PRIVATELY-OWNED RESIDENTIAL BUILDING PERMITS BIRMINGHAM-HOOVER MSA

<u>Year</u>	Single-Family		Multi-Family	
	<u>Permits Issued</u>	<u>Construction Cost (000s)</u>	<u>Permits Issued</u>	<u>Construction Cost (000s)</u>
2000	4,352	\$569,298	781	\$42,454
2001	4,652	627,149	430	15,987
2002	4,918	716,830	259	14,218
2003	5,970	912,511	703	43,501
2004	6,358	1,029,479	1,442	92,483
2005	6,873	1,148,340	795	54,965
2006	6,441	1,072,569	1,376	118,634
2007	4,930	865,318	503	39,964
2008	2,325	415,270	1,034	110,242
2009	1,683	282,759	124	10,473
2010	1,563	275,049	367	37,360
2011	1,795	346,975	589	41,806
2012	1,847	410,574	1,454	97,756
2013	2,016	486,654	760	72,138
2014	2,318	520,115	1,046	94,852
2015	2,414	585,974	1,319	118,064

Source: U.S. Census Bureau.

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APPENDIX B-1

**Audited Financial Statements of the Board for the Year Ended
December 31, 2015**

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**THE WATER WORKS BOARD
OF THE CITY OF BIRMINGHAM**

**FINANCIAL STATEMENTS
AND OTHER INFORMATION**

December 31, 2015

With Independent Auditor's Report

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
Birmingham, Alabama

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Water Works Board of the City of Birmingham
Birmingham, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Water Works Board of the City of Birmingham ("the Board") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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 audit. We did not audit the financial statements of the Pension and OPEB Trust Funds, discretely presented component units of the Board. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pension and OPEB Trust Funds, is based solely on the report of the other auditors. We conducted our audit 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 audit 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Board, as of December 31, 2015 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in the year ended December 31, 2015, the Board adopted a new accounting standard, GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Adjustments to Prior Period Financial Statements

The financial statements of the business-type activities of The Water Works Board of the City of Birmingham as of December 31, 2014, were audited by other auditors whose report dated June 5, 2015, expressed an unmodified opinion on those statements. As discussed in Note 14 to the financial statements, the Board has restated its 2014 financial statements during the current year to appropriately classify construction work-in-process as utility plant and service on the statements of net position, and appropriately account for deferred accounting gains and losses in accordance with Governmental Accounting Standards Board Statement (GASB) No. 65. The other auditors reported on the financial statements before the restatement.

As part of our audit of the 2015 financial statements, we also audited the adjustments described in Note 14 that were applied to restate the 2014 financial statements to retrospectively apply the change in accounting as described in Note 14. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged audit, review, or apply any procedures to The Water Works Board of the City of Birmingham 2014 financial statements other than with respect to the adjustments and, accordingly, do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability and employer contributions, and the schedules of OPEB funding progress, net OPEB obligation, and employer contributions on pages 4 thru 8 and 54 thru 56 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, and other auditors, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The additional information section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules of long-term debt, changes in utility plant assets, and amounts on deposit with trustee by fund and the statements of operating expenses and nonoperating revenues (expenses) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of long-term debt, changes in utility plant assets, and amounts on deposit with trustee by fund and the statements of operating expenses and nonoperating revenues (expenses) are fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of major industrial/governmental customers and schedule of insurance policies have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2016 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

June 28, 2016

Banker, Finley White & Co

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
December 31, 2015**

This section of The Water Works Board of the City of Birmingham's ("the Board") financial statements presents management's analysis of the Board's financial performance during the fiscal year that ended December 31, 2015. Please read it in conjunction with the financial statements, which follow this section:

Financial Highlights for 2015

- Total operating revenues increased 1.33% primarily due to increased commercial customer water sales.
- Total operating expenses increased 12.42% primarily due to pension expense and bond issuance cost.
- Nonoperating expenses increased 9.74% primarily due to depreciation and interest expense.

Overview of the Financial Statements

The Financial Statements consist of four parts: Management's Discussion and Analysis, the Basic Financial Statements, Required Supplementary Information and Additional Information. The Basic Financial Statements also include notes and required supplementary information that explain in more detail some of the information in the Financial Statements.

Required Basic Financial Statements

The Board utilizes two different funds to account for its activities: an enterprise fund, which reports information about the general operations of the Board, and fiduciary funds, which report information about the Pension Trust Fund and the OPEB Trust Fund. For information regarding the fiduciary funds of the Board, see the Statements of Pension Net Position Pension Trust Fund and the Statement of Plan Net Position OPEB Trust Fund in the financial statements. The Pension Trust Fund and the OPEB Trust Fund issue separate annual audited financial statements which may be obtained by writing to the Board at 3600 First Avenue North, P.O. Box 830110, Birmingham, AL 35283.

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
December 31, 2015**

The Enterprise Fund Financial Statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer information about the Board's activities. The Statements of Net Position include all of the Board's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Board creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and longterm assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the Board and assessing the liquidity and financial flexibility of the Board.

All of the Board's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Fund Net Position. This statement measures the operating activities of the Board and can be used to determine whether the Board has successfully recovered all of its costs through its water rates and other charges, as well as its profitability and creditworthiness.

The final required financial statement is the Statements of Cash Flows. The primary purpose of this statement is to provide information about the Board's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing, noncapital financing and capital and related financing activities and provides information regarding the sources and uses of cash that caused the change in the cash balance during the reporting period.

Financial Analysis

A summary of the Board's Enterprise Fund Statements of Net Position is presented in Table A1.

Table A-1
Condensed Statements of Net Position

	2015	2014 As Restated	Dollar Change	Percentage Change
Current and other assets	\$ 45,235,297	\$ 41,325,554	\$ 3,909,743	9.5 %
Trusteed funds	255,025,518	205,350,339	49,675,179	24.2 %
Utility plant, net	827,705,999	790,546,032	37,159,967	4.7 %
Total assets	<u>\$ 1,127,966,814</u>	<u>\$ 1,037,221,925</u>	<u>\$ 90,744,889</u>	8.7 %
Total deferred outflow of resources	\$ 35,642,359	\$ 33,234,643	\$ 2,407,716	7.2 %
Current and other liabilities	\$ 60,212,085	\$ 57,107,367	\$ 3,104,718	5.4 %
Long-term liabilities	1,074,951,831	994,745,445	80,206,386	8.1 %
Total liabilities	<u>\$ 1,135,163,916</u>	<u>\$ 1,051,852,812</u>	<u>\$ 83,311,104</u>	7.9 %
Total deferred inflow of resources	\$ 20,237	\$ 23,124	\$ (2,887)	(12.5)%
Net investment in capital assets	\$ (107,177,851)	\$ (138,334,225)	\$ 31,156,374	(22.5)%
Restricted	185,720,899	178,422,582	7,298,317	4.1 %
Unrestricted	(50,118,028)	(21,507,726)	(28,610,302)	133.0 %
Total net position	<u>\$ 28,425,020</u>	<u>\$ 18,580,631</u>	<u>\$ 9,844,389</u>	53.0 %

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
December 31, 2015**

As shown in Table A-1, net position increased \$9.8 million from fiscal 2014. Factors contributing to this change include a increase in current assets along with a increase in trustee funds of \$53.6 million. Net utility plant increased \$37.2 million from continued capital construction programs. Total assets increased \$90.7 million. Total current and other liabilities increased \$3.1 million, primarily due to interest accrued on long-term obligations and customer guarantee deposits. Long-term liabilities increased by \$80.2 million in 2015, primarily due to the issuance of \$175,965,000 in revenue bonds during the year and the retirement of \$124,060,000 in bonds.

A summary of the Board's Enterprise Fund Statements of Revenues, Expenses and Changes in Fund Net Position is presented in Table A-2.

Table A-2
Condensed Statements of Revenues, Expenses and Changes in Fund Net Position

	2015	2014 As Restate	Dollar Change	Percentage Change
Water revenue	\$ 161,495,107	\$ 159,693,588	\$ 1,801,519	1.1 %
Other operating revenue	<u>3,445,700</u>	<u>3,074,620</u>	<u>371,080</u>	12.1 %
Total operating revenue	164,940,807	162,768,208	2,172,599	1.3 %
Other income, primarily interest	<u>2,256,772</u>	<u>2,297,608</u>	<u>(40,836)</u>	(1.8)%
Total revenues	167,197,579	165,065,816	2,131,763	1.29 %
Water and sewer service expenses	94,789,796	83,690,343	11,099,453	13.3 %
License fees paid to municipalities	<u>4,045,786</u>	<u>3,987,303</u>	<u>58,483</u>	1.5 %
Total operating expenses	<u>98,835,582</u>	<u>87,677,646</u>	<u>11,157,936</u>	12.7 %
Depreciation	24,370,094	21,089,739	3,280,355	15.6 %
Other expenses, primarily interest on debt	<u>46,995,923</u>	<u>43,942,148</u>	<u>3,053,775</u>	6.9 %
Total expenses	<u>170,201,599</u>	<u>152,709,533</u>	<u>17,492,066</u>	11.5 %
Gain (loss) before contributions	(3,004,020)	12,356,283	(15,360,303)	(124.3)%
Capital contributions	<u>12,848,409</u>	<u>4,581,969</u>	<u>8,266,440</u>	180.4 %
Change in net position	9,844,389	16,938,252	(7,093,863)	(41.9)%
Net position at beginning of the year	<u>18,580,631</u>	<u>1,642,379</u>	<u>16,938,252</u>	1,031.3 %
Net position at end of the year	<u>\$ 28,425,020</u>	<u>\$ 18,580,631</u>	<u>\$ 9,844,389</u>	53.0 %

With total operating and nonoperating revenues, including capital contributions amounting to \$180.0 million and expenses of \$170.2 million, the Board's net position increased \$9.8 million in 2015 to \$28.4 million.

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
December 31, 2015**

Financial Operations Summary

Utility Plant

The Board's utility plant increased by \$56.8 million during 2015. Major areas of system improvements were Shades Mountain filter plant improvements, tank improvements, system security and service replacements. Total assets before depreciation stood at \$1,182.4 million and \$1,125.6 million for December 31, 2015 and 2014, respectively. Changes in utility plant (before accumulated depreciation) are displayed in the table below. At December 31, 2015, commitments for capital expenditures totaled approximately \$7.7million.

**Changes in Utility Plant
Year-to-Year Comparison**

Utility Plant	2015	2014 As Restated	Dollar Change	Percentage Change
Land and land rights	\$ 37,280,060	\$ 37,280,023	\$ 37	-%
Construction-in-progress	41,447,875	72,400,705	(30,952,830)	(42.8)%
Structures and improvements	197,539,172	177,770,821	19,768,351	11.1%
Pumping equipment	33,913,974	30,204,140	3,709,834	12.3%
Transmission and distribution mains	424,991,439	401,399,919	23,591,520	5.9%
Equipment and other utility plant	<u>447,249,185</u>	<u>406,522,812</u>	<u>40,726,373</u>	10.0%
	<u>\$ 1,182,421,705</u>	<u>\$ 1,125,578,420</u>	<u>\$ 56,843,285</u>	5.1%

Debt Administration

A summary of changes in debt obligations from 2015 to 2014, is presented as follows:

**Changes in Debt
Year-to-Year Comparison**

Utility Plant	2015	2014 As Restated	Dollar Change	Percentage Change
Long-term debt	\$ 1,020,857,792	\$ 950,621,007	\$ 70,236,785	7.4%
Current maturities of long-term debt	<u>19,335,000</u>	<u>17,845,000</u>	<u>1,490,000</u>	8.3%
Total debt obligations	<u>\$ 1,040,192,792</u>	<u>\$ 968,466,007</u>	<u>\$ 71,726,785</u>	7.4%

Standard and Poor's and Moody's Investor Services, both of which are widely recognized bond rating agencies, rated the Board's Water Revenue Bonds, Series 2015-A and 2015-B, at AA and Aa2, respectively.

Debt service coverage on parity debt is required by the Board's bond indenture covenant to be maintained at a minimum of 1.25 times Revenue Available for Debt Service as defined in the bond indenture. Debt service coverage on parity debt was 1.78 in 2015.

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
December 31, 2015**

Investment Portfolio

Trusted fund balances at December 31, 2015 increased by \$49.7 million from the end of 2014. This was mainly a result of deposits of bond proceeds to the construction fund to pay the cost of capital projects.

Economic Factors

The Board continues working to strengthen the infrastructure and financial position of the water system to provide reliable, high quality water and services to its customers. Capital improvements driven by regulatory mandates continue to increase. Security issues are requiring current and future expenditures to address various potential risks to the system. In this environment, operating efficiencies are constantly sought to keep water rates as affordable as possible.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
STATEMENTS OF NET POSITION
ENTERPRISE FUND
December 31, 2015 and 2014

	2015	Restated 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,853,474	\$ 3,234,526
Customer accounts receivable, net of allowance for doubtful accounts of \$1,171,629 and \$1,296,836 in 2015 and 2014, respectively	7,632,166	8,536,655
Unbilled water revenue	7,255,769	8,492,832
Other receivables	9,985,485	6,840,375
Materials and supplies	6,895,575	7,600,603
Prepaid expenses	2,181,429	2,130,350
Total current assets	40,803,898	36,835,341
Noncurrent assets:		
Net OPEB asset	4,431,399	4,490,213
Trusted fund assets:		
Cash and cash equivalents	78,305,892	121,205,155
Investments	175,798,732	83,413,584
Interest accrued on securities	920,894	731,600
Total trusted fund assets	255,025,518	205,350,339
Utility plant:		
Utility plant in service	1,140,973,831	1,053,177,715
Construction-in-progress	41,447,875	72,400,705
	1,182,421,706	1,125,578,420
Less accumulated depreciation	(354,715,707)	(335,032,388)
Net utility plant	827,705,999	790,546,032
Total noncurrent assets	1,087,162,916	1,000,386,584
Total assets	1,127,966,814	1,037,221,925
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refundings of debt	25,309,962	20,566,734
Deferred outflow related to pension	10,332,397	12,667,909
Total deferred outflows of resources	35,642,359	33,234,643
Total assets and deferred outflows of resources	1,163,609,173	1,070,456,568

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
STATEMENTS OF NET POSITION (CONT'D)
ENTERPRISE FUND
December 31, 2015 and 2014

	2015	Restated 2014
LIABILITIES		
Current liabilities:		
Accounts payable, including contract retentions	\$ 11,086,648	\$ 10,328,877
General taxes payable	879,418	877,702
Accrued expenses	5,727,588	6,091,040
Current maturities of long-term obligations	19,335,000	17,845,000
	37,028,654	35,142,619
Current liabilities payable from restricted assets:		
Interest accrued on long-term obligations	23,183,431	21,964,748
Total current liabilities	60,212,085	57,107,367
Noncurrent liabilities:		
Long-term obligations, net of current maturities	1,020,857,792	950,621,007
Customer guarantee deposits	9,945,349	9,484,301
Customer advances for construction	523,667	2,717,536
Net pension liability	43,625,023	31,922,601
Total noncurrent liabilities	1,074,951,831	994,745,445
Total liabilities	1,135,163,916	1,051,852,812
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow of resources related to pension	20,237	23,124
NET POSITION		
Invested in capital assets, net of related debt	(107,177,851)	(138,334,225)
Restricted for debt service	185,720,899	178,422,582
Unrestricted	(50,118,028)	(21,507,726)
Total net position	28,425,020	18,580,631
Total liabilities, deferred inflows of resources and net position	\$1,163,609,173	\$1,070,456,567

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
For the years ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from potable water customers	\$ 156,160,319	\$ 150,679,709
Cash received from raw water customers	7,476,341	7,832,804
Cash received from rent of utility properties	381,651	391,427
Cash received from other operating revenues	989,649	2,683,193
Cash received for agency agreements	166,341,855	156,589,589
Cash payments for agency agreements	(166,803,012)	(158,222,068)
Payments to suppliers	(56,587,211)	(57,297,991)
Payments to employees	(29,437,153)	(30,738,767)
Net cash provided by operating activities	78,522,439	71,917,896
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(63,248,505)	(48,157,247)
Proceeds from asset disposition	477,086	
Contributed capital for construction	12,848,409	4,581,969
Customer advances for construction	(2,193,869)	(643,143)
Proceeds from bond offering	195,786,785	615,000
Payment on long-term debt	(124,060,000)	(17,150,000)
Interest paid on debt	(46,992,601)	(45,041,071)
Net cash provided (used) in capital and related financing activities	(27,382,695)	(105,794,492)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(412,808,952)	(348,840,240)
Proceeds from sale and maturities of investment securities	362,756,211	351,548,154
Interest on investments	2,531,945	3,237,615
Net cash (used) provided by investing activities	(47,520,796)	5,945,529
Net (decrease) increase in cash and cash equivalents	3,618,948	(27,931,067)
Cash and cash equivalents at beginning of the year	3,234,526	31,165,593
Cash and cash equivalents at end of the year	\$ 6,853,474	\$ 3,234,526

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
STATEMENTS OF CASH FLOWS (CONT'D)
ENTERPRISE FUND
For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 41,735,131	\$ 54,626,636
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	24,370,094	20,337,553
Provision for (reduction in) bad debts	(125,208)	(1,477,687)
Miscellaneous nonoperating expenses	148,506	-
Changes in operating assets and liabilities:		
Customer accounts receivable	1,029,696	(1,178,322)
Unbilled water revenue	1,237,063	(1,107,876)
Other receivables	(3,145,110)	(2,753)
Materials and supplies	705,028	(1,280,752)
Prepaid expenses	(51,079)	672,620
Net pension liability	11,702,422	(1,757,420)
Other assets	-	689,837
Net OPEB asset	58,814	428,035
Accrued interest receivable	-	660,002
Accounts payable, including contract retentions	757,771	5,828,886
General taxes payable	1,715	(103,483)
Accrued expenses	(363,452)	(4,917,031)
Customer guarantee deposits	461,048	499,651
Net cash provided by operating activities	<u>\$ 78,522,439</u>	<u>\$ 71,917,896</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Amortization of bond issue costs	<u>\$ (1,062,563)</u>	<u>\$ (625,904)</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
STATEMENTS OF PENSION NET POSITION - PENSION TRUST FUND
December 31, 2015 and 2014

	2015	2014
Assets:		
Cash and cash equivalents	\$ 10,482,736	\$ 12,829,259
Investments, at market	116,523,927	115,978,564
Accrued interest and dividends	295,402	314,445
Total assets	<u>\$ 127,302,065</u>	<u>\$ 129,122,268</u>
 Liabilities and net position:		
Net position held in trust for pension benefits	<u>\$ 127,302,065</u>	<u>\$ 129,122,268</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
STATEMENTS OF CHANGES IN PENSION NET POSITION
PENSION TRUST FUND
For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Net position held in trust for pension benefits, beginning of the year	\$ 129,122,268	\$ 118,303,296
Additions:		
Employer contributions	4,709,350	7,246,003
Employee contributions	2,740,313	2,797,693
Investment income	2,968,560	2,666,911
Net realized gain (loss) on sale of assets	1,743,761	1,141,846
Changes in unrealized appreciation (depreciation)	<u>(4,530,974)</u>	<u>5,852,071</u>
Total additions (deductions), net	7,631,010	19,704,524
Deductions:		
Distributions to participants	8,528,554	8,024,529
Administrative expenses	<u>922,659</u>	<u>861,023</u>
Total deductions	<u>9,451,213</u>	<u>8,885,552</u>
Net increase (decrease)	<u>(1,820,203)</u>	<u>10,818,972</u>
Total net position held in trust for pension benefits, end of the year	<u>\$ 127,302,065</u>	<u>\$ 129,122,268</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
STATEMENTS OF PLAN NET POSITION - OPEB TRUST FUND
December 31, 2015 and 2014

	2015	2014
Assets:		
Cash and cash equivalents	\$ 1,376,440	\$ 708,569
Investments, at market	23,765,467	24,540,299
Accrued interest and dividends	39,175	40,732
Total assets	<u>\$ 25,181,082</u>	<u>\$ 25,289,600</u>
 Liabilities and net position:		
Net position held in trust for pension benefits	<u>\$ 25,181,082</u>	<u>\$ 25,289,600</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
STATEMENTS OF CHANGES IN PLAN NET POSITION - OPEB TRUST FUND
For the years ended December 31, 2015 and 2014

	2015	2014
Net position held in trust for pension benefits, beginning of the year	\$ 25,289,600	\$ 23,647,205
Additions:		
Employer contributions	1,949,329	1,978,720
Employee contributions		
Investment income	549,675	542,179
Net realized gain (loss) on sale of assets	302,495	919,609
Changes in unrealized appreciation (depreciation)	(934,282)	189,302
Total additions (deductions), net	1,867,217	3,629,810
Deductions:		
Benefits	1,548,302	1,554,536
Premiums	332,575	359,017
Administrative expenses	94,858	73,862
Total deductions	1,975,735	1,987,415
Net increase (decrease)	(108,518)	1,642,395
Total net position held in trust for pension benefits, end of the year	\$ 25,181,082	\$ 25,289,600

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Water Works Board of the City of Birmingham ("the Board") is a public corporation incorporated on November 21, 1950, pursuant to a resolution adopted by the governing board of the City of Birmingham (the City). The Board's directors are appointed by the Birmingham City Council. The Board operates and manages water filtration plants, a water distribution system, sewage treatment plants (until sold during 2008) and waste water collection systems (collectively referred to as the System) in Jefferson County, Alabama and portions of adjacent counties.

In evaluating the Board as a reporting entity, management has determined that the Board is financially accountable for the Retirement Plan for Employees of The Water Works Board of the City of Birmingham (the Pension Plan) and the Other Postemployment Benefits Plan of The Water Works Board of the City of Birmingham (the OPEB Plan) and, as such, has included the Plan as a Pension Trust Fund and the OPEB Plan as an OPEB Trust Fund within the Board's financial statements.

Basis of Presentation and Basis of Accounting

The accounting policies of the Board conform to generally accepted accounting principles (GAAP) as applicable to governmental units. This report, the accounting systems and classification of accounts conform to standards of the Governmental Accounting Standards Board (GASB) or, where applicable, the Financial Accounting Standards Board (FASB).

The Board has adopted GASB Statement No. 20, *Accounting and Financial Report for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*.

On July 1, 2009, the Financial Accounting Standards Board (FASB) released the Accounting Standards Codification (ASC). The ASC became the single source of authoritative nongovernmental generally accepted accounting principles (GAAP) and is effective for periods ending after September 15, 2009. All existing accounting standards documents were superseded, and any other literature not included in the ASC is considered nonauthoritative. The adoption of the ASC did not have any impact on the Board's financial condition, results of operations and cash flows, as the ASC did not change existing GAAP. The adoption of the ASC changes the approach of referencing authoritative literature by topic rather than by type of standard. Accordingly, references to former FASB positions, statements, interpretations, opinions, bulletins or other pronouncements in the Board's notes to basic financial statements are now presented as references to the corresponding topic in the ASC.

Net Position

Net position is classified and reported in three components: net investment in capital assets; restricted net position; and unrestricted net position. The classifications are defined as follows:

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted net position** - This component of net position includes assets subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Sometimes the Board will fund outlays for a particular purpose from both restricted (e.g., restricted bond) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the enterprise fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Board's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Accounting

The Board uses funds to report on its financial position and the results of its operations determined in conformity with accounting principles generally accepted in the United States. A fund is a separate accounting entity with a self-balancing set of accounts.

The funds presented in this report are as follows:

Proprietary Fund Type

Enterprise Fund - The fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. A fund of this type is entitled Enterprise Fund in accordance with terminology set forth in accounting principles generally accepted in the United States.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fiduciary Fund Type

Pension Trust Fund - The fund is used to account for the Retirement Plan for Employees of the Board. A fund of this type is entitled Pension Trust Fund in accordance with terminology set forth in accounting principles generally accepted in the United States and is accounted for on the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Board contributions are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the Pension Plan. Investments are reported at fair value.

OPEB Trust Fund - The fund is used to account for the Other Postemployment Benefits Plan of the Board. A fund of this type is entitled an OPEB Trust Fund in accordance with terminology set forth in accounting principles generally accepted in the United States and is accounted for on the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Board contributions are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the OPEB Plan. Investments are reported at fair value.

Utility Plant and Depreciation

Utility plant is recorded at cost. Expenditures for maintenance, repairs and minor renewals are charged to operations as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts, and the gain or loss on such disposition is reflected in income. Depreciation is recorded on individual assets using the straight-line method over the estimated useful lives of the assets.

The useful lives for the principal utility plant asset classifications are as follows:

Structures and improvements	30 to 100 years
Transmission mains	100 years
Distribution mains	67 years
Purification and pumping equipment	25 to 50 years
Transportation equipment	5 to 10 years
Other equipment	3 to 50 years

Land rights have indefinite lives and are not depreciated.

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from nonexchange transactions or ancillary activities.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Board's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Trusteed Funds

Under the Series 2007-A, 2009, 2009-A, 2009-B, 2010-A, 2010-B, 2011 and 2012-A Water and Sewer Revenue Warrants indentures, the Series 2015-A and 2015-B Water Revenue Bonds, and the Series 2013-A and 2013-B General Obligation Capital Improvement Warrants Indenture (see Note 5), as supplemented and amended, certain funds and bank accounts were required to be established and controlled by a trustee. The accounts of the trusteed funds are maintained on the cash receipts and disbursements basis and are adjusted for financial statement purposes to reflect accrued receivables and payables and certain interfund transfers.

Among other uses, trusteed funds are used to make debt service payments. Accordingly, trusteed funds necessary to fund current debt service are classified as current assets on the accompanying statements of net position - enterprise fund. The trusteed funds assets include investments that are uninsured and unregistered, with the securities held by the trustee, and not in the Board's name.

Investments

Investments, which consist of money market funds and U.S. government and agency securities, are stated at fair market value based on quoted market prices with all investment income, including changes in the fair value of investments, reported in the statements of revenues, expenses and changes in net position - enterprise fund. These securities are adjusted for impairments in value considered to be other than temporary.

Cash and Cash Equivalents

For purposes of the statements of cash flows - enterprise fund, the Board considers all highly liquid, nontrusteed securities purchased with an original maturity of three months or less to be cash equivalents.

Customer Advances for Construction

Fees charged to tap into the System are recorded as liabilities until construction is complete, at which time the amounts are recognized as capital contributions in the statements of revenues, expenses and changes in net position - enterprise fund.

Materials and Supplies

Materials and supplies inventory is valued at the lower of cost (first-in, first-out basis) or market.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Unbilled Water Revenue

Revenue for water delivered but not billed is estimated and accrued monthly.

License Fees

The Board is not subject to federal, state or local taxes; however, annual payments are made to the City and other local municipalities for business license fees.

Compensated Absences

Compensated absences are recorded when vested or earned by employees in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses) until then. The Board has two items that qualify for reporting in this category. They are the deferred charge on the refunding on debt and the deferred charge relating to pension activities.

In addition to liabilities, the statements of position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has only one type of item that qualifies for reporting in this category. It is the amount related to the Board's pension activities.

Long-Term Debt

Long-term debts are reported as liabilities on the statements of net position. Bond premiums and discounts, and losses on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the current period.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amounts of long-term obligations approximate fair value because the stated interest rates on the indebtedness approximate current borrowing rates.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Board to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Budget

The Board prepares an internal operations budget for management purposes which is not subject to City or State of Alabama (State) approval.

Subsequent Events

Management has evaluated subsequent events and their potential effect on these financial statements through June 28, 2016, the audit report date.

Capital Contributions

Capital contributions are recorded for the receipt of capital grants, contributions of funds, property, lines and improvements by developers, customers or other governments. Availability fees in excess of related costs are also recorded as capital contributions.

Implementation of New Accounting Standards

As required by governmental accounting standards, the Board adopted and implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contribution Made Subsequent to the Measurement Date - an amendment to GASB Statement 68*. These statements revise existing standards for employer financial statements relating to measuring and reporting pension liabilities for employer good file pension plans provided by the Board to its employees. The implementation of GASB 68 and 71 resulted in adjustment to net position of approximately \$ 35.4 million as of January 1, 2014. The standard was applied retrospectively to the 2014 financial statements.

Future Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 72 will be effective for the Board beginning with its year ending December 31, 2016.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other than Pensions*, replaces the requirements of Statements No. 45 and No. 57. The primary objective of GASB No. 75 is to improve accounting and financial reporting for state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This statement will be effective for the Board beginning with its year ending December 31, 2017.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, identifies—in the context of the current governmental reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement supersedes GASB Statement No. 55 and will be effective for the Board beginning with its year ending December 31, 2016.

Management has not yet determined the effect that these statements will have on its financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Board of Directors approves all banks or other institutions as depositories for Board funds. The Board requires all funds on deposit to be collateralized by a pledge of unencumbered securities.

The carrying amount of cash bank balances at December 31, 2015 and 2014 totaled \$6,853,474 and \$3,234,526, respectively, and the bank balances were \$12,417,453 and \$7,725,080, respectively.

The Alabama State Legislature has enacted the Security of Alabama Funds Enhancement (SAFE) Program (Title 41, Chapter 14A, Code of Alabama 1975, as amended) that prescribes the way all Alabama public deposits are collateralized. Public deposits include the funds of any covered public entity or covered public official placed on deposit in a qualified depository, including time and demand deposit accounts and certificates of deposit but excluding bonds, notes, money market mutual funds, repurchase agreements and similar investment instruments.

Covered public entities include the state and its political subdivisions, including school boards. In the past, the bank pledged collateral directly to each public entity. Under SAFE, which is mandatory, each qualified public depository (QPD) is required to hold collateral for all of its public deposits on a pooled basis in a custody account (SAFE Custody Account) established by the State Treasurer as SAFE Administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default; a claim form would be filed with the State Treasurer, pool collateral or other means to reimburse the loss. All deposits of the Board as of December 31, 2015 and 2014 are held in a qualified public depository.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 - INVESTMENTS

Assumptions

The Board's Bond Indenture limits trustee investments to "eligible investments." The Board has not adopted a formal investment policy for trustee investments or other Board investments. Eligible investments include any of the following: federal obligations, eligible bank obligations, obligations issued by any state of the United States of America and publicly traded securities.

Disclosures

As of December 31, 2015, the Board had the following investments and maturities.

Investment Type	Market Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Trusteed Fund Securities:					
US Agency Notes	\$ 44,317,773	\$ 20,498,800	\$ 23,818,973	\$ -	\$ -
Mutual funds	66,580,141	66,580,141	-	-	-
Fixed Income Corporate Issues - Guaranteed					
Investment Contracts	<u>131,480,958</u>	<u>66,618,380</u>	<u>43,000,000</u>	<u>4,094,673</u>	<u>17,767,905</u>
	<u>\$ 242,378,872</u>	<u>\$ 153,697,321</u>	<u>\$ 66,818,973</u>	<u>\$ 4,094,673</u>	<u>\$ 17,767,905</u>

As of December 31, 2014, the Board had the following investments and maturities.

Investment Type	Market Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Trusteed Fund Securities:					
Certificates of Deposit	\$ 44,200,000	\$ 1,200,000	\$ 43,000,000	\$ -	\$ -
Fixed Income Corporate Issues - Guaranteed					
Investment Contracts	<u>39,213,584</u>	<u>-</u>	<u>21,445,679</u>	<u>-</u>	<u>17,767,905</u>
	<u>\$ 83,413,584</u>	<u>\$ 1,200,000</u>	<u>\$ 64,445,679</u>	<u>\$ -</u>	<u>\$ 17,767,905</u>

Interest Rate Risk. The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The guaranteed investment contracts contain a "full-flex" withdrawal provision allowing the Board to remove the funds at par for any purpose designated in the Trust Indenture. Should the credit rating of the contract provider be downgraded below Aa/AA level, the provider is required to collateralize at a level of 102 percent of the par value of the agreement. If the provider fails to collateralize in the event of a downgrade, the Board may remove funds in their entirety at par.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 - INVESTMENTS (CONT'D)

Credit Risk. The Board's Bond Indenture limits investments to Eligible Investments defined as: (i) Federal Obligations, (ii) Eligible Bank Obligations (fully collateralized by Federal Obligations), (iii) share or investment unit whose portfolio consists exclusively of "Eligible Investments" if purchased directly, (iv) to the extent permitted by applicable law either: (A) Repurchase agreement or collateralized investment agreement with long-term rating of at least A- by Standard & Poor's or A3 by Moody's Investor Services (Moody's), provided the obligations or securities subject to any such agreement shall be of the kind described in clauses (i), (ii) and (iii) of this definition and are fully collateralized or (B) any investment agreement issued or guaranteed by any financial institution with long-term rating of at least AA- by Standard & Poor's or AA3 by Moody's; and (v) any other investments at the time permitted by applicable law.

As of December 31, 2015, the First American Treasury Obligation was rated AAA by Standard and Poor's and Aaa by Moody's. The Guaranteed Investment Contracts investments are unrated.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Balances are held in securities that are allowed by the Indenture, which require no collateralization. The accounts are in the name of the trustee for the benefit of the holders.

If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

At December 31, 2015 and 2014, the Board's investment balances were as follows:

	2015 Carrying Amount	2015 Fair Value	2014 Carrying Amount	2014 Fair Value
Trusted Fund Securities:				
First American U.S. Treasury Money Market	\$ 44,317,773	\$ 44,317,773	\$ -	\$ -
Certificates of Deposit	-	-	61,967,905	61,967,905
Mutual Funds	66,580,141	66,580,141	-	-
Fixed Income Corporate Issues - Guaranteed Investment Contracts	<u>131,480,958</u>	<u>131,480,958</u>	<u>21,445,679</u>	<u>21,445,679</u>
	<u>\$ 242,378,872</u>	<u>\$ 242,378,872</u>	<u>\$ 83,413,584</u>	<u>\$ 83,413,584</u>

NOTE 4 - UTILITY PLANT

Balances of major classes of utility plant assets and accumulated depreciation at December 31, 2015 and changes therein for the year then ended are as follows:

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 - UTILITY PLANT (CONT'D)

	Balance at December 31, 2014	Additions	Transfers	Deletions	Balance at December 31, 2015
Nondepreciable:					
Land and land rights	\$ 37,280,023	\$ -	\$ 37	\$ -	\$ 37,280,060
Construction-in-progress	72,400,705	56,741,354	(87,694,184)	-	41,447,875
Depreciable:					
Structures and improvements	177,770,821	1,192,880	18,869,450	(293,978)	197,539,173
Equipment	838,126,871	4,234,778	68,824,697	(5,031,748)	906,154,598
Total utility plant in service	1,125,578,420	62,169,012	-	(5,325,726)	1,182,421,706
Less accumulated depreciation	(335,032,388)	(24,370,094)	-	4,686,775	(354,715,707)
Net utility plant	<u>\$ 790,546,032</u>	<u>\$ 37,798,918</u>	<u>\$ -</u>	<u>\$ (638,951)</u>	<u>\$ 827,705,999</u>

Balances of major classes of utility plant assets and accumulated depreciation at December 31, 2014 and changes therein for the year then ended are as follows:

	Balance at December 31, 2013	Additions	Transfers	Deletions	Balance at December 31, 2014
Nondepreciable:					
Land and land rights	\$ 37,271,867	\$ -	\$ 8,156	\$ -	\$ 37,280,023
Construction-in-progress	168,467,722	45,815,944	(141,882,961)	-	72,400,705
Depreciable:					
Structures and improvements	172,835,072	126,963	4,808,786	-	177,770,821
Equipment	699,771,544	2,214,339	137,066,019	(925,031)	838,126,871
Total utility plant in service	1,078,346,205	48,157,246	-	(925,031)	1,125,578,420
Less accumulated depreciation	(314,704,194)	(21,089,740)	-	761,546	(335,032,388)
Net utility plant	<u>\$ 763,642,011</u>	<u>\$ 27,067,506</u>	<u>\$ -</u>	<u>\$ (163,485)</u>	<u>\$ 790,546,032</u>

NOTE 5 - LONG-TERM OBLIGATIONS

On March 30, 2015, the Board issued \$100,205,000 of Water Revenue Refunding Bonds, Series 2015-A. The 2015-A Bonds were issued for the purpose of, 1) advance refunding all of the Board's Water and Sewer Revenue Bonds, Series 2006-A, 2) advance refunding all of the Board's Water Revenue Bonds, Series 2008-A, 3) advance refunding a portion of the Board's Water Revenue Bonds, Series 2009-A, and 4) paying the costs of issuing the Series 2015-A Bonds. The Series 2015-A Bonds are payable solely out of and secured by a pledge and assignment of the revenues attributable to the system. The bonds were issued at a premium of \$14,044,150. After issuance costs and underwriter discounts of \$900,824, \$1,402,725 was transferred to the Debt Service Fund and the remaining \$114,751,051 was deposited into the 2015-A Bonds Escrow Fund.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (CONT'D)

On March 30, 2015, the Board issued \$75,760,000 of Water Revenue Bonds, Series 2015-B. The 2015-B Bonds were issued for the purpose of 1) paying the costs of certain capital improvements to the water system including improvements for regulatory compliance, 2) funding the required deposit in the Debt Service Reserve Fund, and 3) paying the costs of issuing the Series 2015-B Bonds. The Series 2015-B Bonds are payable solely out of and secured by a pledge and assignment of the revenues attributable to the system. The bonds were issued at a premium of \$8,258,957. After issuance costs and underwriter discounts of \$677,558, \$3,341,398 was transferred to the Debt Service Reserve Fund and the remaining \$80,000,000 was deposited and available for capital improvements.

On September 15, 2014, the Board issued Subordinate Water Revenue Bonds, Series 2014-DWSRF-DL. The bonds were issued in the aggregate principal amount of \$615,000 for the purpose of funding certain capital improvements to the System. The 2014 SRF Bonds are presently outstanding in the aggregate principal amount of \$615,000 and mature or are subject to mandatory redemption in the years 2016 through 2035.

On April 17, 2013, the Board issued \$23,335,000 of Water Revenue Refunding, Series 2013-A Bonds. The 2013-A Bonds were issued for the purpose of, 1) advance refunding a portion of Board's Series 2006-A Bonds, consisting of \$5,000,000 principal amount maturing January 1, 2040, and subject to mandatory redemption beginning in 2036, and \$14,760,000 principal amount maturing January 1, 2043, subject to mandatory redemption in 2041 and 2042, and 2) paying a portion of the cost of issuing the 2013-A Bonds. The Series 2013-A Bonds are payable solely out of and secured by a pledge and assignment of the revenues attributable to the system. The bonds were issued at a discount of \$781,818. After transfer of certain funds in the Debt Service Fund of \$247,000 and payment of issuance costs and underwriter discounts of \$238,597, \$22,561,585 was deposited into a 2013-A escrow fund.

On April 17, 2013, the Board issued \$70,785,000 of Water Revenue Bonds, Series 2013-B Bonds. The 2013-B Bonds were issued for the purpose of, 1) paying the costs of certain capital improvements to the water system including improvements for regulatory compliance, enhancements in safety, security, operational performance and capacity, and maintenance and replacement of system assets, 2) funding the required deposit to the Debt Service Reserve Fund, and 3) paying the costs of issuance. The Series 2013-A Bonds are payable solely out of and secured by a pledge and assignment of the revenues attributable to the system. The bonds were issued at a premium of \$8,540,051. After transfer of certain funds in the Debt Service Fund of \$3,630,709 and payment of issuance costs and underwriter discounts of \$694,343, \$75,000,000 was deposited and available for capital improvements.

On February 1, 2013, the Board issued Subordinate Water Revenue Bonds, Series 2013-DWSRF-DL. The bonds were issued in the aggregate principal amount of \$5,780,000 for the purpose of funding certain capital improvements to the System. The 2013 SRF Bonds are presently outstanding in the aggregate principal amount of \$5,560,000 and mature or are subject to mandatory redemption in the years 2014 through 2033.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (CONT'D)

On March 15, 2012, the Board issued \$51,710,000 of Water Revenue Bonds. The 2012-A Bonds were issued for the purpose of advance refunding the Series 2004-A Bonds. The Series 2012-A Bonds are payable solely out of and secured by a pledge and assignment of the revenues attributable to the system. The bonds were issued at a premium of \$1,283,128. After issuance costs, underwriter discounts, and bond issuance premiums of \$1,804,427, \$52,807,932 was deposited into a 2004-A escrow fund.

On February 15, 2012, the Board issued Subordinate Water Revenue Bonds, Series 2012-DWSRF-DL. The bonds were issued in the aggregate principal amount of \$1,365,000 for the purpose of funding certain capital improvements to the System. The 2012 SRF Bonds are presently outstanding in the aggregate principal amount of \$1,205,000 and mature or are subject to mandatory redemption in the years 2014 through 2032.

On June 7, 2011, the Board issued \$133,565,000 of Water Revenue Bonds. The 2011 Bonds were issued for the purposes of financing the costs of certain capital improvements to the System and funding the Reserve Fund under the Trust Indenture, as amended, and paying the costs of issuance of the bonds. The Series 2011 Bonds are payable solely out of and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a premium of \$1,127,806. After issuance costs, underwriter, discounts and bond issuance premiums of \$1,171,856, \$8,520,950 was deposited into the Debt Reserve Fund, the remaining \$125,000,000 was deposited into the Construction Fund.

On February 25, 2011, the Board issued Subordinate Water Revenue Bonds, Series 2011-DWSRF-DL. The bonds were issued in the aggregate principal amount of \$2,045,000 for the purpose of funding certain capital improvements to the System. The 2011 SRF Bonds are presently outstanding in the aggregate principal amount of \$1,730,000 and mature or are subject to mandatory redemption in the years 2013 through 2031.

On November 4, 2010, the Board issued \$86,975,000 of Water Revenue Refunding Bonds. The 2010-A Bonds were issued for the purpose of refunding the Board's outstanding Series 1998-A Warrants that mature in 2021 and 2029. The Series 2010-A Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a premium of \$5,677,960. After issuance costs, underwriter discounts and bond insurance premiums of \$722,868, \$93,529,555 was deposited into an escrow fund for the 1998-A Bonds maturing in years 2021 through 2029.

On November 4, 2010, the Board issued \$7,525,000 of Taxable Water Revenue Refunding Bonds. The 2010-B Bonds were issued for the purpose of refunding the Board's outstanding Series 2004-B Taxable Water and Sewer Revenue Bonds that mature from 2011 through 2017. The Series 2010-B Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. After issuance costs, underwriter discounts and bond insurance premiums of \$65,274, \$10,767,735 was deposited into an escrow fund for the 2004-B Bonds maturing in years 2011 through 2017.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5 - LONG-TERM OBLIGATIONS (CONT'D)

On December 15, 2009, the Board issued \$73,890,000 of Subordinate Water Revenue Refunding Bonds. The Series 2009 Bonds were issued for the purposes of refunding the Board's outstanding Series 1998-A G.O., the 1998-B G.O. Warrants and the Series 2000-A G.O. Warrants, and paying the costs of issuance of the bonds. The Series 2009 Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a discount of \$59,930. After issuance costs, underwriter discounts and bond insurance premiums of \$900,732, \$1,684,959 was deposited into the Debt Reserve Fund, and the remaining \$74,514,198, which included \$3,269,819 of the Board's debt service funds related to the refunded issues, was deposited into escrow funds for the Series 1998-A G.O., the 1998-B G.O. Warrants and the Series 2000-A G.O. Warrants.

On May 1, 2009, the Board issued \$108,305,000 of Water Revenue Bonds. The 2009-A Bonds were issued for the purposes of financing the costs of certain capital improvements to the System and funding the Reserve Fund under the Trust Indenture, as amended, and paying the costs of issuance of the bonds. The Series 2009-A Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a premium of \$1,509,234. After issuance costs, underwriter discounts and bond insurance premiums of \$2,804,904, \$6,999,431 was deposited into the Debt Reserve Fund, and the remaining \$100,000,000 was deposited into the Construction Fund.

On May 1, 2009, the Board issued \$46,760,000 of Water Revenue Refunding Bonds. The 2009-B Bonds were issued for the purposes of refunding the Board's outstanding Series 1998-A Warrants that mature in the years 2011 through 2019, and paying the costs of issuance of the bonds. The Series 2009-B Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a premium of \$4,232,889. After issuance costs, underwriter discounts and bond insurance premiums of \$911,234, the remaining \$50,916,568, which included \$834,915 of the Board's debt service funds related to the refunded bonds, was deposited into an escrow fund for the 1998-A Bonds maturing in years 2011 through 2019.

On December 1, 2008, the Board issued \$10,000,000 of Water Revenue Bonds. The 2008-A Bonds were issued for the purposes of financing the costs of certain capital improvements to the System and funding the Reserve Fund under the Trust Indenture, as amended, and paying the costs of issuance of the bonds. The Series 2008-A Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a discount of \$55,218. After issuance costs, underwriter discounts and bond insurance premiums of \$210,950, \$815,538 was deposited into the Debt Reserve Fund, and the remaining \$8,918,294 was deposited into the Construction Fund.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (CONT'D)

On March 1, 2007, the Board issued \$326,305,000 of Subordinate Water and Sewer Revenue Bonds, Series 2007-A. The 2007-A Bonds were issued for the purposes of advance refunding of outstanding 2002-B Bonds, providing for the addition of a surety bond or insurance policy to the Reserve Fund under the Trust Indenture, as amended, and paying the costs of issuance of the bonds, as well as refunding the 2007-B Bonds that were issued in the amount of \$11,160,000 in February 2007 for the purpose of providing funds for the Board's capital improvement program. The Series 2007-A Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a discount of \$3,708,928. After issuance costs, underwriter discounts and bond insurance premiums of \$4,556,588, the remaining \$306,899,284 was deposited into an escrow fund for the 2002-B Bonds, and \$11,160,000 was used to pay off the 2007-B Bonds.

The debt service reserve fund for the Subordinate Water and Sewer Revenue Bonds, Series 2007-A, was funded initially with a reserve fund surety bond (the Original Surety Bond) in the approximate amount of \$27,200,000 that was issued by Ambac Assurance Corporation (Ambac). Because of rating changes that have occurred with respect to Ambac during 2008, the Board was required, by the provisions of the Subordinate Indenture, to either (i) replace the Original Surety Bond, by no later than December 5, 2008, with a surety bond or insurance policy in the same amount issued by a AAA-rated municipal bond insurer or with a letter of credit issued by a AA-rated bank or (ii) make cash deposits to the reserve fund to replace the Original Surety Bond, with such installments to be made in installments on at least a monthly basis over the 12-month period that ends November 5, 2009. The Board satisfied that replenishment requirement by making cash deposits to the Reserve Fund. In March 2009, \$10,000,000 was deposited, and the balance was funded in October 2009 from operating reserves.

On April 1, 2006, the Board issued \$90,310,000 of Water and Sewer Revenue Bonds, Series 2006-A. The 2006-A Bonds were issued for the purposes of financing the costs of certain capital improvements to the System, providing for the addition of a surety bond or insurance policy to the Reserve Fund under the Trust Indenture, as amended, and paying the costs of issuance of the bonds. The Series 2006-A Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a reoffering premium of \$1,575,287. After issuance costs, underwriter discounts and bond insurance premiums of \$1,885,287, the remaining \$90,000,000 was deposited into the Construction Fund. On April 17, 2014, the Board advance refunded a portion of Series 2006-A Bonds from the proceeds of the Series 2013-A Bonds. The portions of the Series 2006-A Bonds refunded included \$5,000,000 principal amount maturing January 1, 2040, and subject to mandatory redemption beginning in 2036 and \$14,760,000 principal amount maturing January 1, 2043, subject to mandatory redemption in 2041 and 2042.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
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NOTE 5 - LONG-TERM OBLIGATIONS (CONT'D)

Long-term debt outstanding at December 31, is summarized as follows:

	<u>2015</u>	<u>2014</u>
Series 2006-A Water and Sewer Revenue Bonds, issued April 1, 2006, 4.50% to 5.00% interest, due annually through 2043	\$ -	\$ 70,550,000
Series 2007-A Water and Sewer Revenue Bonds, issued March 1, 2007, 3.95% to 5.00% interest, due annually through 2043	313,375,000	314,890,000
Series 2008-A Water and Sewer Revenue Bonds, issued December 1, 2008, 4.00% to 5.625% interest, due annually through 2029	-	8,350,000
Series 2009-A Water and Sewer Revenue Bonds, issued May 1, 2009, 3.00% to 5.25% interest, due annually through 2039	69,380,000	99,135,000
Series 2009-B Water Revenue Refunding Bonds, issued May 1, 2009, 5.00% interest only due annually through 2011, principal and interest due annually 2012 through 2019	25,925,000	31,635,000
Series 2009 Subordinate Water Revenue Refunding Bonds, issued December 15, 2009, 3.00% to 5.00% interest, due annually through 2029	52,680,000	56,410,000
Series 2010-A Water Revenue Refunding Bonds, issued November 4, 2010, 4.00% to 5.00% interest only due annually through 2019, principal and interest due annually 2020 through 2029	86,975,000	86,975,000
Series 2010-B Taxable Water Revenue Refunding Bonds, issued November 4, 2010, 1.574% to 3.463%, due annually through 2017	2,605,000	3,875,000
Series 2011 Water Revenue Refunding Bonds, issued June 7, 2011, 3.00% to 5.00%, due annually through 2041	125,550,000	128,020,000
Series 2011 Subordinate Water Revenue Bonds, issued February 25, 2011, 3.00% to 5.00%, due 2014 through 2031	1,730,000	1,810,000
Series 2012-A Water Revenue Refunding Bonds, issued March 15, 2012, 2.00% to 5.00%, due annually through 2034	50,945,000	51,205,000
Series 2012 Subordinate Water Revenue Bonds, issued February 15, 2012, 2.00% to 5.00%, due 2014 through 2032	1,205,000	1,260,000
Series 2013-A Water Revenue Refunding Bonds, issued April 17, 2014, 2.00% to 4.00%, due annually through 2043	23,245,000	23,335,000
Series 2013-B Water Revenue Bonds, issued April 17, 2014, 5.00%, due annually 2030 through 2034	70,785,000	70,785,000
Series 2013 Subordinate Water Revenue Bonds, issued February 1, 2013, 2.00% to 5.00%, due 2014 through 2033	5,335,000	5,560,000

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (CONT'D)

	2015	2014
Series 2014 Subordinate Water Revenue Bonds, issued September 25, 2014, 2.45%, due 2016 through 2035	615,000	615,000
Series 2015-A Water Revenue Refunding Bonds, issued April 14, 2015, 3.00% to 5.00%, due 2016 through 2042	100,205,000	-
Series 2015-B Water Revenue Bonds, issued April 14, 2015, 3.00% to 5.00%, due 2016 through 2045	75,760,000	-
Total long-term debt	1,006,315,000	954,410,000
Unamortized premium (discount)	33,877,792	14,056,007
Long-term obligations	1,040,192,792	968,466,007
Less current portion	(19,335,000)	(17,845,000)
Long-term obligations - net	\$ 1,020,857,792	\$ 950,621,007

Activity during 2015 related to long-term debt principal obligations is as follows:

	Balance at 12/31/14	Additions	Payments	Balance at 12/31/15	Due Within One Year
Water Works and Sewer Board Series 2006-A	\$ 70,550,000	\$ -	\$ (70,550,000)	\$ -	\$ -
Water Works and Sewer Board Series 2007-A	314,890,000	-	(1,515,000)	313,375,000	1,595,000
Water Works and Sewer Board Series 2008-A	8,350,000	-	(8,350,000)	-	-
Water Works Board Series 2009-A	99,135,000	-	(29,755,000)	69,380,000	2,165,000
Water Works Board Series 2009-B	31,635,000	-	(5,710,000)	25,925,000	6,005,000
Water Works Board Subordinate Series 2009	56,410,000	-	(3,730,000)	52,680,000	3,840,000
Water Works Board Series 2010-A	86,975,000	-	-	86,975,000	-
Water Works Board Series 2010-B	3,875,000	-	(1,270,000)	2,605,000	1,305,000
Water Works Board Series 2011	128,020,000	-	(2,470,000)	125,550,000	2,560,000
Water Works Board Subordinate Series 2011	1,810,000	-	(80,000)	1,730,000	85,000
Water Works Board Series 2012-A	51,205,000	-	(260,000)	50,945,000	265,000
Water Works Board Subordinate Series 2012	1,260,000	-	(55,000)	1,205,000	55,000
Water Works Board Series 2013-A	23,335,000	-	(90,000)	23,245,000	95,000
Water Works Board Series 2013-B	70,785,000	-	-	70,785,000	-
Water Works Board Subordinate Series 2013	5,560,000	-	(225,000)	5,335,000	230,000
Water Works Board Subordinate Series 2014	615,000	-	-	615,000	25,000
Water Works Board Series 2015-A	-	100,205,000	-	100,205,000	450,000
Water Works Board Series 2015-B	-	75,760,000	-	75,760,000	660,000
	\$ 954,410,000	\$ 175,965,000	\$ (124,060,000)	\$ 1,006,315,000	\$ 19,335,000

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (CONT'D)

Activity during 2014 related to long-term debt principal obligations is as follows:

	Balance at 12/31/13	Additions	Payments	Balance at 12/31/14	Due Within One Year
Birmingham Water Works Board Series 2006-A	\$ 70,550,000	\$ -	\$ -	\$ 70,550,000	\$ -
Birmingham Water Works Board Series 2007-A	316,345,000	-	(1,455,000)	314,890,000	1,515,000
Birmingham Water Works Board Series 2008-A	8,710,000	-	(360,000)	8,350,000	380,000
Birmingham Water Works Board Series 2009-A	101,100,000	-	(1,965,000)	99,135,000	2,060,000
Water Works Board Series 2009-B	37,065,000	-	(5,430,000)	31,635,000	5,710,000
Water Works Board Subordinate Series 2009	60,040,000	-	(3,630,000)	56,410,000	3,730,000
Water Works Board Series 2010-A	86,975,000	-	-	86,975,000	-
Water Works Board Series 2010-B	5,115,000	-	(1,240,000)	3,875,000	1,270,000
Water Works Board Series 2011	130,405,000	-	(2,385,000)	128,020,000	2,470,000
Water Works Board Subordinate Series 2011	1,965,000	-	(155,000)	1,810,000	260,000
Water Works Board Series 2012-A	51,460,000	-	(255,000)	51,205,000	80,000
Water Works Board Subordinate Series 2012	1,315,000	-	(55,000)	1,260,000	55,000
Water Works Board Series 2013-A	23,335,000	-	-	23,335,000	90,000
Water Works Board Series 2013-B	70,785,000	-	-	70,785,000	-
Water Works Board Subordinate Series 2013	5,780,000	-	(220,000)	5,560,000	225,000
Water Works Board Subordinate Series 2014	-	615,000	-	615,000	-
	<u>\$ 970,945,000</u>	<u>\$ 615,000</u>	<u>\$ (17,150,000)</u>	<u>\$ 954,410,000</u>	<u>\$ 17,845,000</u>

The aggregate maturities of long-term debt at December 31, 2015, are as follows:

Years ending December 31,	<u>Principal</u>	<u>Interest</u>
2016	\$ 19,335,000	\$ 46,166,460
2017	20,150,000	45,359,307
2018	21,060,000	44,446,764
2019	21,995,000	43,530,698
2020	22,965,000	42,544,724
2021-2025	132,885,000	195,092,065
2026-2030	147,750,000	163,269,771
2031-2035	202,830,000	122,804,654
2036-2040	252,590,000	69,016,524
2041-2045	<u>164,755,000</u>	<u>12,895,732</u>
	<u>\$1,006,315,000</u>	<u>\$ 785,126,699</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (CONT'D)

Bond Discount

The following is a schedule of original issue discount, reoffering premium and amortization per issue at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Water Works and Sewer Board Series 2006-A reoffering premium	\$ -	\$ 865,418
Water Works and Sewer Board Series 2007-A original issue discount	(2,554,200)	(2,682,801)
Water Works and Sewer Board Series 2008-A original issue discount	-	(31,914)
Water Works Board Series 2009-A premium	605,012	1,104,217
Water Works Board Series 2009-B premium	749,278	1,152,593
Water Works Board Series 2009 discount	(31,206)	(35,859)
Water Works Board Series 2010-A premium	3,795,695	4,202,672
Water Works Board Series 2011-premium	895,212	951,636
Water Works Board Series 2012-A premium	982,924	1,071,510
Water Works Board Series 2013-A discount	(749,509)	(764,095)
Water Works Board Series 2013-B discount	8,044,638	8,222,630
Water Works Board Series 2015-A discount	13,933,941	-
Water Works Board Series 2015-B premium	<u>8,206,007</u>	<u>-</u>
Original discounts and premiums	<u>\$33,877,792</u>	<u>\$14,056,007</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (CONT'D)

Bond discounts and premiums totaling \$33,877,792 are being amortized over the terms of the respective bonds using the effective interest method. Unamortized discounts and premiums are netted against long-term debt in the accompanying statements of net position - enterprise fund.

The Series 2007-A Water and Sewer Revenue Bonds are subject to optional redemption on or after January 1, 2017 at a redemption price equal to 100%.

The Series 2009-A Water Revenue Bonds are subject to optional redemption on or after January 1, 2019 at a redemption price equal to 100%.

The Series 2009-B Water Revenue Bonds are not subject to optional redemption.

The Series 2009 Subordinate Water Revenue Bonds are subject to optional redemption on or after January 1, 2019 at a redemption price equal to 100%.

The Series 2010-A Water Revenue Bonds are subject to optional redemption on or after January 1, 2021 at a redemption price equal to 100%.

The Series 2010-B Water Revenue Bonds are not subject to optional redemption.

The Series 2011 Water Revenue Bonds are subject to optional redemption at any time on or after January 1, 2021, at a redemption price equal to 100%.

The Series 2011 Subordinate Water Revenue Bonds are subject to optional redemption on or after January 1, 2021 at a redemption price equal to 100%.

The Series 2012-A Water Revenue Bonds are subject to optional redemption on or after January 1, 2022 at a redemption price equal to 100%.

The Series 2012 Subordinate Water Revenue Bonds are subject to optional redemption on or after January 1, 2022 at a redemption price equal to 100%.

The Series 2013-A Water Revenue Bonds maturing in 2024 are subject to optional redemption on or after January 1, 2023 at a redemption price equal to 100%.

The Series 2013-B Water Revenue Bonds maturing in 2030 are subject to optional redemption on or after January 1, 2023 at a redemption price equal to 100%.

The Series 2014 Subordinate Water Revenue Bonds are subject to optional redemption on or after January 1, 2024 at a redemption price equal to 100%.

The Series 2015-A Water Revenue Refunding Bonds are priced to the optional redemption date of January 1, 2025 at 100%.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
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December 31, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (CONT'D)

The Series 2015-B Water Revenue Bonds are priced to the optional redemption date of January 1, 2025 at 100%.

Bond Issue Costs

As mentioned in Note 1 to the financial statements, in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, bond issue costs, other than insurance cost, are expensed in the period incurred.

Bond Refundings

The Board issued the Series 2015-A Refunding Revenue Bonds for the purpose of refunding all of the previously issued and outstanding 2006-A in the amount of \$70,550,000, all of the previously issued and outstanding 2008-A bonds in the amount of \$7,970,000, and a portion of the previously issued and outstanding 2009-A in the amount of \$27,695,000. Neither the assets of the trust accounts nor this defeased indebtedness are included in the accompanying statements of net position – enterprise fund.

The refunding in March 2015 resulted in an accounting loss of \$ 8,761,374 which has been capitalized in accordance with GASB Statement No. 23, and is being amortized using the effective interest method through 2042. The Board decreased its aggregate debt service by approximately \$21,229,690 and incurred an economic gain (the difference between the present values of the old debt service requirements and the new debt service requirements) of approximately \$9,375,870.

When the board defeased the previously described indebtedness, it deposited funds in certain escrow accounts sufficient to provide for the subsequent payment of principle and interest on the defeased indebtedness. Under the trust agreements, all funds deposited in the trust accounts are invested in obligations of the U.S government. Neither the assets of the trust accounts nor this defeased indebtedness are included in the accompanying statements of net position enterprise fund. The principle outstanding on this defeased indebtedness at December,2015 and 2014, was approximately \$106,215,000 and \$21,152,468 respectively.

NOTE 6 - TRUSTEED FUNDS - INVESTMENTS

Restricted assets are established to the extent required by bond resolutions for the Board's long-term debt (see Note 5) and Board action. Bond proceeds, water revenue and interest income are utilized to maintain the various funds at their required levels. Amounts not needed to fund requirements may be used for any lawful purpose. Components and descriptions of the various funds, exclusive of accrued interest, are as follows at December 31, 2015 and 2014:

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
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December 31, 2015

NOTE 6 - TRUSTEED FUNDS - INVESTMENTS (CONT'D)

	<u>2015</u>	<u>2014</u>
Construction funds	\$ 46,020,375	\$ 4,956,398
Debt service funds	43,237,615	37,677,603
Development, renewal and replacement funds	1,208,742	1,206,319
Revenue funds	99,416,348	99,879,570
Debt service reserve funds	<u>64,221,544</u>	<u>60,898,849</u>
 Total	 <u>\$ 254,104,624</u>	 <u>\$ 204,618,739</u>

Construction Funds - Construction funds account for unexpended debt proceeds and interest income thereon from the Revenue Bonds, Series 2009-A, Series 2011 and Series 2013-B.

Debt Service Funds - Debt service funds represent the principal and interest amounts for the next debt service payment due on all outstanding long-term debt.

Development, Renewal and Replacement Funds - Development, renewal and replacement funds are required for renewal and replacement of the water production, transmission and treatment facilities.

Revenue Funds - All system revenues are deposited in this fund. Monies in the Revenue Fund are applied for payment of all operating expenses. After operating expenses have been paid, remaining monies are to be used for payments into the Debt Service Fund, the Reserve Fund and the Improvement Fund, in the order named, and of such amounts required by the Trust Indenture.

Debt Service Reserve Funds - The debt service reserve funds are required to maintain one year's maximum debt service for the 2007-A, 2009, 2009-A, 2010-A, 2010-B and 2011. The reserve fund requirement may be satisfied, in whole or in part, with an insurance policy, surety bond or letter of credit.

Bond resolutions place certain limitations on investments permitted by the various funds.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are summarized as follows at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Accounts payable	\$ 8,639,242	\$ 8,325,371
Agency payables	2,123,573	1,300,795
Contract retentions	245,013	674,380
Payroll deduction payables	2,535,292	2,357,104
Accrued professional fees	146,375	147,052
Workers' compensation reserve	2,469,900	2,958,313
Landfill closure costs reserve	540,190	540,190
Other payables/accruals	<u>114,651</u>	<u>116,708</u>
	 <u>\$ 16,814,236</u>	 <u>\$ 16,419,913</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
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NOTE 8 - CHANGES IN AMOUNTS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

The changes in amounts invested in capital assets, net of related debt are summarized as follows for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	\$ (138,334,225)	\$ (151,382,230)
Change in capital assets	37,159,966	26,904,021
Change in related debt	<u>(6,003,592)</u>	<u>(13,856,016)</u>
Balance at end of the year	<u>\$ (107,177,851)</u>	<u>\$ (138,334,225)</u>

NOTE 9 - EMPLOYEE BENEFIT PLANS

General Information

The Board administers one contributory single employer defined benefit retirement plan, the Retirement Plan for Employees of the Water Works Board of the City of Birmingham (the Plan), which covers all employees of the Board and the employees who were previously employed by the Industrial Water Works Board (IWWB). The following discussion summarizes key provisions of the Plan. The Plan document should be referred to for a more detailed description of terms and assumptions. The Plan issues annual audited financial statements which may be obtained by writing to the Board at 3600 First Avenue North, P.O. Box 830110, Birmingham, Alabama 35283.

The funding methods and determination of benefits payable were established by the legislative acts creating such plans and provide that the pension plan funds are to be funded from employee contributions, employer contributions, and income from the investment of accumulated funds. The cost of administering the plans is funded by the Board. The Board acts as the trustee for these plans. Separate financial statements are presented in this report for the pension funds.

Significant Accounting Policies

Basis of Accounting - The Plans financial statements are prepared using the accrual basis of accounting.

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and payable in accordance with the terms of each plan.

Estimates - The preparation of financial statements prepared in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9 - EMPLOYEE BENEFIT PLANS (CONT'D)

Change in Accounting Principle – During the year The Plan implemented GASB Statement No. 67, *Financial Reporting for Pension Plans* in 2014.

Deposits & Investments – Cash and cash equivalents include cash on hand, demand deposits, savings accounts, and short-term investments with maturities of three months or less at the time of purchase. The Plan's investments are stated at fair value. Quoted market prices are used to value investments. Investment transactions are recorded on the trade date. Realized gains and losses from sales of securities are determined using the average cost basis. In accordance with the provisions of the Plan to state investments at market value, net unrealized appreciation or depreciation for the year is reflected in the statement of changes in pension net position.

Plan Description

The Retirement Plan for Employees of the Water Works Board of the City of Birmingham (the Plan) is a single employer defined benefit pension plan formed by the Water Works Board of the City of Birmingham (the Board) to provide retirement benefits to eligible employees. The plan was established in 1951 and was funded under a group annuity contract issued by Metropolitan Life Insurance Company. In 1962, the Plan was amended and restated and all future benefits were funded through a trust fund. The Plan was amended and restated as of January 1, 1976, January 1, 1981, January 1, 1984, and January 1, 1989. Effective January 1, 2009, the Plan was further amended and restated to comply with any and all Federal laws and regulations applicable to the Plan.

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 employees' compensation during their last ten years of credited service. The accumulated plan benefits for active employees are based on their average compensation during the five years 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. Benefits to be provided via annuity contracts excluded from Plan assets are excluded from accumulated plan benefits.

Benefits Provided

A participant retiring at his normal retirement date is entitled to a benefit, payable in monthly installments equal to one-twelfth of the participant's accrued retirement income, which is calculated as the result of (a) minus (b) minus (c) where:

- (a) equals 2% of the final average earnings (as defined by the Plan) determined as of the date of calculation multiplied by the number of years and monthly fractions of continuous service to the date of calculation, and

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NOTE 9 - EMPLOYEE BENEFIT PLANS (CONT'D)

(b) equals the individual paid-up benefits, payable under the group annuity contract with Metropolitan Life Insurance Company prior to January 1, 1992, for active participants in the Plan as in effect on January 1, 1962, and

(c) equals the accrued retirement income attributed to any prior period of service credited for an employee who has been re-employed by the Board after a break in service.

also provides adjusted benefits, in the case of early retirement, deferred retirement, death or disability of participant. Benefit provisions are established and may be amended by the Board.

Contributions

The contribution requirements of the plan members are established and may be amended by the Board. Plan members were required to contribute seven percent (7%) of their annual covered salary in 2015 and 2014. The Board is required to contribute at an actuarially determined rate. The Board made the decision to adopt a new funding policy for the fiscal year January 1, 2014 to December 31, 2014. The new funding policy is to contribute the employer's normal cost plus the unfunded actuarial accrued liability that is based on an effective amortization period, of approximately 16 years, determined based on a contribution schedule increasing 4% per year beginning with a contribution of \$4,500,000 for 2014. The Board's funding policy for 2013 was to contribute the employer normal cost plus the unfunded actuarial accrued liability that is based on a 12-year level dollar amortization period. All contributions made during 2014 and 2013 were cash contributions. Administrative costs of the Plan are financed through investment earnings.

Membership Data

At December 31, 2015, the most recent measurement date of the net pension liability, membership data for the pension plans are as follows:

Retired participants and beneficiaries	292
Vested terminated participants	7
Active participants	<u>603</u>
	<u>902</u>

The Plan issues a stand-alone financial reports. See page 41 for the address where the report can be obtained.

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NOTE 9 - EMPLOYEE BENEFIT PLANS (CONT'D)

Net Pension Liability

The net pension liability (NPL) is the difference between the "Total Pension Liability" (TPL) and the plan's "fiduciary net position" (FNP). The total pension liability (TPL) is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. The TPL includes benefits related to projected salary and service, and automatic cost of living adjustments (COLA's). In addition, ad hoc COLAs are also included in the TPL to the extent they are substantively automatic. The FNP is determined on the same basis used by the pension plan. The Board's net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Net Pension Liability	
Measurement Date	12/31/15
Total Pension Liability	\$ 170,927,086
Fiduciary Net Position	<u>127,302,063</u>
Net Pension Liability	<u>\$ 43,625,023</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	74.48%

Schedule of Changes in Net Pension Liability

The Changes in Net Pension Liability Plan for the fiscal year ended December 31, 2015, are as follows:

Change in Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Service Cost	\$ 4,031,007	-	\$ 4,031,007
Interest on Total Pension Liability	11,758,667	-	11,758,667
Change in Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(23,124)	-	(23,124)
Employer Contribution	-	4,709,350	(4,709,350)
Employee Contributions	-	2,740,313	(2,740,313)
Pension Plan Net Investment Income	-	(396,188)	396,188
Assumption Changes	2,640,952	-	2,640,952
Benefit Payments, including Refunds	(8,525,285)	(8,525,285)	-
Administrative Expense	-	(348,395)	348,395
Net Change	<u>9,882,217</u>	<u>(1,820,205)</u>	<u>11,702,422</u>
Net Pension Liability Beginning	<u>161,044,869</u>	<u>129,122,268</u>	<u>31,922,601</u>
Net Pension Liability Ending	<u>\$ 170,927,086</u>	<u>127,302,063</u>	<u>\$ 43,625,023</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
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NOTE 9 - EMPLOYEE BENEFIT PLANS (CONT'D)

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates (as a percentage of pay) and that employer contributions will be made in accordance with the current funding policy of paying contributions starting with \$4,500,000 for Fiscal 2014, increasing by 4% per year for future years, until the Plan is fully funded, after which point contributions will be reduced to the actuarially determined normal cost including expected administrative expenses. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. For the prior year, the discount rate was 7.50%.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Board, calculated using the discount rate of 7.50%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

Sensitivity	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Plan's net pension liability	\$64,576,503	\$43,625,023	\$26,061,567

Pension Expense and Schedule of Deferred Outflows and Inflow of Resources

For the fiscal year ended December 31, 2015, the Board recognized pension expense of \$18,072,503. Deferred outflows of resources and deferred inflows of resources reported by the Board at December 31, 2015, are as follows:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ 20,237
Changes of assumptions	2,310,833	-
Net difference between projected and actual	<u>8,021,564</u>	<u>-</u>
Total	<u>\$ 10,332,397</u>	<u>\$ 20,237</u>

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December 31, 2015

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONT'D)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2015 will be recognized in pension expense as follows:

Years ended December 31,	Retirement Plan
2016	\$ 2,332,619
2017	\$2,332,619
2018	\$2,332,619
2019	\$2,332,619
2020	\$327,228
Thereafter	\$654,456

Assumptions and Other Data

Schedule of Assumptions	Retirement Plan
Valuation Date	December 31, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Effective amortization based on contribution schedule
Amortization Period	13.6 Years
Asset Valuation Method	5 Year Smooth
Investment Rate of Return	7.50%
Inflation	2.75%
Salary increases	3.00% - 11.00%, based on years of service
Mortality Rates	Mortality rates for active and terminated vested participants were based on the sex-distinct RP-2014 Employee Mortality Table, projected generationally with Scale MP2015 from 2014.
	Mortality rates for healthy annuitants were based on the sex-distinct RP-2014 Healthy Annuitant Mortality Table with rates multiplied by 1.25, projected generationally with Scale MP2015 from 2014.
	Mortality rates for disabled annuitants were based on the sex-distinct RP-2014 Disabled Retiree Mortality Table with rates multiplied by 1.25, projected generationally with Scale MP2015 from 2014.

The actuarial assumptions used in the December 31, 2015 measurements were based on the results of an experience study for the period January 1, 2009 to December 31, 2013.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONT'D)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	55%	6.8%
Core Fixed Income	33%	1.8%
Alternatives	10%	11.6%
Cash Equivalents	<u>2%</u>	1.2%
Total	<u>100%</u>	

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description

The Board sponsors a single-employer other postemployment benefit plan (OPEB). The OPEB provides for medical and dental insurance coverage to eligible retirees and their dependents as indicated below:

Eligibility: Participants who are retired and receiving a pension under The Water Works Board of the City of Birmingham Pension Plan or disabled with at least two years of service are eligible for coverage under the OPEB. Benefits are generally available at the earliest of the following:

- a. 30 years of service
- b. The later of age 52 and 20 years of service
- c. The later of age 54 and 10 years of service

Benefit Types: Life, medical and prescription drug benefits are provided to all eligible retirees. Dental and vision benefits are provided only to under age 65 retirees. Dependents of eligible retirees are granted the same benefits as the retiree, with the exception of life insurance coverage, which is not available to dependents.

Duration of Coverage: Coverage is available for eligible participants from the date of retirement until death. When the participant reaches age 65, health benefits will change to Medicare, with the OPEB covering premiums for Medicare Supplemental insurance. Retirees with less than 25 years of service as of January 1, 2008 are not eligible for Post-65 coverage.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
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December 31, 2015

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS (CONT'D)

Dependent Coverage: Benefits are payable to a spouse of an eligible retiree for the spouse's lifetime, regardless of when the retiree dies. When the dependent reaches age 65, health benefits will change to Medicare, with the OPEB covering premiums for Medicare Supplemental insurance. Spouses of retirees with less than 25 years of service as of January 1, 2008 are not eligible for Post-65 coverage.

At December 31, 2015, the most recent actuarial valuation date, the OPEB had 269 retired participants and beneficiaries receiving benefits. The OPEB had a total of 604 active participants.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits (OPEB) other than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition and disclosure of OPEB expenses and related liabilities and is effective for the Board for the year ended December 31, 2008. Under this statement, all state and local governmental entities that provide other postemployment benefits (OPEB) are required to report the cost of these benefits on their financial statements. The Board implemented GASB Statement No. 45 prospectively.

The statement covers postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are not offered as part of a pension plan; and long-term disability insurance for employees. These benefits, referred to as OPEB, are typically financed on a pay-as-you-go basis. The new standard introduces an accrual-basis accounting requirement; thereby recognizing the employer cost of postemployment benefits over an employee's career. The standard also introduces a consistent accounting requirement for both pension and nonpension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends and other actuarial assumptions. This amount is then discounted to determine the actuarial present value of the total projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

Once the UAAL is determined, the ARC is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made, and any difference is reported as the net OPEB obligation (NOO). In addition, required supplementary information (RSI) must be reported, including historical information about the UAAL and the progress in funding the Plan.

Funding Policy - The Board made an initial funding of the OPEB trust of \$4,000,000 in 2009. In addition, the Board funded the actuarial required contribution (ARC) to the OPEB in 2011. It is the intention of the Board to fund the ARC on an annual basis as it is determined. Currently, retirees and employees are not required to contribute to the OPEB.

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December 31, 2015

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLAN (CONT'D)

Annual OPEB Cost and Net OPEB Obligation

The Board's OPEB cost is calculated based on the ARC calculated using the projected unit credit method, an allowable cost method under GASB Statement No. 45. The ARC is the basic annual expense recognized under GASB Statement No. 45 that is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years, which is the amortization period used by the Plan. The following table shows the components of the Board's OPEB cost for the years ended December 31, 2015 and 2014, the amount actually contributed to the Plan and the changes in the Board's net OPEB obligation to the Plan:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 2,001,009	\$ 1,989,582
Interest on net OPEB obligation	(336,766)	(337,194)
Adjustment to annual required contribution	<u>343,900</u>	<u>332,033</u>
Annual OPEB cost	2,008,143	1,984,421
Contributions made	<u>(1,949,329)</u>	<u>(1,978,720)</u>
Change in net OPEB obligation	58,814	5,701
Net OPEB obligation, beginning of the year	<u>(4,490,213)</u>	<u>(4,495,914)</u>
Net OPEB (asset) obligation, end of the year	<u>\$ (4,431,399)</u>	<u>\$ (4,490,213)</u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2015 and 2014 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB (Asset) Obligation</u>
12/31/2015	\$ 2,008,143	\$ 1,949,329	97.1%	\$ (4,431,399)
12/31/2014	\$ 1,984,421	\$ 1,978,720	99.7%	\$ (4,490,213)
12/31/2013	\$ 3,615,481	\$ 897,502	24.8%	\$ (4,495,914)
12/31/2012	\$ 3,665,474	\$ 4,871,996	132.9%	\$ (7,213,893)
12/31/2011	\$ 3,535,379	\$ 4,651,072	131.6%	\$ (6,007,371)

Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the OPEB was 77% funded. The actuarial accrued liability was \$32,627,191, and the actuarial value of assets was \$25,181,083, resulting in an unfunded actuarial accrued liability of \$7,446,108. Covered payroll was approximately \$36.8 million, resulting in unfunded actuarial accrued liability as a percentage of covered payroll of 20.22%.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLAN (CONT'D)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the OPEB and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of pension funding progress and employer contributions, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of OPEB assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying Schedules of OPEB Funding Progress Employer Contributions, Net OPEB Obligation, and Employer Contributions present trend information about the amounts contributed to the OPEB by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Actuarial Methods and Assumptions

The information presented above was determined as part of the actuarial valuation at the date indicated. Projections of benefits for financial reporting purposes are based on the substantive plan (the OPEB as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation Date	January 1, 2016
Actuarial Cost Method	Unit Credit
Asset Valuation Method	Market Value
Amortization Method	Closed, 25-year level percent of payroll
Mortality	Healthy - RP-2014 Mortality Table. Disabled - RP-2014 Disabled Retiree Mortality Table
Discount Rate/Investment Return	7.50% per annum
Projected Salary Increases	3.00% - 11.00%, based on 4 years of service
Inflation Rate	2.75% per annum

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
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NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLAN (CONT'D)

Health Care Costs Rates	Under 65 combined Medical and Vision cost trend rate for - 7.00% graded to 5.00% over 4 years
	Over 65 combined Medical and Vision cost trend rate - 8.50% graded to 5.00% over 7 year
	Drug cost trend rate - 11.00% graded to 5.00% over 12 years
	Dental cost trend rate - 4.00%

NOTE 11 - DEFERRED COMPENSATION PLAN

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the participating employees. In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the deferred compensation assets and liabilities are not recorded in the accompanying statements of net position - enterprise fund.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Litigation - The Board is a party to various lawsuits and claims arising in the normal course of System business. While the results of litigation cannot be predicted with certainty, management believes that the outcome of such litigation will not have a material adverse effect on the Board's financial position or results of operations.

Self-Insurance. The Board is self-insured for workers' compensation claims up to \$500,000 per occurrence in a 12-month liability period. Claims in excess of \$500,000 are covered by an excess insurance policy. Provision is made in the financial statements for estimates of both reported claims and claims incurred but not reported.

The Board is self-insured for active and retired employees' health care coverage up to \$150,000 per covered employee during a calendar year. Claims in excess of \$150,000 are covered by an excess health policy. Provision is made in the financial statements for estimates of both reported claims and claims incurred but not reported.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONT'D)

Both of these estimates are actuarially determined using details of historical activity provided by the Board's claims administrators. The following is a reconciliation of changes in the aggregate liabilities for self-insured workers' compensation and health care coverage claims for the years ended December 31, 2015 and 2014. The end of year accrual is included in accrued expenses in the accompanying statements of net position - enterprise fund.

	2015	2014
Beginning of the year accrual	\$ 2,958,313	\$ 2,110,148
Claims expense	9,179,336	7,572,208
Claims paid	(9,667,749)	(6,724,043)
End of the year accrual	\$ 2,469,900	\$ 2,958,313

At December 31, 2015, commitments for capital expenditures totaled approximately \$7.7 million.

NOTE 13 - AGENCY AGREEMENTS

The Board, in an agreement with Jefferson County, Alabama (the County) and as provided by State of Alabama law, collects service charges for use of the County sewer disposal system from the Board's water customers as a separate item on the Board's water bills. The Board remits weekly to the County all sewer service charges collected, and it bills the County for the cost of collecting such charges which, under the agreement with the County, includes a portion of the Board's general overhead expense. Sewer service charges have been collected for the County by the Board since 1962. The Board has similar agreements with the City of Hoover (Hoover), South West Water and Alabama Utilities. The liability for unremitted collections under these agency agreements is included in accounts payable in the accompanying statements of net position - enterprise fund. The amounts charged under these agency agreements are reflected as reductions in operating expenses in the accompanying statements of revenues, expenses and changes in net position - enterprise fund.

The Board also bills its customers a State of Alabama utility tax based on a percentage of revenues. The funds collected are remitted to the State monthly. The liability for unremitted collections to the State is included in general taxes payable in the accompanying statements of net position - enterprise fund.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 13 - AGENCY AGREEMENTS (CONT'D)

Following is a summary of amounts received and disbursed and costs of collecting charges billed under the agency agreements described above for the year ended December 31, 2015:

	<u>Sewer Charges</u>	<u>State of Alabama Utility Taxes</u>
Amounts received:		
Jefferson County	\$ 149,179,322	
City of Hoover	3,849,626	
SouthWest Water	7,066,961	
Alabama Utilities	1,405,411	
Phoenix	314,657	
State of Alabama - utility taxes		\$ 5,753,666
Total amounts received	<u>161,815,977</u>	<u>5,753,666</u>
Amounts disbursed:		
Jefferson County	148,297,723	
City of Hoover	3,870,140	
SouthWest Water	7,020,546	
GUSC Moody	1,490,095	
Phoenix	314,696	
State of Alabama - utility taxes		<u>5,809,812</u>
Total amounts disbursed	<u>160,993,200</u>	<u>5,809,812</u>
Receipts less disbursements	822,777	(56,146)
Balance at beginning of the year	<u>1,300,795</u>	<u>428,014</u>
Balance at end of the year	<u>\$ 2,123,572</u>	<u>\$ 371,868</u>
Cost of collecting charges billed:		
Jefferson County	<u>\$ 4,009,513</u>	
City of Hoover	<u>\$ 161,567</u>	
SouthWest Water	<u>\$ 295,011</u>	
Phoenix	<u>\$ 11,768</u>	
Alabama Utilities	<u>\$ 61,457</u>	

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
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December 31, 2015

NOTE 13 - AGENCY AGREEMENTS (CONT'D)

Following is a summary of amounts received and disbursed and costs of collecting charges billed under the agency agreements described above for the year ended December 31, 2014:

	<u>Sewer Charges</u>	<u>State of Alabama Utility Taxes</u>
Amounts received:		
Jefferson County	\$ 139,638,745	
City of Hoover	3,731,043	
SouthWest Water	6,899,674	
GUSC Moody	1,388,795	
Phoenix	165	
State of Alabama - utility taxes		\$ 5,541,864
Total amounts received	151,658,422	5,541,864
Amounts disbursed:		
Jefferson County	141,178,545	
City of Hoover	3,737,897	
SouthWest Water	6,988,075	
Alabama Utilities	1,405,332	
State of Alabama - utility taxes		4,912,219
Total amounts disbursed	153,309,849	4,912,219
Receipts less disbursements	(1,651,427)	629,645
Balance at beginning of the year	2,952,222	(201,631)
Balance at end of the year	\$ 1,300,795	\$ 428,014
Cost of collecting charges billed:		
Jefferson County	\$ 4,460,943	
City of Hoover	\$ 175,255	
SouthWest Water	\$ 286,448	
Alabama Utilities	\$ 56,184	

NOTE 14 - RESTATEMENT OF PRIOR YEAR BALANCES

The prior year's financial statements have been adjusted to reflect the proper treatment of deferred losses on refundings of debt in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Deferred losses on refundings resulting in the defeasance of debt are reported as deferred outflows of resources in the statement of net position.

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 14 - RESTATEMENT OF PRIOR YEAR BALANCES (CONT'D)

The prior year's financial statements have also been adjusted to reflect the reclassification of construction-in-progress to utility plant in service. This also resulted in an adjustment an increase in accumulated depreciation in the statement of net position and an increase in depreciation expense for 2014.

	As Previously Reported 12/31/14	Adjustment/ Reclass	As Restated 12/31/14
STATEMENTS OF NET POSITION			
ASSETS			
Noncurrent assets			
Net pension asset	\$ 16,169,835	(16,169,835)	\$ -
Net OPEB asset	<u>4,363,840</u>	<u>126,373</u>	<u>4,490,213</u>
Total noncurrent assets	20,533,675	(16,043,462)	4,490,213
Utility plant:			
Utility plant in service	\$1,011,079,595	42,098,120	\$ 1,053,177,715
Construction-in-progress	<u>114,498,825</u>	<u>(42,098,120)</u>	<u>72,400,705</u>
	1,125,578,420	-	1,125,578,420
Less: accumulated depreciation	<u>(334,280,202)</u>	<u>(752,186)</u>	<u>(335,032,388)</u>
Net utility plant	\$ 791,298,218	(752,186)	\$ 790,546,032
Total assets	\$1,054,017,573	(16,795,648)	\$ 1,037,221,925
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refundings of debt	-	20,566,734	20,566,734
Deferred outflow related to pension	<u>-</u>	<u>12,667,909</u>	<u>12,667,909</u>
Total deferred outflows of resources	<u>-</u>	<u>33,234,643</u>	<u>33,234,643</u>
Noncurrent liabilities			
Long-term obligations, net of current maturities	930,054,273	20,566,734	950,621,007
Net pension liability	-	31,922,601	31,922,601
Total noncurrent liabilities	<u>942,256,110</u>	<u>52,489,335</u>	<u>994,745,445</u>
Total liabilities	<u>999,363,477</u>	<u>52,489,335</u>	<u>1,051,852,812</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow of resources related to pension	-	23,124	23,124
NET POSITION			
Invested in capital assets, net of related debt	(158,148,773)	19,814,547	(138,334,226)
Restricted for debt service	178,422,582	-	178,422,582
Unrestricted	<u>34,380,286</u>	<u>(55,888,010)</u>	<u>(21,507,724)</u>
Total net position	54,654,095	(36,073,463)	18,580,632
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION			
Depreciation	20,337,553	752,186	21,089,739

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS
Last 2 Fiscal Years

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service cost	\$ 4,031,007	\$ 3,923,555
Interest on total pension liability	11,758,667	11,172,426
Change in benefit terms	-	-
Difference between expected and actual experience	(23,124)	995,470
Assumption changes	2,640,952	-
Benefit payments, including refunds	<u>(8,525,285)</u>	<u>(8,024,529)</u>
Net change in total pension liability	9,882,217	8,066,922
Total pension liability- beginning	<u>161,044,869</u>	<u>152,977,947</u>
Total pension liability- ending (a)	<u>\$ 170,927,086</u>	<u>\$ 161,044,869</u>
 Plan Fiduciary Net Position		
Employer contributions	4,709,350	7,246,003
Employee contributions	2,740,313	2,798,057
Pension plan net investment income	(396,188)	9,136,639
Benefit payments, including refunds	(8,525,285)	(8,024,529)
Administrative expense	<u>(348,395)</u>	<u>(337,198)</u>
Net change in plan fiduciary net position	(1,820,205)	10,818,972
Plan fiduciary net position - beginning	<u>129,122,268</u>	<u>118,303,296</u>
Plan fiduciary net position - end (b)	<u>\$ 127,302,063</u>	<u>\$ 129,122,268</u>
Board's net pension liability - ending (a)-(b)	<u>\$ 43,625,023</u>	<u>\$ 31,922,601</u>
 Plan fiduciary net position as a percentage of the total pension liability	74.48%	80.18%
 Covered employee payroll	\$ 37,771,701	\$ 36,473,189
 Net position liability as a percentage of covered employee payroll	115.50%	87.52%

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 2 Fiscal Years

<u>Year Ended December 31</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions in Relation to the Actuarially Determined Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
2015	\$ 4,680,000	\$ 4,709,350	\$ (29,350)	\$ 37,771,701	12.47%
2014	\$ 4,500,000	\$ 7,246,003	\$ (2,746,003)	\$ 37,483,190	19.87%

Notes to Schedule

Validation date	Actuarial determined contribution rate is calculated using a January 1st valuation date as of the beginning of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Effective amortization period determined based on contribution schedule increasing 4% per year beginning with contribution of \$4,500,000 for 2014.
Remaining amortization period	13.6 years remaining as of January 1, 2015
Asset valuation method	Market value of assets less unrecognized returns beginning with the January 1, 2009 valuation. Unrecognized return is equal to the difference between the actual market return and the expected return on the market 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	7.50% 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 portfolio's asset classes, as well as the Plan's target allocation.
Inflation rate	3.25%
Projected salary increases	3.25% - 13.25%, based on years of service
Cost of living adjustments	N/A

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULES OF OPEB FUNDING PROGRESS AND NET OPEB OBLIGATION**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded/AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (millions) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2016	\$ 25,181,083	\$ 32,627,191	\$ 7,446,108	77.2%	\$ 36.80	20.22%
1/1/2015	\$ 25,289,600	\$ 37,349,879	\$ 12,060,279	67.7%	\$ 37.80	31.93%
1/1/2014	\$ 23,647,205	\$ 36,123,818	\$ 12,476,613	65.5%	\$ 36.50	34.21%
1/1/2013	\$ 20,055,130	\$ 47,632,657	\$ 27,577,527	42.1%	\$ 37.00	74.60%
1/1/2012	\$ 15,049,878	\$ 44,693,825	\$ 29,643,947	33.7%	\$ 37.40	79.25%
12/31/2010	\$ 11,875,713	\$ 43,539,055	\$ 31,663,342	28.03%	\$ 36.20	84.41%
12/31/2009	\$ 7,426,358	\$ 41,189,353	\$ 33,762,995	18.03%	\$ 34.10	98.91%
12/31/2008		\$ 41,127,249	\$ 41,127,249	0%	\$ 33.10	124.37%

NET OPEB OBLIGATION (NOO)

Actuarial Valuation Date	Fiscal Year End	Annual Required Contribution (ARC) (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a)+(b)+(c) (d)	Annual Contribution Amount (e)	Net Increase (Decrease) in NOO (d)-(e) (f)	NOO as of Valuation Date (g)
11/01/2015	12/31/2015	\$ 2,001,009	\$ (336,766)	\$ 343,900	\$ 2,008,143	\$ 1,949,329	\$ 58,814	\$ (4,431,399)
12/31/2013	12/31/2014	\$ 1,989,582	\$ (337,194)	\$ 332,033	\$ 1,984,421	\$ 1,978,720	\$ 5,701	\$ (4,490,213)
12/31/2012	12/31/2013	\$ 3,641,437	\$ (541,042)	\$ 515,086	\$ 3,615,481	\$ 897,502	\$ 2,717,979	\$ (4,495,914)
12/31/2011	12/31/2012	\$ 3,700,336	\$ (450,553)	\$ 415,691	\$ 3,665,474	\$ 4,871,996	\$ (1,206,522)	\$ (7,213,893)
12/31/2010	12/31/2011	\$ 3,573,518	\$ (366,876)	\$ 328,737	\$ 3,535,379	\$ 4,651,072	\$ (1,115,693)	\$ (6,007,371)
12/31/2009	12/31/2010	\$ 3,633,377	\$ (245,795)	\$ 214,313	\$ 3,601,895	\$ 5,216,314	\$ (1,614,419)	\$ (4,891,679)
12/31/2008	12/31/2009	\$ 4,318,418	\$ 72,976	\$ (62,027)	\$ 4,329,367	\$ 8,579,643	\$ (4,250,276)	\$ (3,277,260)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year End	Annual Required Contribution	Percentage Contributed
12/31/15	\$ 2,001,009	97.42%
12/31/14	\$ 1,989,582	99.45%
12/31/13	\$ 3,641,437	24.65%
12/31/12	\$ 3,700,336	131.66%
12/31/11	\$ 3,573,518	130.15%
12/31/10	\$ 3,633,377	143.57%
12/31/09	\$ 4,318,418	198.68%
12/31/08	\$ 2,749,554	64.60%

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF LONG-TERM DEBT
For the year ended December 31, 2015

Maturity Date	Series 2007-A Bonds				Series 2009-A Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2016	5.000	\$ 1,595,000	\$ 14,027,900	\$ 15,622,900	5.000	\$ 2,165,000	\$ 3,476,794	\$ 5,641,794
2017	5.000	1,675,000	13,946,150	15,621,150	5.000	2,275,000	3,365,794	5,640,794
2018	5.000	1,760,000	13,860,275	15,620,275	5.000	2,390,000	3,249,169	5,639,169
2019	4.000	1,850,000	13,779,275	15,629,275	5.000	2,515,000	3,126,554	5,641,554
2020	5.000	1,930,000	13,694,025	15,624,025	5.000	2,645,000	2,997,544	5,642,544
2021	5.000	2,025,000	13,595,150	15,620,150	5.000		2,931,419	2,931,419
2022	5.000	2,130,000	13,491,275	15,621,275	5.000		2,931,419	2,931,419
2023	5.000	2,235,000	13,382,150	15,617,150	5.000		2,931,419	2,931,419
2024	4.380	2,350,000	13,274,869	15,624,869	4.380		2,931,419	2,931,419
2025	4.380	2,455,000	13,169,759	15,624,759	4.300		2,931,419	2,931,419
2026	4.750	2,565,000	13,061,550	15,626,550	4.380		2,931,419	2,931,419
2027	4.250	2,675,000	12,950,200	15,625,200	4.625	3,700,000	2,845,856	6,545,856
2028	4.250	2,795,000	12,833,963	15,628,963	4.750	3,880,000	2,668,144	6,548,144
2029	4.250	2,915,000	12,712,625	15,627,625	4.750	4,065,000	2,479,450	6,544,450
2030	4.375	14,845,000	12,525,947	27,170,947	5.125		2,382,906	2,382,906
2031	4.375	15,515,000	11,161,822	26,676,822	5.125		2,382,906	2,382,906
2032	4.375	16,215,000	10,967,728	27,182,728	5.125	4,735,000	2,261,572	6,996,572
2033	4.500	16,950,000	10,231,650	27,181,650	5.125	4,985,000	2,012,498	6,997,498
2034	4.500	17,710,000	9,451,799	27,161,799	5.125	5,245,000	1,750,353	6,995,353
2035	4.500	18,530,000	8,636,400	27,166,400	5.250	5,525,000	1,470,919	6,995,919
2036	4.500	19,385,000	7,783,313	27,168,313	5.250	5,825,000	1,172,981	6,997,981
2037	4.500	20,280,000	6,890,850	27,170,850	5.250	6,140,000	858,900	6,998,900
2038	4.500	21,220,000	5,957,100	27,177,100	5.250	6,470,000	527,888	6,997,888
2039	4.500	22,205,000	4,980,036	27,185,036	5.250	6,820,000	179,025	6,999,025
2040	4.500	23,230,000	3,957,750	27,187,750				
2041	4.500	24,305,000	2,888,213	27,193,213				
2042	4.500	25,425,000	1,769,288	27,194,288				
2043	4.500	26,605,000	598,613	27,203,613				
2044								
2045								
Total		313,375,000	285,379,675	598,754,675		69,380,000	56,797,767	126,177,767
Bond (discount) premium		(2,554,200)				605,012		
		\$ 310,820,800				\$ 69,985,012		

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF LONG-TERM DEBT (CONT'D)
For the year ended December 31, 2015

Maturity Date	Series 2009-B Bonds				Series 2009 Subordinate Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2016	5.000	6,005,000	1,146,125	7,151,125	3.000	3,840,000	2,211,831	6,051,831
2017	5.000	6,310,000	838,250	7,148,250	4.000	3,960,000	2,096,631	6,056,631
2018	5.000	6,635,000	514,625	7,149,625	3.625	4,110,000	1,938,231	6,048,231
2019	5.000	6,975,000	174,375	7,149,375	3.750	4,265,000	1,789,243	6,054,243
2020					4.000	4,420,000	1,629,306	6,049,306
2021					4.250	4,600,000	1,452,506	6,052,506
2022					5.000	4,795,000	1,257,006	6,052,006
2023					4.375	5,030,000	1,017,256	6,047,256
2024					4.375	5,245,000	797,194	6,042,194
2025					4.500	5,475,000	567,725	6,042,725
2026					4.500	1,625,000	321,350	1,946,350
2027					4.500	1,695,000	248,225	1,943,225
2028					4.750	1,770,000	171,950	1,941,950
2029					4.750	1,850,000	87,875	1,937,875
2030								
2031								
2032								
2033								
2034								
2035								
2036								
2037								
2038								
2039								
2040								
2041								
2042								
2043								
2044								
2045								
Total		<u>25,925,000</u>	<u>2,673,375</u>	<u>28,598,375</u>		<u>52,680,000</u>	<u>15,586,329</u>	<u>68,266,329</u>
Bond (discount) premium		<u>749,278</u>				<u>(31,206)</u>		
		<u>\$ 26,674,278</u>				<u>\$ 52,648,794</u>		

Series 2010-A Bonds				Series 2010-B Bonds			
Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
		4,239,713	4,239,713	2.926	1,305,000	64,111	1,369,111
		4,239,713	4,239,713	2.926	1,300,000	22,510	1,322,510
		4,239,713	4,239,713				
		4,239,713	4,239,713				
5.000	6,890,000	4,067,463	10,957,463				
5.000	7,240,000	3,714,213	10,954,213				
5.000	7,615,000	3,342,838	10,957,838				
5.000	8,000,000	2,952,463	10,952,463				
5.000	8,410,000	2,542,213	10,952,213				
4.000	8,835,000	2,125,388	10,960,388				
5.000	9,270,000	1,687,063	10,957,063				
5.000	9,745,000	1,211,688	10,956,688				
5.000	10,245,000	711,938	10,956,938				
4.250	10,725,000	227,906	10,952,906				
	<u>86,975,000</u>	<u>39,542,025</u>	<u>126,517,025</u>		<u>2,605,000</u>	<u>86,621</u>	<u>2,691,621</u>
	<u>3,795,695</u>				<u>-</u>		
	<u>\$ 90,770,695</u>				<u>\$ 2,605,000</u>		

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF LONG-TERM DEBT (CONT'D)
For the year ended December 31, 2015

Maturity Date	Series 2011 Bonds				Series 2012-A Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2016	3.000	2,560,000	5,964,463	8,524,463	2.000	265,000	1,958,400	2,223,400
2017	4.631	2,655,000	5,864,588	8,519,588	2.000	320,000	1,952,550	2,272,550
2018	4.802	2,785,000	5,736,244	8,521,244	3.000	2,105,000	1,917,775	4,022,775
2019	3.000	2,895,000	5,625,950	8,520,950	4.000	2,180,000	1,842,600	4,022,600
2020	5.000	3,015,000	5,507,150	8,522,150	5.000	2,280,000	1,742,000	4,022,000
2021	4.700	3,165,000	5,357,400	8,522,400	5.000	2,400,000	1,625,000	4,025,000
2022	5.000	3,320,000	5,200,025	8,520,025	5.000	2,520,000	1,502,000	4,022,000
2023	5.000	3,495,000	5,029,650	8,524,650	5.000	2,650,000	1,372,750	4,022,750
2024	4.027	3,655,000	4,868,675	8,523,675	3.000	2,760,000	1,265,100	4,025,100
2025	4.320	3,810,000	4,712,775	8,522,775	3.000	2,840,000	1,181,100	4,021,100
2026	4.316	3,975,000	4,544,694	8,519,694	3.250	2,930,000	1,090,888	4,020,888
2027	5.000	4,165,000	4,354,788	8,519,788	3.500	3,035,000	990,163	4,025,163
2028	4.923	4,380,000	4,142,859	8,522,859	3.500	3,140,000	882,100	4,022,100
2029	4.923	4,600,000	3,921,828	8,521,828	3.500	3,255,000	770,188	4,025,188
2030	4.923	4,835,000	3,689,591	8,524,591	3.500	3,375,000	649,944	4,024,944
2031	4.923	5,075,000	3,445,666	8,520,666	3.750	3,505,000	518,753	4,023,753
2032	4.873	5,330,000	3,190,888	8,520,888	3.875	3,645,000	380,222	4,025,222
2033	4.873	5,600,000	2,924,581	8,524,581	4.000	3,790,000	233,800	4,023,800
2034	4.873	5,875,000	2,645,006	8,520,006	4.000	3,950,000	79,000	4,029,000
2035	4.873	6,170,000	2,351,556	8,521,556				
2036	4.872	6,480,000	2,043,369	8,523,369				
2037	5.000	6,805,000	1,715,375	8,520,375				
2038	5.000	7,155,000	1,366,375	8,521,375				
2039	5.000	7,525,000	999,375	8,524,375				
2040	5.000	7,910,000	613,500	8,523,500				
2041	5.000	8,315,000	207,875	8,522,875				
2042								
2043								
2044								
2045								
Total		<u>125,550,000</u>	<u>96,024,246</u>	<u>221,574,246</u>		<u>50,945,000</u>	<u>21,954,333</u>	<u>72,899,333</u>
Bond (discount) premium		<u>895,212</u>				<u>982,924</u>		
		<u>\$ 126,445,212</u>				<u>\$ 51,927,924</u>		

Maturity Date	Series 2011 Subordinate Bonds				Series 2012 Subordinate Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2016	3.100	85,000	52,313	137,313	2.900	55,000	34,148	89,148
2017	3.100	90,000	49,600	139,600	2.900	55,000	32,553	87,553
2018	3.100	90,000	46,810	136,810	2.900	60,000	30,886	90,886
2019	3.100	95,000	43,943	138,943	2.900	60,000	29,146	89,146
2020	3.100	95,000	40,998	135,998	2.900	65,000	27,333	92,333
2021	3.100	100,000	37,975	137,975	2.900	65,000	25,448	90,448
2022	3.100	100,000	34,875	134,875	2.900	65,000	24,505	89,505
2023	3.100	105,000	31,698	136,698	2.900	70,000	22,620	92,620
2024	3.100	110,000	28,365	138,365	2.900	70,000	19,575	89,575
2025	3.100	110,000	24,955	134,955	2.900	70,000	17,545	87,545
2026	3.100	115,000	21,468	136,468	2.900	75,000	15,443	90,443
2027	3.100	120,000	17,825	137,825	2.900	75,000	13,268	88,268
2028	3.100	125,000	14,028	139,028	2.900	80,000	11,020	91,020
2029	3.100	125,000	10,153	135,153	2.900	80,000	8,700	88,700
2030	3.100	130,000	6,200	136,200	2.900	85,000	6,308	91,308
2031	3.100	135,000	2,093	137,093	2.900	85,000	3,842	88,842
2032					2.900	90,000	1,305	91,305
2033								
2034								
2035								
2036								
2037								
2038								
2039								
2040								
2041								
2042								
2043								
2044								
2045								
Total		<u>1,730,000</u>	<u>463,299</u>	<u>2,193,299</u>		<u>1,205,000</u>	<u>323,645</u>	<u>1,528,645</u>
Bond (discount) premium		<u>-</u>				<u>-</u>		
		<u>\$ 1,730,000</u>				<u>\$ 1,205,000</u>		

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF LONG-TERM DEBT (CONT'D)
For the year ended December 31, 2015

Maturity Date	Series 2013-A Bonds				Series 2013-B Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2016	2.000	95,000	863,075	958,075	5.000		3,539,250	3,539,250
2017	2.000	95,000	861,175	956,175	5.000		3,539,250	3,539,250
2018	2.000	75,000	859,475	934,475	5.000		3,539,250	3,539,250
2019	3.000	100,000	857,225	957,225	5.000		3,539,250	3,539,250
2020	3.000	100,000	854,225	954,225	5.000		3,539,250	3,539,250
2021	3.000	105,000	851,150	956,150	5.000		3,539,250	3,539,250
2022	3.000	110,000	847,925	957,925	5.000		3,539,250	3,539,250
2023	3.000	110,000	844,625	954,625	5.000		3,539,250	3,539,250
2024	3.000	115,000	841,250	956,250	5.000		3,539,250	3,539,250
2025	3.000	120,000	837,725	957,725	5.000		3,539,250	3,539,250
2026	3.000	120,000	834,125	954,125	5.000		3,539,250	3,539,250
2027	3.000	125,000	830,450	955,450	5.000		3,539,250	3,539,250
2028	3.250	130,000	826,462	956,462	5.000		3,539,250	3,539,250
2029	3.250	135,000	821,987	956,987	5.000		3,539,250	3,539,250
2030	3.250	140,000	817,175	957,175	5.000	3,580,000	3,449,750	7,029,750
2031	3.250	145,000	812,187	957,187	5.000	3,765,000	3,266,125	7,031,125
2032	3.250	150,000	807,025	957,025	5.000	3,955,000	3,073,125	7,028,125
2033	3.500	155,000	801,687	956,687	5.000	4,160,000	2,870,250	7,030,250
2034	3.500	160,000	795,975	955,975	5.000	4,370,000	2,657,000	7,027,000
2035	3.500	165,000	789,881	954,881	5.000	4,595,000	2,432,875	7,027,875
2036	3.500	170,000	783,600	953,600	5.000	4,830,000	2,197,250	7,027,250
2037	3.500	180,000	777,037	957,037	5.000	5,080,000	1,949,500	7,029,500
2038	3.750	5,155,000	677,006	5,832,006	5.000	5,340,000	1,689,000	7,029,000
2039	3.750	125,000	578,006	703,006	5.000	5,615,000	1,415,125	7,030,125
2040	3.750	130,000	573,225	703,225	5.000	5,905,000	1,127,125	7,032,125
2041	3.750	135,000	568,256	703,256	5.000	6,205,000	824,375	7,029,375
2042	3.823	4,430,000	481,050	4,911,050	5.000	6,523,000	506,125	7,031,125
2043	3.786	10,470,000	198,187	10,668,187	5.000	6,860,000	171,500	7,031,500
2044								
2045								
Total		23,245,000	21,291,171	44,536,171		70,785,000	77,178,625	147,963,625
Bond (discount) premium		(749,509)				8,044,638		
		<u>\$ 22,495,491</u>				<u>\$ 78,829,638</u>		

Maturity Date	Series 2013 Subordinate Bonds				Series 2014 Subordinate Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2016	2.750	230,000	143,550	373,550	2.450	25,000	11,887	36,887
2017	2.750	240,000	137,088	377,088	2.450	25,000	14,455	39,455
2018	2.750	245,000	130,419	375,419	2.450	25,000	13,842	38,842
2019	2.750	255,000	123,544	378,544	2.450	25,000	13,230	38,230
2020	2.750	260,000	116,462	376,462	2.450	25,000	12,618	37,618
2021	2.750	265,000	109,244	374,244	2.450	25,000	12,006	37,006
2022	2.750	275,000	101,819	376,819	2.450	30,000	11,392	41,392
2023	2.750	280,000	94,188	374,188	2.450	30,000	10,658	40,658
2024	2.750	290,000	86,350	376,350	2.450	30,000	9,922	39,922
2025	2.750	300,000	78,237	378,237	2.450	30,000	9,188	39,188
2026	2.750	305,000	69,919	374,919	2.450	30,000	8,452	38,452
2027	2.750	315,000	61,394	376,394	2.450	30,000	7,718	37,718
2028	2.750	325,000	52,594	377,594	2.450	30,000	6,982	36,982
2029	2.750	330,000	43,588	373,588	2.450	35,000	6,248	41,248
2030	2.750	340,000	34,375	374,375	2.450	35,000	5,390	40,390
2031	2.750	350,000	24,888	374,888		35,000	4,532	39,532
2032	2.750	360,000	15,125	375,125		35,000	3,676	38,676
2033	2.750	370,000	5,087	375,087		35,000	2,818	37,818
2034						40,000	1,960	41,960
2035						40,000	954	40,954
2036								
2037								
2038								
2039								
2040								
2041								
2042								
2043								
2044								
2045								
Total		<u>5,335,000</u>	<u>1,427,871</u>	<u>6,762,871</u>		<u>615,000</u>	<u>167,928</u>	<u>782,928</u>
Bond (discount) premium		<u>-</u>				<u>-</u>		
		<u>\$ 5,335,000</u>				<u>\$ 615,000</u>		

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF LONG-TERM DEBT (CONT'D)
For the year ended December 31, 2015

Maturity Date	Series 2015-A Bonds				Series 2015-B Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2016	3.000	450,000	4,880.125	5,330.125	3.000	660,000	3,552.775	4,212.775
2017	3.000	465,000	4,866,400	5,331,400	3.000	685,000	3,532,600	4,217,600
2018	3.000	480,000	4,852,225	5,332,225	3.000	300,000	3,517,825	3,817,825
2019	3.000	495,000	4,837,600	5,332,600	3.000	285,000	3,509,050	3,794,050
2020	3.000	505,000	4,822,600	5,327,600	3.000	735,000	3,493,750	4,228,750
2021	4.000	3,320,000	4,748,625	8,068,625	4.000	830,000	3,466,125	4,296,125
2022	5.000	3,470,000	4,595,475	8,065,475	5.000	860,000	3,428,025	4,288,025
2023	5.000	3,650,000	4,417,475	8,067,475	5.000	910,000	3,383,775	4,293,775
2024	5.000	3,840,000	4,230,225	8,070,225	5.000	955,000	3,337,150	4,292,150
2025	5.000	4,030,000	4,033,475	8,063,475	5.000	985,000	3,288,650	4,273,650
2026	5.000	4,240,000	3,826,725	8,066,725	5.000	1,040,000	3,238,025	4,278,025
2027	3.000	700,000	3,710,225	4,410,225	3.000	995,000	3,197,100	4,192,100
2028	3.000	720,000	3,688,925	4,408,925	3.000	1,035,000	3,166,650	4,201,650
2029	3.125	740,000	3,666,563	4,406,563	3.125	1,080,000	3,134,250	4,214,250
2030	5.000	6,180,000	3,500,500	9,680,500	3.250	1,950,000	3,085,688	5,035,688
2031	5.000	5,660,000	3,204,500	8,864,500	5.000	1,965,000	3,004,875	4,969,875
2032	5.000	2,060,000	3,011,500	5,071,500	5.000	2,205,000	2,900,625	5,105,625
2033	5.000	2,165,000	2,905,875	5,070,875	5.000	2,410,000	2,785,250	5,195,250
2034	5.000	2,275,000	2,794,875	5,069,875	5.000	2,935,000	2,651,625	5,586,625
2035	5.000	6,680,000	2,571,000	9,251,000	5.000	2,930,000	2,505,000	5,435,000
2036	5.000	7,020,000	2,228,500	9,248,500	4.599	3,115,000	2,360,125	5,475,125
2037	5.000	7,385,000	1,868,375	9,253,375	4.600	3,255,000	2,213,563	5,468,563
2038	5.000	2,765,000	1,614,625	4,379,625	4.590	3,400,000	2,060,594	5,460,594
2039	5.000	8,160,000	1,341,500	9,501,500	4.593	3,550,000	1,901,031	5,451,031
2040	5.000	8,575,000	923,125	9,498,125	4.721	5,385,000	1,692,375	7,077,375
2041	5.000	9,015,000	483,375	9,498,375	5.000	5,650,000	1,424,000	7,074,000
2042	5.000	5,160,000	129,000	5,289,000	5.000	5,940,000	1,134,250	7,074,250
2043					5.000	6,245,000	829,625	7,074,625
2044					5.000	6,365,000	509,375	7,074,375
2045					5.000	6,905,000	172,625	7,077,625
Total		100,205,000	87,753,413	187,958,413		75,760,000	78,476,376	154,236,376
Bond (discount) premium		13,933,941				8,206,007		
		<u>\$ 114,138,941</u>				<u>\$ 83,966,007</u>		

Aggregate Debt Service

Maturity Date	Principal	Interest	Total
2016	19,335,000	46,166,460	65,501,460
2017	20,150,000	45,359,307	65,509,307
2018	21,060,000	44,446,764	65,506,764
2019	21,995,000	43,530,698	65,525,698
2020	22,965,000	42,544,724	65,509,724
2021	24,140,000	41,465,511	65,605,511
2022	25,290,000	40,307,829	65,597,829
2023	26,565,000	39,029,977	65,594,977
2024	27,830,000	37,771,557	65,601,557
2025	29,060,000	36,517,191	65,577,191
2026	26,290,000	35,190,371	61,480,371
2027	27,375,000	33,978,150	61,353,150
2028	28,655,000	32,716,865	61,371,865
2029	29,935,000	31,430,611	61,365,611
2030	35,495,000	29,953,774	65,448,774
2031	36,235,000	27,832,189	64,067,189
2032	38,780,000	26,612,791	65,392,791
2033	40,620,000	24,773,496	65,393,496
2034	42,560,000	22,827,593	65,387,593
2035	44,635,000	20,758,585	65,393,585
2036	46,825,000	18,569,138	65,394,138
2037	49,125,000	16,273,600	65,398,600
2038	51,505,000	13,892,588	65,397,588
2039	54,000,000	11,394,098	65,394,098
2040	51,135,000	8,887,100	60,022,100
2041	53,625,000	6,396,094	60,021,094
2042	47,480,000	4,019,713	51,499,713
2043	50,180,000	1,797,925	51,977,925
2044	6,565,000	509,375	7,074,375
2045	6,905,000	172,625	7,077,625
Total	<u>1,006,315,000</u>	<u>785,126,699</u>	<u>1,791,441,699</u>
Bond (discount) premium	<u>33,877,791</u>		
	<u>\$ 1,040,192,791</u>		

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF CHANGES IN UTILITY PLANT ASSETS
For the year ended December 31, 2015

Account Reference		Asset Account			Balance as of December 31, 2015
		Balance as of December 31, 2014	Plant Additions	Plant Retirements	
	Utility plant in service:				
	Land and land rights:				
103110	Reservoirs	\$ 3,280,021	\$ -	\$ -	\$ 3,280,021
103115	Other sources of supply	1,188,285	-	-	1,188,285
103120	Power and pumping	6,455,092	-	-	6,455,092
103125	Purification	2,284,564	-	-	2,284,564
103130	Transmission	227,059	-	-	227,059
103135	Distribution reservoirs and standpipes	734,720	-	-	734,720
103140	Distribution	5,616,882	37	-	5,616,919
103145	General land	1,114,253	-	-	1,114,253
103150	Office	3,807,488	-	-	3,807,488
103155	Stores, shop and garage	744,648	-	-	744,648
103160	Miscellaneous	11,827,011	-	-	11,827,011
	Total land and land rights	37,280,023	37	-	37,280,060
	Structures and improvements:				
103210	Collecting and impounding reservoirs	12,880,565	721,643	-	13,602,208
103215	Lake, river and other intakes	20,689,780	5,914,437	(6,780)	26,597,437
103220	Infiltration galleries and tunnels	182,665	-	-	182,665
103225	Other water sources	1,981,662	-	-	1,981,662
103230	Power and pumping	13,541,322	83,267	(1,116)	13,623,473
103235	Purification building	28,986,229	6,255,813	(265,182)	34,976,860
103240	Distribution reservoirs and standpipes	57,194,801	3,724,549	-	60,919,350
103245	Office	22,269,236	(60,690)	-	22,208,546
103250	Stores, shop and garage	4,596,219	22,962	(1,145)	4,618,036
103255	Miscellaneous	15,448,342	3,400,349	(19,755)	18,828,936
	Total structures and improvements	177,770,821	20,062,330	(293,978)	197,539,173

Accumulated Depreciation				
Balance as of December 31, 2014	Depreciation	Retirements	Balance as of December 31, 2015	Net Balance as of December 31, 2015
\$ -	\$ -	\$ -	\$ -	\$ 3,280,021
-	-	-	-	1,188,285
-	-	-	-	6,455,092
-	-	-	-	2,284,564
-	-	-	-	227,059
-	-	-	-	734,720
-	-	-	-	5,616,919
-	-	-	-	1,114,253
-	-	-	-	3,807,488
-	-	-	-	744,648
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,827,011</u>
-	-	-	-	37,280,060
7,696,659	485,817	-	8,182,476	5,419,732
3,787,153	305,249	(4,295)	4,088,107	22,509,330
133,026	753	-	133,779	48,886
436,599	57,530	-	494,129	1,487,533
6,559,986	366,336	(664)	6,925,658	6,697,815
14,759,046	1,125,590	(229,400)	15,655,236	19,321,624
20,900,617	1,385,510	-	22,286,127	38,633,223
10,226,578	636,600	-	10,863,178	11,345,368
2,254,743	150,450	(1,145)	2,404,048	2,213,988
<u>7,092,156</u>	<u>1,151,137</u>	<u>(3,208)</u>	<u>8,240,085</u>	<u>10,588,851</u>
73,846,563	5,664,972	(238,712)	79,272,823	118,266,350

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF CHANGES IN UTILITY PLANT ASSETS (CONT'D)
For the year ended December 31, 2015

		Asset Account			
Account Reference		Balance as of December 31, 2014	Plant Additions	Plant Retirements	Balance as of December 31, 2015
	Equipment:				
103310	Boiler	\$ 177,196	\$ -	\$ -	\$ 177,196
103315	Other power production equipment	447,832	-	-	447,832
103320	Steam pumping	423,108	-	-	423,108
103323	Electric pumping	26,800,863	3,709,834	-	30,510,697
103325	Oil engine pumping equipment	24,648	-	-	24,648
103327	Other power pumping	2,330,493	-	-	2,330,493
103330	Purification system	25,894,743	-	(318,632)	25,576,111
103332	Chemical treating plant - sewer	32,010,154	7,183,231	(171,490)	39,021,895
103333	Clean water basins	19,132,298	-	-	19,132,298
103335	Filter plant	127,944,596	1,532,127	(2,132,813)	127,343,910
103340	Softening plant	6,813	-	-	6,813
103345	Transmission mains and accessories	129,439,153	569,494	-	130,008,647
103350	Distribution mains and accessories	271,960,766	23,022,026	-	294,982,792
103355	Services	68,976,811	11,087,562	-	80,064,373
103360	Meters	45,597,181	4,285,546	(159,777)	49,722,950
103365	Hydrants	24,025,149	2,365,277	-	26,390,426
103370	Office furniture and equipment	17,887,356	13,385,478	(202,942)	31,069,892
103375	Transportation	11,642,836	1,413,888	(881,492)	12,175,232
103380	Stores	33,920	-	-	33,920
103383	Shop	198,269	-	-	198,269
103385	Laboratory	2,696,277	(125,409)	(11,019)	2,559,849
103387	Tool and work	11,957,800	482,429	(725,280)	11,714,949
103390	Communication	11,548,209	2,469,852	(394,407)	13,623,654
103393	Miscellaneous	6,947,061	1,678,141	(32,582)	8,592,620
103395	Other tangible property	23,339	-	(1,315)	22,024
	Utility plant not in service	-	-	-	-
	Total equipment	<u>838,126,871</u>	<u>73,059,476</u>	<u>(5,031,749)</u>	<u>906,154,598</u>
	Total utility plant in service	1,053,177,715	93,121,843	(5,325,727)	1,140,973,831
	Construction in progress	<u>72,400,705</u>	<u>56,741,354</u>	<u>(87,694,184)</u>	<u>41,447,875</u>
	Total utility plant	<u>\$ 1,125,578,420</u>	<u>\$ 149,863,197</u>	<u>\$ (93,019,911)</u>	<u>\$ 1,182,421,706</u>

Accumulated Depreciation

Balance as of December 31, 2014	Depreciation	Retirements	Balance as of December 31, 2015	Net Balance as of December 31, 2015
\$ 177,196	\$ -	\$ -	\$ 177,196	\$ -
126,506	22,492	-	148,998	298,834
423,108	-	-	423,108	-
15,403,251	917,548	-	16,320,799	14,189,898
20,628	608	-	21,236	3,412
346,217	92,548	-	438,765	1,891,728
8,846,144	555,526	(116,306)	9,285,364	16,290,747
14,046,036	621,510	(89,265)	14,578,281	24,443,614
3,607,297	440,094	-	4,047,391	15,084,907
16,895,128	2,820,698	(2,108,222)	17,607,604	109,736,306
3,938	80	-	4,018	2,795
21,477,468	1,298,675	-	22,776,143	107,232,504
90,649,977	3,939,972	-	94,589,949	200,392,843
14,502,843	1,484,028	-	15,986,871	64,077,502
15,719,126	1,897,557	(121,084)	17,495,599	32,227,351
8,298,699	483,432	-	8,782,131	17,608,295
15,019,738	2,055,396	(202,324)	16,872,810	14,197,082
9,230,180	469,031	(720,405)	8,978,806	3,196,426
32,140	329	-	32,469	1,451
197,276	993	-	198,269	-
2,086,276	102,377	(11,019)	2,177,634	382,215
8,697,954	613,170	(654,744)	8,656,380	3,058,569
10,250,598	468,931	(394,407)	10,325,122	3,298,532
5,104,798	420,091	(28,972)	5,495,917	3,096,703
23,303	36	(1,315)	22,024	-
<u>261,185,825</u>	<u>18,705,122</u>	<u>(4,448,063)</u>	<u>275,442,884</u>	<u>630,711,714</u>
<u>335,032,388</u>	<u>24,370,094</u>	<u>(4,686,775)</u>	<u>354,715,707</u>	<u>786,258,124</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,447,875</u>
<u>\$ 335,032,388</u>	<u>\$ 24,370,094</u>	<u>\$ (4,686,775)</u>	<u>\$ 354,715,707</u>	<u>\$ 827,705,999</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULES OF OPERATING EXPENSES
For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operations:		
Sources of supply other	\$ 1,635,689	\$ 1,710,351
Power and pumping	9,684,218	10,129,905
Purification	10,244,618	10,405,781
Transmission and distribution	9,728,408	10,716,567
Customer's accounting and collection	7,166,586	7,525,413
Administrative and general	38,813,773	24,436,013
Payroll taxes	2,500,326	2,373,698
License fees - Birmingham	1,876,715	1,828,286
License fees - other	<u>2,169,071</u>	<u>2,159,017</u>
Total operations	83,819,404	71,285,031
Maintenance:		
Source of supply	489,335	449,908
Power and pumping	2,316,420	2,052,080
Purification	906,990	888,583
Transmission and distribution	8,508,477	10,593,074
Administrative and general	<u>2,794,955</u>	<u>2,408,970</u>
Total maintenance	<u>15,016,177</u>	<u>16,392,615</u>
Depreciation expense	<u>24,370,095</u>	<u>21,089,739</u>
Total operating expenses	<u>\$ 123,205,676</u>	<u>\$ 108,767,385</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
STATEMENTS OF NONOPERATING REVENUES (EXPENSES)
For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Other income:		
Investment interest income	\$ 2,245,554	\$ 2,560,117
Other interest income	11,218	17,496
Gain (loss) on disposal of property	<u> </u>	<u>(280,005)</u>
Total other income	2,256,772	2,297,608
Interest expense:		
Interest on long-term debt and long-term obligations due To the City of Birmingham, including amortization of accounting loss on advance refunding and original issue discount	(46,992,601)	(43,938,583)
Interest paid on customers' guarantee deposits	<u>(3,321)</u>	<u>(3,565)</u>
Total interest expense	(46,995,922)	(43,942,148)
Total nonoperating revenues (expenses)	<u>\$ (44,739,150)</u>	<u>\$ (41,644,540)</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF AMOUNTS ON DEPOSIT WITH TRUSTEE BY FUND
December 31, 2015

<u>Fund Type</u>	<u>Fair Market Value</u>	<u>Accrued Interest</u>	<u>Carrying Value</u>
Construction funds	\$ 46,020,375	\$ 100,813	\$ 46,121,188
Revenue funds	99,416,548	451,703	99,868,251
Debt service funds	43,237,615	1,312	43,238,927
Debt service reserve funds	64,221,544	367,066	64,588,610
Development, renewal and replacement funds	<u>1,208,742</u>	<u> </u>	<u>1,208,742</u>
	<u>\$ 254,104,824</u>	<u>\$ 920,894</u>	<u>\$ 255,025,718</u>

THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF MAJOR INDUSTRIAL/GOVERNMENTAL CUSTOMERS
(UNAUDITED)
For the year ended December 31, 2015

<u>Customer</u>	<u>Revenues</u>	<u>% Total of Operating Revenue</u>
US Steel	\$ 9,749,623	5.91%
University of Alabama at Birmingham	8,993,247	5.45%
Birmingham Housing Authority	6,030,062	3.66%
Brookwood Medical Center	1,896,821	1.15%
Samford University	1,652,830	1.00%
City of Birmingham	1,559,642	0.95%
St. Vincent's Hospital	1,494,052	0.91%
Graysville Water Company	1,431,339	0.87%
Barber's Pure Milk Company	1,397,289	0.85%
Buffalo Rock Co	<u>1,315,157</u>	<u>0.80%</u>
	<u>\$ 35,520,062</u>	<u>21.54%</u>

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SCHEDULE OF INSURANCE POLICIES
(UNAUDITED)**

Coverage Period November 1, 2014 to November 1, 2015

Type of Coverage	Policy No.	Deductible	Policy Limits
Property:			
Primary property (TIV - \$520,512,110):	B0621CSSBW0114	\$250,000	\$50,000,000
Dams and structures		250,000	50,000,000
Flood and earthquake		250,000	50,000,000
Equipment breakdown coverage		250,000	50,000,000
Contractors' equipment		10,000	5,625,474
Accounts receivable		500	5,000,000
Contingent business income (named)		24 Hours	10,000,000
Contingent business income (unnamed)			5,000,000
Auto physical damage (No over the road coverage)		5,000	5,000,000
Excess property	NHT389676	50M	(TIV) 470,512,110
Primary Liability:			
	PEP G24891574 005		
General liability		100,000	10,000,000
Public Officials liability		100,000	10,000,000
Employment practice liability		100,000	10,000,000
Employee benefit liability		100,000	10,000,000
Automobile liability		50,000	10,000,000
Uninsured/Underinsured motorist		50,000	250,000
Hired and non-owned liability		50,000	10,000,000
Excess Liability	1822401	\$10,000,000	\$10,000,000
Pollution	PEC002469902	250,000	5,000,000
Fiduciary	106202793	\$25,000	\$3,000,000
Commercial Crime			
	106202793		
Employee theft		20,000	1,000,000
Forgery or Alteration		20,000	1,000,000
Inside premises - theft of money/securities		5,000	350,000
Inside premises - robbery/burglary		5,000	350,000
Outside premises		5,000	350,000
Computer fraud		20,000	1,000,000
Funds transfer fraud		20,000	1,000,000
Money orders and counterfeit money		5,000	350,000
Cyber	ASC14B000782	50,000	5,000,000
Excess Cyber	B0621PWAT02714	5,000,000	5,000,000
Specific Excess Worker Compensation and Workers Comp Liability	SP 4051927	500,000	Statutory \$2,000,000

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
The Water Works Board of the City of Birmingham
Birmingham, Alabama

We have audited, 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, the accompanying financial statements of the business-type activities of the Water Works Board of the City of Birmingham ("the Board"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated June 28, 2016. Our report includes a reference to other auditors who audited the financial statements of the Pension and OPEB Trust Funds as described in our report on the Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Pension and OPEB Trust Funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. We did identify certain deficiencies in internal control, the Board's controls over the financial statement close and reporting processes are not effective, and are indicative of a material weakness. This material weakness resulted in a restatement of previously reported financial statements.



To the Board of Directors of
The Water Works Board of the City of Birmingham
Birmingham, Alabama
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 28, 2016

Banks, Finley White & Co

APPENDIX B-2

**Audited Financial Statements of the Board for the Year Ended
December 31, 2014**

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**The Water Works Board
of The City of Birmingham**

**Financial Statements
and Other Information**

December 31, 2014



CRI CARR
RIGGS &
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The Water Works Board of the City of Birmingham
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December 31, 2014

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Carr, Riggs & Ingram, LLC
2100 16th Avenue South
Suite 300
Birmingham, AL 35205

(205) 933-7822
(205) 933-7944 (fax)
www.cricpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Water Works Board of the City of Birmingham
Birmingham, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Water Works Board of the City of Birmingham ("the Board") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Pension and OPEB Trust Funds, discretely presented component units of the Board. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pension and OPEB Trust Funds, is based solely on the report of the other auditors. We conducted our audit 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 opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Board, as of December 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the business-type activities of the Water Works Board of the City of Birmingham as of December 31, 2013, were audited by other auditors whose report dated June 9, 2014, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of pension funding progress and employer contributions, and the schedules of OPEB funding progress, net OPEB obligation, and employer contributions on pages 4.1-4.5 and 47 and 48 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, and other auditors, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The additional information section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules of long-term debt, changes in utility plant assets, and amounts on deposit with trustee by fund and the statements of operating expenses and nonoperating revenues (expenses) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of long-term debt, changes in utility plant assets, and amounts on deposit with trustee by fund and the statements of operating expenses and nonoperating revenues (expenses) are fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of major industrial/governmental customers and schedule of insurance policies have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2015 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama

June 5, 2015

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
December 31, 2014**

This section of The Water Works Board of the City of Birmingham's ("the Board") financial statements presents management's analysis of the Board's financial performance during the fiscal year ended December 31, 2014. Please read it in conjunction with the financial statements, which follows this section:

Financial Highlights for 2014

- Total operating revenues increased 6.2% primarily due to increased residential customer water sales.
- Total operating expenses decreased 2.4% primarily due to a decrease in employee pension and other retiree benefit expenses.
- Non-operating expenses increased 2.4% primarily due to an increase in interest expense.

Overview of the Financial Statements

The Financial Statements consist of four parts: Management's Discussion and Analysis, the Basic Financial Statements, Required Supplementary Information and Additional Information. The Basic Financial Statements also include notes and required supplementary information that explain in more detail some of the information in the Financial Statements.

Required Basic Financial Statements

The Board utilizes two funds to account for its activities: an enterprise fund, which reports information about the general operations of the Board, and fiduciary funds, which report information about the Pension Trust Fund and the Other Post Employment Benefit (OPEB) Trust Fund. For information regarding the fiduciary funds of the Board, see the Statements of Pension Net Position - Pension Trust Fund and the Statement of Plan Net Position - OPEB Trust Fund in the financial statements. The Pension Trust Fund and the OPEB Trust Fund issue separate annual audited financial statements, which may be obtained by writing to the Board at 3600 First Avenue North, P.O. Box 830110, Birmingham, AL 35283.

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**

The Enterprise Fund Financial Statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer information about the Board's activities. The Statements of Net Position include all of the Board's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Board creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the Board, and assessing the liquidity and financial flexibility of the Board.

All of the Board's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Fund Net Position. This statement measures the results of the Board's operating activities and can be used to determine whether the Board has successfully recovered all of its costs through its water rates and other charges, as well as its profitability and creditworthiness.

The final required financial statement is the Statements of Cash Flows. The primary purpose of this statement is to provide information about the Board's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing, noncapital financing and capital and related financing activities and provides information regarding the sources and uses of cash that caused the change in the cash balance during the reporting period.

Financial Analysis

A summary of the Board's Enterprise Fund Statements of Net Position is presented in Table A-1.

**Table A-1
Condensed Statements of Net Position**

	2014	2013	Dollar Change	Percentage Change
Current and other assets	\$ 57,369,016	\$ 80,285,765	\$ (22,916,749)	(28.5)%
Trusteed funds	205,350,339	208,480,630	(3,130,291)	(1.5)%
Utility plant, net	791,298,218	763,642,011	27,656,207	3.6%
Total assets	<u>1,054,017,573</u>	<u>1,052,408,406</u>	<u>1,609,167</u>	0.2%
Current and other liabilities	57,107,368	55,523,996	1,583,372	2.9%
Long-term liabilities	942,256,110	959,794,380	(17,538,270)	(1.8)%
Total liabilities	<u>999,363,478</u>	<u>1,015,318,376</u>	<u>(15,954,898)</u>	(1.6)%
Net position:				
Net investment in capital assets	(158,148,773)	(176,561,399)	18,412,626	(10.4)%
Restricted	178,422,582	176,959,455	1,463,127	0.8%
Unrestricted	34,380,286	36,691,974	(2,311,688)	(6.3)%
Total net position	<u>\$ 54,654,095</u>	<u>\$ 37,090,030</u>	<u>\$ 17,564,065</u>	47.4%

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**

As shown in Table A-1, net position increased \$17.6 million from fiscal year 2013. Factors contributing to this change include an increase of \$1.6 million in total assets and a net decrease of \$15.9 million in total liabilities. The net decrease of \$15.9 million in Long-term liabilities is primarily due to principle payments on bonds.

A summary of the Board's Enterprise Fund Statement of Revenues, Expenses and Changes in Fund Net Position is presented in Table A-2.

**Table A-2
Condensed Statements of Revenues, Expenses and Changes in Fund Net Assets**

	2014	2013	Dollar Change	Percentage Change
Water revenue	\$159,693,588	\$150,335,648	\$9,357,940	6.2%
Other operating revenue	3,074,620	2,862,425	212,195	7.4%
Total operating revenue	162,768,208	153,198,073	9,570,135	6.2%
Other income, primarily interest	2,297,608	2,596,063	(298,455)	(11.5)%
Total revenues	165,065,816	155,794,136	9,271,679	6.0%
Water and sewer service expenses	83,816,716	87,454,190	(3,637,474)	(4.2)%
License fees paid to municipalities	3,987,303	3,912,205	75,098	1.9%
Total operating expenses	87,804,019	91,366,395	(3,562,376)	(3.9)%
Depreciation	20,337,553	19,479,493	858,060	4.4%
Other expenses, primarily interest on debt	43,942,148	43,285,107	657,041	1.5%
Total expenses	152,083,720	154,130,995	(2,047,275)	(1.3)%
Gain/Loss before contributions	12,982,096	1,663,141	11,318,955	680.6%
Capital Contributions	4,581,969	-	4,581,969	100.0%
Change in net position	17,564,065	1,663,141	15,900,924	956.1%
Net position at beginning of year	37,090,028	35,426,889	1,663,142	4.7%
Net position at end of year	\$54,654,093	\$37,090,030	\$17,564,066	47.4%

With total operating and non-operating revenues, including capital contributions amounting to \$169.6 million and expenses of \$152.1 million, the Board's net position increased \$17.6 million in 2014 to \$54.7 million. Interest earnings decreased as investment rates remained low. The Board experienced decreases in employee pension and other retirement benefit related costs in 2014.

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**

Financial Operations Summary

Utility Plant

The Board's utility plant increased by \$47.2 million during 2014. Major expenditures were made to maintain regulatory compliance, improve risk management, ensure adequate capacity, enhance performance and maintain and replace aging infrastructure. Total utility plant before depreciation was \$1,125.6 million and \$1,078.3 million at December 31, 2014 and 2013, respectively. Changes in utility plant (before accumulated depreciation) are displayed in the table below. At December 31, 2014, commitments for capital expenditures totaled approximately \$21 million.

Changes in Utility Plant Year-to-Year Comparison

<u>Utility Plant</u>	<u>2014</u>	<u>2013</u>	<u>Increase (decrease)</u>	<u>Percentage Change</u>
Land and land rights	\$ 37,280,023	\$ 37,271,867	\$ 8,156	0.02%
Construction-in-progress	114,498,825	169,695,117	(55,196,293)	(32.5)%
Structures and improvements	174,191,406	172,835,071	1,356,335	0.78%
Pumping equipment	28,231,174	26,413,004	1,818,170	6.88%
Transmission and distribution mains	394,971,143	374,007,636	20,963,507	5.61%
Equipment and other utility plant	376,405,849	298,123,511	78,282,338	26.26%
	<u>\$1,125,578,420</u>	<u>\$1,078,346,206</u>	<u>\$ 47,232,213</u>	<u>4.4%</u>

Debt Administration

A summary of changes in debt obligations for 2014 and 2013 is presented as follows:

**Changes in Debt
Year-to-Year Comparison**

	<u>2014</u>	<u>2013</u>	<u>Increase (decrease)</u>	<u>Percentage Change</u>
Long term debt	\$942,256,110	\$ 959,794,380	\$(17,538,270)	(1.8)%
Current maturities of long-term debt	17,845,000	17,070,000	775,000	4.5%
Total debt obligations	<u>\$960,101,110</u>	<u>\$ 976,864,380</u>	<u>\$(16,763,270)</u>	<u>(1.7)%</u>

Standard and Poor's and Moody's Investor Services, both of which are widely recognized bond rating agencies, have rated the Board's Water Revenue Bonds at AA and Aa2, respectively.

Debt service coverage on parity debt is required by the Board's bond indenture covenant to be maintained at a minimum of 1.25 times Revenue Available for Debt Service as defined in the bond indenture. Debt service coverage on parity debt was 1.95 in 2014.

**THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**

Investment Portfolio

Trusted fund balances at December 31, 2014 decreased by \$3.1 million from the end of 2014. This was mainly a result of a decrease in the construction fund balance to fund capital projects.

Economic Factors

The water industry has experienced a decline in overall consumption over the past several years. Over this same period, the Board has experienced a decline in consumption of approximately 1.75%. In addition, funding to maintain and improve infrastructure continues to be a significant need. Given these two items and the Board's focus on maintaining reasonable water rates and adequate reserves, the Board has adopted an overall poster of continuous improvement in order to identify opportunities to reduce cost and become more efficient. This approach has led to the Board being able to maintain annual operation and maintenance expense increases at less than projected amounts, increase debt service coverage above target levels and increase reserve fund balances. Also, the Board has been able to fund its capital program at approximately \$58 million annually in order to meet its regulatory compliance, risk management, capacity, performance and infrastructure replacement needs.

**The Water Works Board of the City of Birmingham
Statements of Net Position—Enterprise Fund**

<i>December 31,</i>	2014	Restated 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 3,234,526	\$ 31,165,593
Customer accounts receivable, net of allowance for doubtful accounts of \$1,296,836 and \$2,774,523 in 2014 and 2013, respectively	8,536,655	5,880,646
Unbilled water revenue	8,492,832	7,384,956
Other receivables	6,840,375	6,837,622
Materials and supplies	7,600,603	6,319,851
Prepaid expenses	2,130,350	2,802,970
Total current assets	36,835,341	60,391,638
Noncurrent assets		
Net pension asset	16,169,835	14,412,415
Net OPEB asset	4,363,840	4,791,875
Other assets	-	689,837
Total noncurrent assets	20,533,675	19,894,127
Trusted fund assets		
Cash and cash equivalents	121,205,155	104,355,339
Investments	83,413,584	102,733,689
Interest accrued on securities	731,600	1,391,602
Total trusted fund assets	205,350,339	208,480,630
Capital assets		
Utility plant:		
Utility plant in service	1,011,079,595	909,878,483
Construction-in-progress	114,498,825	168,467,722
	1,125,578,420	1,078,346,205
Less accumulated depreciation	334,280,202	314,704,194
Net utility plant	791,298,218	763,642,011
Total noncurrent assets	1,017,182,232	992,016,768
Total assets	\$ 1,054,017,573	\$ 1,052,408,406

See Accompanying Independent Auditor's Report and Notes to the Financial Statements.

December 31	2014	Restated 2013
Liabilities and Net Position		
Current Liabilities		
Accounts payable, including contract retentions	\$ 10,328,878	\$ 4,499,992
General taxes payable	877,702	981,185
Accrued expenses	6,091,040	9,905,583
Current maturities of long-term obligations	17,845,000	17,070,000
	35,142,620	32,456,760
Current liabilities payable from restricted assets		
Interest accrued on long-term obligations	21,964,748	23,067,236
Total current liabilities	57,107,368	55,523,996
Noncurrent liabilities		
Long-term obligations, net of current maturities	930,054,273	947,449,051
Customer guarantee deposits	9,484,301	8,984,650
Customer advances for construction	2,717,536	3,360,679
Total noncurrent liabilities	942,256,110	959,794,380
Net position		
Net investment in capital assets	(158,148,773)	(176,561,399)
Restricted for debt service	178,422,582	176,959,455
Unrestricted	34,380,286	36,691,974
Total net position	54,654,095	37,090,030

Total liabilities and net position	\$ 1,054,017,573	\$ 1,052,408,406
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The Water Works Board of the City of Birmingham
Statements of Revenues, Expenses and Changes in Fund Net Position—
Enterprise Fund

December 31	2014	Restated 2013
Operating revenues		
Sale of water:		
Residential	\$ 80,049,692	\$ 74,247,192
Commercial	59,883,968	57,488,800
Industrial	2,978,035	2,480,647
Other water utilities	3,511,902	3,533,706
Municipal	1,352,450	1,329,953
Public and private fire protection	3,822,889	3,396,189
Raw water	8,094,652	7,859,161
Total sale of water	159,693,588	150,335,648
Rent from utility properties	391,427	365,824
Other operating revenue	2,683,193	2,496,602
Total operating revenues	162,768,208	153,198,074
Operating expenses		
Source of supply	2,160,259	2,080,756
Power and pumping	12,181,985	11,775,319
Purification	11,294,364	11,134,383
Transmission and distribution	21,309,641	19,815,677
Customer accounting and collection	7,525,413	7,425,468
Administrative and general	29,345,054	35,342,995
License fees paid to the City of Birmingham	1,828,286	1,807,151
License fees paid to other municipalities	2,159,017	2,105,054
Depreciation	20,337,553	19,479,493
Total operating expenses	108,141,572	110,966,296
Operating income	54,626,636	42,231,778
Nonoperating revenues (expenses)		
Other income, primarily interest	2,297,608	2,716,470
Interest expense	(43,942,148)	(43,285,107)
Total nonoperating revenues (expenses)	(41,644,540)	(40,568,637)
Income before contributions	12,982,096	1,663,141
Capital contributions	4,581,969	-
Increase in net position	17,564,065	1,663,141
Net position - beginning of year as originally stated	37,090,030	46,372,289
Restatement	-	(10,945,400)
Net position - beginning of year as restated	37,090,030	35,426,889
Net position at end of the year	\$ 54,654,095	\$ 37,090,030

See Accompanying Independent Auditor's Report and Notes to the Financial Statements.

**The Water Works Board of the City of Birmingham
Statements of Cash Flows—Enterprise Fund**

Year ended December 31	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from potable water customers	\$ 150,679,709	\$ 143,506,732
Cash received from raw water customers	7,832,804	7,960,141
Cash received from rent of utility properties	391,427	365,824
Cash received from other operating revenues	2,683,193	2,496,602
Cash received for agency agreements	156,589,589	143,379,146
Cash payments for agency agreements	(158,222,068)	(144,076,781)
Payments to suppliers	(57,297,991)	(60,012,971)
Payments to employees	(30,738,767)	(37,480,611)
Net cash provided by operating activities	71,917,896	56,138,082
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital for construction	4,581,969	-
Purchases of capital assets	(48,157,247)	(51,508,915)
Proceeds from asset disposition	-	117,465
Customer advances for construction	(643,143)	3,043,672
Proceeds from debt	615,000	104,804,840
Bond issue costs paid	-	956,605
Payment on long-term debt	(17,150,000)	(32,762,965)
Interest paid on debt	(45,041,071)	(41,003,868)
Other	-	(1,558,794)
Net cash provided (used) in capital and related financing activities	(105,794,492)	(17,911,960)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(348,840,240)	(453,811,789)
Proceeds from sale and maturities of investment securities	351,548,154	434,616,928
Interest on investments	3,237,615	1,270,595
Net cash (used) provided by investing activities	5,945,529	(17,924,266)
Net (decrease) increase in cash and cash equivalents	(27,931,067)	20,301,856
Cash and cash equivalents at beginning of the year	31,165,593	10,863,737
Cash and cash equivalents at end of the year	\$ 3,234,526	\$ 31,165,593

(Continued on the following page.)

See Accompanying Independent Auditor's Report and Notes to the Financial Statements.

**The Water Works Board of the City of Birmingham
Statements of Cash Flows (continued)—Enterprise Fund**

Year ended December 31	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 54,626,636	\$ 42,231,778
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,337,553	19,479,493
Provision for (reduction in) bad debts	(1,477,687)	689,340
Changes in operating assets and liabilities:		
Customer accounts receivable	(1,178,322)	747,425
Unbilled water revenue	(1,107,876)	(313,837)
Other receivables	(2,753)	(4,573,795)
Materials and supplies	(1,280,752)	(546,973)
Prepaid expenses	672,620	(310,810)
Net pension asset	(1,757,420)	375,912
Other assets	689,837	(6,319)
Net OPEB asset	428,035	2,346,260
Accrued interest receivable	660,002	-
Accounts payable, including contract retentions	5,828,886	(4,080,859)
General taxes payable	(103,483)	(291,987)
Accrued expenses	(4,917,031)	(188,152)
Customer guarantee deposits	499,651	580,606
Net cash provided by operating activities	\$ 71,917,896	\$ 56,138,082

**SUPPLEMENTAL DISCLOSURE OF
NONCASH CAPITAL AND RELATED
FINANCING ACTIVITIES**

Amortization of bond issue costs	\$ (625,904)	\$ (1,062,563)
Unamortized bond issue costs related to defeased debt included in deferred debt	-	580,389

See Accompanying Independent Auditor's Report and Notes to the Financial Statements.

**The Water Works Board of the City of Birmingham
Statements of Pension Net Position—Pension Trust Fund**

December 31	2014	2013
Assets:		
Cash and cash equivalents	\$ 12,829,259	\$ 5,650,112
Investments, at market	115,978,564	112,371,133
Accrued interest and dividends	314,445	282,051
Total assets	129,122,268	118,303,296
Liabilities and net position:		
Net position held in trust for pension benefits	\$ 129,122,268	\$ 118,303,296

See Accompanying Independent Auditor's Report and Notes to the Financial Statements.

The Water Works Board of the City of Birmingham
Statements of Changes in Pension Net Position—Pension Trust Fund

Year ended December 31	2014	2013
Net position held in trust for pension benefits, beginning of the year	\$ 118,303,296	\$ 101,205,668
Additions:		
Employer contributions	7,246,003	6,996,140
Employee contributions	2,797,693	2,671,028
Investment income	2,666,911	3,254,828
Net realized gain (loss) on sale of assets	1,141,846	15,262,475
Changes in unrealized appreciation (depreciation)	5,852,071	(3,116,117)
Total additions (deductions), net	19,704,524	25,068,354
Deductions:		
Distributions to participants	8,024,529	7,351,387
Administrative expenses	861,023	619,339
Total deductions	8,885,552	7,970,726
Net increase (decrease)	10,818,972	17,097,628
Total net position held in trust for pension benefits, end of the year	\$ 129,122,268	\$ 118,303,296

See Accompanying Independent Auditor's Report and Notes to the Financial Statements.

**The Water Works Board of the City of Birmingham
Statements of Plan Net Position—OPEB Trust Fund**

December 31	2014	2013
Assets:		
Cash and cash equivalents	\$ 708,569	\$ 1,589,072
Investments, at market	24,540,299	22,030,216
Accrued interest and dividends	40,732	27,917
Total assets	<u>\$ 25,289,600</u>	<u>\$ 23,647,205</u>
Liabilities and net position:		
Net position held in trust for Other Post Employment Benefits	<u>\$ 25,289,600</u>	<u>\$ 23,647,205</u>

See Accompanying Independent Auditor's Report and Notes to the Financial Statements.

**The Water Works Board of the City of Birmingham
Statements of Changes in Plan Net Position—OPEB Trust Fund**

Year ended December 31	2014	2013
Net position held in trust for pension benefits, beginning of the year	\$ 23,647,205	\$ 20,055,130
Additions:		
Employer contributions	1,978,720	897,502
Employee contributions		
Investment income	542,179	441,469
Net realized gain (loss) on sale of assets	919,609	962,977
Changes in unrealized appreciation (depreciation)	189,302	2,234,565
Total additions (deductions), net	<u>3,629,810</u>	<u>4,536,513</u>
Deductions:		
Benefits	1,554,536	482,926
Premiums	359,017	352,764
Administrative expenses	73,862	108,748
Total deductions	<u>1,987,415</u>	<u>944,438</u>
Net increase (decrease)	<u>1,642,395</u>	<u>3,592,075</u>
Total net position held in trust for Other Post Employment Benefits, end of the year	<u>\$ 25,289,600</u>	<u>\$ 23,647,205</u>

See Accompanying Independent Auditor's Report and Notes to the Financial Statements.

The Water Works Board of the City of Birmingham

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Water Works Board of the City of Birmingham ("the Board") is a public corporation incorporated on November 21, 1950, pursuant to a resolution adopted by the governing board of the City of Birmingham (the City). The Board's directors are appointed by the Birmingham City Council. The Board operates and manages water filtration plants, a water distribution system, sewage treatment plants (until sold during 2008) and waste water collection systems (collectively referred to as the System) in Jefferson County, Alabama and portions of adjacent counties.

In evaluating the Board as a reporting entity, management has determined that the Board is financially accountable for the Retirement Plan for Employees of the Water Works Board of the City of Birmingham (the Pension Plan) and the Other Postemployment Benefits Plan of the Water Works Board of the City of Birmingham (the OPEB Plan) and, as such, has included the Plan as a Pension Trust Fund and the OPEB Plan as an OPEB Trust Fund within the Board's financial statements.

Basis of Presentation and Basis of Accounting

The accounting policies of the Board conform to generally accepted accounting principles (GAAP) as applicable to governmental units. This report, the accounting systems and classification of accounts conform to standards of the Governmental Accounting Standards Board (GASB) or, where applicable, the Financial Accounting Standards Board (FASB).

The Board has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*.

On July 1, 2009, the Financial Accounting Standards Board (FASB) released the Accounting Standards Codification (ASC). The ASC became the single source of authoritative nongovernmental generally accepted accounting principles (GAAP) and is effective for periods ending after September 15, 2009. All existing accounting standards documents were superseded, and any other literature not included in the ASC is considered nonauthoritative. The adoption of the ASC did not have any impact on the Board's financial condition, results of operations and cash flows, as the ASC did not change existing GAAP. The adoption of the ASC changes the approach of referencing authoritative literature by topic rather than by type of standard. Accordingly, references to former FASB positions, statements, interpretations, opinions, bulletins or other pronouncements in the Board's notes to basic financial statements are now presented as references to the corresponding topic in the ASC.

Net Position

Net position is classified and reported in three components: net investment in capital assets; restricted net position; and unrestricted net position. These classifications are defined as follows:

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted net position - This component of net position includes assets subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Sometimes the Board will fund outlays for a particular purpose from both restricted (e.g., restricted bond) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the enterprise fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Board's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Accounting

The Board uses funds to report on its financial position and the results of its operations determined in conformity with accounting principles generally accepted in the United States. A fund is a separate accounting entity with a self-balancing set of accounts.

The funds presented in this report are as follows:

Proprietary Fund Type

Enterprise Fund - The fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. A fund of this type is entitled Enterprise Fund in accordance with terminology set forth in accounting principles generally accepted in the United States.

The Water Works Board of the City of Birmingham

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Type

Pension Trust Fund - The fund is used to account for the Retirement Plan for Employees of the Board. A fund of this type is entitled Pension Trust Fund in accordance with terminology set forth in accounting principles generally accepted in the United States and is accounted for on the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Board contributions are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the Pension Plan. Investments are reported at fair value.

OPEB Trust Fund - The fund is used to account for the Other Postemployment Benefits Plan of the Board. A fund of this type is entitled an OPEB Trust Fund in accordance with terminology set forth in accounting principles generally accepted in the United States and is accounted for on the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Board contributions are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the OPEB Plan. Investments are reported at fair value.

Utility Plant and Depreciation

Utility plant is recorded at cost. Expenditures for maintenance, repairs and minor renewals are charged to operations as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts, and the gain or loss on such disposition is reflected in income. Depreciation is recorded on individual assets using the straight-line method over the estimated useful lives of the assets.

The useful lives for the principal utility plant asset classifications are as follows:

Structures and improvements	30 to 100 years
Transmission mains	100 years
Distribution mains	67 years
Purification and pumping equipment	25 to 50 years
Transportation equipment	5 to 10 years
Other equipment	3 to 50 years

Land rights have indefinite lives and are not depreciated.

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from nonexchange transactions or ancillary activities.

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Board's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Trusted Funds

Under the Series 2006-A, 2007-A, 2007-B, 2008-A, 2009, 2009-A, 2009-B, 2010-A, 2010-B, and 2011 Water and Sewer Revenue Warrants indentures and the Series 2013-A and 2013-B General Obligation Capital Improvement Warrants indenture (see Note 5), as supplemented and amended, certain funds and bank accounts were required to be established and controlled by a trustee. The accounts of the trusted funds are maintained on the cash receipts and disbursements basis and are adjusted for financial statement purposes to reflect accrued receivables and payables and certain interfund transfers.

Among other uses, trusted funds are used to make debt service payments. Accordingly, trusted funds necessary to fund current debt service are classified as current assets on the accompanying statements of net position - enterprise fund. The trusted funds assets include investments that are uninsured and unregistered, with the securities held by the trustee, and not in the Board's name.

Investments

Investments, which consist of money market funds and U.S. government and agency securities, are stated at fair market value based on quoted market prices with all investment income, including changes in the fair value of investments, reported in the statements of revenues, expenses and changes in net position enterprise fund. These securities are adjusted for impairments in value considered to be other than temporary.

Cash and Cash Equivalents

For purposes of the statements of cash flows - enterprise fund, the Board considers all highly liquid, nontrusted securities purchased with an original maturity of three months or less to be cash equivalents.



The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Customer Advances for Construction

Fees charged to tap into the System are recorded as liabilities until construction is complete, at which time the amounts are recognized as capital contributions in the enterprise fund statements of revenues, expenses and changes in net position.

Materials and Supplies

Materials and supplies inventory is valued at the lower of cost (first-in, first-out basis) or market.

Unbilled Water Revenue

Revenue for water delivered but not billed is estimated and accrued monthly.

License Fees

The Board is not subject to federal, state or local taxes; however, annual payments are made to the City and other local municipalities for business license fees.

Compensated Absences

Compensated absences are recorded when vested or earned by employees in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses) until then.

Long-term Debt

Long-term debts are reported as liabilities on the statements of net position. Bond premiums and discounts, and losses on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the current period.

The Water Works Board of the City of Birmingham

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amounts of long-term obligations approximate fair value because the stated interest rates on the indebtedness approximate current borrowing rates.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Board to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Budget

The Board prepares an internal operations budget for management purposes which is not subject to City or State of Alabama (State) approval.

Subsequent Events

On March 27, 2015, the Board authorized the issuance of Water Revenue Refunding Bonds, Series 2015-A and Water Revenue Bonds, Series 2015-B in the amount of \$100,000,000 and 75,700,000, respectively. The closing date was March 30, 2015.

Management has evaluated subsequent events and their potential effects on these financial statements through June 5, 2015, the audit report date.

Capital Contributions

Capital contributions are recorded for the receipt of capital grants, contributions of funds, property, lines and improvements by developers, customers or other governments. Availability fees in excess of related costs are also recorded as capital contributions.

Future Accounting Pronouncements

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*, replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. Statement No. 68 will be effective for the Board beginning with its year ending December 31, 2015.

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*; an amendment of GASB Statement No. 68, requires a state or local government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68 and will be effective for the Board beginning with its year ending December 31, 2015.

Management has not yet determined the effect that these Statements will have on its financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Board of Directors approves all banks or other institutions as depositories for Board funds. The Board requires all funds on deposit to be collateralized by a pledge of unencumbered securities.

The carrying amount of cash bank balances at December 31, 2014 and 2013 totaled \$3,234,526 and \$31,165,593, respectively, and the bank balances were \$7,725,080 and \$34,093,719, respectively.

The Alabama State Legislature has enacted the Security of Alabama Funds Enhancement (SAFE) Program (Title 41, Chapter 14A, Code of Alabama 1975, as amended) that prescribes the way all Alabama public deposits are collateralized. Public deposits include the funds of any covered public entity or covered public official placed on deposit in a qualified depository, including time and demand deposit accounts and certificates of deposit but excluding bonds, notes, money market mutual funds, repurchase agreements and similar investment instruments. Covered public entities include the state and its political subdivisions, including school boards. In the past, the bank pledged collateral directly to each public entity. Under SAFE, which is mandatory, each qualified public depository (QPD) is required to hold collateral for all of its public deposits on a pooled basis in a custody account (SAFE Custody Account) established by the State Treasurer as SAFE Administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default; a claim form would be filed with the State Treasurer, pool collateral or other means to reimburse the loss. All deposits of the Board as of December 31, 2014 and 2013 are held in a qualified public depository.

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 3 - INVESTMENTS

Assumptions

The Board's Bond Indenture limits trustee investments to "eligible investments." The Board has not adopted a formal investment policy for trustee investments or other Board investments. Eligible investments include any of the following: federal obligations, eligible bank obligations, obligations issued by any state of the United States of America and publicly traded securities.

Disclosures

As of December 31, 2014, the Board had the following investments and maturities.

Investment Type	Market Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Trusteed Fund					
Securities:					
Certificates of Deposit	\$ 61,967,905	\$ 1,200,000	\$ 43,000,000	\$ -	\$ 17,767,905
Fixed Income Corporate Issues - Guaranteed					
Investment Contracts	21,445,679	-	21,445,679	-	-
	<u>\$ 83,413,584</u>	<u>\$ 1,200,000</u>	<u>\$ 64,445,679</u>	<u>\$ -</u>	<u>\$ 17,767,905</u>

As of December 31, 2013, the Board had the following investments and maturities.

Investment Type	Market Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Trusteed Fund					
Securities:					
First American					
Treasury Obligation	\$ 4,223,851	\$ 4,223,851	\$ -	\$ -	\$ -
Certificates of Deposit	64,490,000	63,290,000	1,200,000	-	-
Fixed Income Corporate Issues - Guaranteed					
Investment Contracts	34,019,838	15,390,385	18,629,453	-	-
	<u>\$ 102,733,689</u>	<u>\$ 82,904,236</u>	<u>\$ 19,829,453</u>	<u>\$ -</u>	<u>\$ -</u>

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Interest Rate Risk. The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The guaranteed investment contracts contain a "full-flex" withdrawal provision allowing the Board to remove the funds at par for any purpose designated in the Trust Indenture. Should the credit rating of the contract provider be downgraded below Aa/AA level, the provider is required to collateralize at a level of 102 percent of the par value of the agreement. If the provider fails to collateralize in the event of a downgrade, the Board may remove funds in their entirety at par.

Credit Risk. The Board's Bond Indenture limits investments to Eligible Investments defined as: (i) Federal Obligations, (ii) Eligible Bank Obligations (fully collateralized by Federal Obligations), (iii) share or investment unit whose portfolio consists exclusively of "Eligible Investments" if purchased directly, (iv) to the extent permitted by applicable law either: (A) Repurchase agreement or collateralized investment agreement with long-term rating of at least A- by Standard & Poor's or A3 by Moody's Investor Services (Moody's), provided the obligations or securities subject to any such agreement shall be of the kind described in clauses (i), (ii) and (iii) of this definition and are fully collateralized or (B) any investment agreement issued or guaranteed by any financial institution with long-term rating of at least AA- by Standard & Poor's or AA3 by Moody's; and (v) any other investments at the time permitted by applicable law.

As of December 31, 2014, the First American Treasury Obligation (included in cash and cash equivalents) was rated AAA by Standard and Poor's and Aaa by Moody's. The Guaranteed Investment Contracts investments are unrated.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Balances are held in securities that are allowed by the Indenture, which require no collateralization; or are invested in investment contracts that are collateralized. Any cash balances held are collateralized as trust deposits. The accounts are in the name of the trustee for the benefit of the holders.

**The Water Works Board of the City of Birmingham
Notes to Financial Statements**

NOTE 3 – INVESTMENTS (CONTINUED)

At December 31, 2014 and 2013, the Board's investment balances were as follows:

	2014 Carrying Amount	2014 Fair Value	2013 Carrying Amount	2013 Fair Value
Trusted Fund Securities:				
First American U.S. Treasury Money Market	\$ -	\$ -	\$ 4,223,851	\$ 4,223,851
Certificates of Deposit	61,967,905	61,967,905	64,490,000	64,490,000
Fixed Income Corporate Issues - Guaranteed Investment Contracts	21,445,679	21,445,679	34,019,838	34,019,838
	<u>\$ 83,413,584</u>	<u>\$ 83,413,584</u>	<u>\$ 102,733,689</u>	<u>\$ 102,733,689</u>

NOTE 4 - UTILITY PLANT

Balances of major classes of utility plant assets and accumulated depreciation at December 31, 2014 and changes therein for the year then ended are as follows:

	Balance at December 31, 2013	Additions	Transfers	Deletions	Balance at December 31, 2014
Nondepreciable:					
Land and land rights	\$ 37,271,867	\$ -	\$ 8,156	-	\$ 37,280,023
Construction-in-progress	168,467,722	45,815,944	(99,784,841)	-	114,498,825
Depreciable:					
Structures and improvements	172,835,072	126,963	1,229,372	-	174,191,407
Equipment	699,771,544	2,214,339	98,547,313	(925,031)	799,608,165
Total utility plant in service	1,078,346,205	48,157,246	-	(925,031)	1,125,578,420
Less accumulated depreciation	(314,704,194)	(20,337,554)	-	761,546	(334,280,202)
Net utility plant	<u>\$ 763,642,011</u>	<u>\$ 27,819,692</u>	<u>\$ -</u>	<u>\$ (163,485)</u>	<u>\$ 791,298,218</u>

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 4 - UTILITY PLANT (CONTINUED)

Balances of major classes of utility plant assets and accumulated depreciation at December 31, 2013 and changes therein for the year then ended are as follows:

	Balance at December 31, 2012	Additions	Transfers	Deletions	Balance at December 31, 2013
Nondepreciable:					
Land and land rights	\$ 37,105,252	\$ 5,280	\$ 161,335	\$ -	\$ 37,271,867
Construction-in-progress	156,206,613	46,288,041	(34,026,932)	-	168,467,722
Depreciable:					
Structures and improvements	168,271,329	2,558,034	2,005,709	-	172,835,072
Equipment	665,371,561	1,926,399	31,859,888	613,696	699,771,544
Total utility plant in service	1,026,954,755	50,777,754	-	613,696	1,078,346,205
Less accumulated depreciation	(295,720,933)	(19,479,493)	-	496,232	(314,704,194)
Net utility plant	\$ 731,233,822	\$ 31,298,261	\$ -	\$ 1,109,928	\$ 763,642,011

NOTE 5 - LONG-TERM OBLIGATIONS

On September 15, 2014, the Board issued Subordinate Water Revenue Bonds, Series 2014-DWSRF-DL. The bonds were issued in the aggregate principal amount of \$615,000 for the purpose of funding certain capital improvements to the System. The 2014 SRF Bonds are presently outstanding in the aggregate principal amount of \$615,000 and mature or are subject to mandatory redemption in the years 2016 through 2035.

On April 17, 2013, the Board issued \$23,335,000 of Water Revenue Refunding, Series 2013-A Bonds. The 2013-A Bonds were issued for the purpose of, 1) advance refunding a portion of Board's Series 2006-A Bonds, consisting of \$5,000,000 principal amount maturing January 1, 2040, and subject to mandatory redemption beginning in 2036, and \$14,760,000 principal amount maturing January 1, 2043, subject to mandatory redemption in 2041 and 2042, and 2) paying a portion of the cost of issuing the 2013-A Bonds. The Series 2013-A Bonds are payable solely out of and secured by a pledge and assignment of the revenues attributable to the system. The bonds were issued at a discount of \$781,818. After transfer of certain funds in the Debt Service Fund of \$247,000 and payment of issuance costs and underwriter discounts of \$238,597, \$22,561,585 was deposited into a 2013-A escrow fund.

On April 17, 2013, the Board issued \$70,785,000 of Water Revenue Bonds, Series 2013-B Bonds. The 2013-B Bonds were issued for the purpose of, 1) paying the costs of certain capital improvements to the water system including improvements for regulatory compliance,

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

enhancements in safety, security, operational performance and capacity, and maintenance and replacement of system assets, 2) funding the required deposit to the Debt Service Reserve Fund, and 3) paying the costs of issuance. The Series 2013-A Bonds are payable solely out of and secured by a pledge and assignment of the revenues attributable to the system. The bonds were issued at a premium of \$8,540,052. After transfer of certain funds in the Debt Service Fund of \$3,630,709 and payment of issuance costs and underwriter discounts of \$694,343, \$75,000,000 was deposited and available for capital improvements.

On February 1, 2013, the Board issued Subordinate Water Revenue Bonds, Series 2013-DWSRF-DL. The bonds were issued in the aggregate principal amount of \$5,780,000 for the purpose of funding certain capital improvements to the System. The 2013 SRF Bonds are presently outstanding in the aggregate principal amount of \$5,560,000 and mature or are subject to mandatory redemption in the years 2014 through 2033.

On March 15, 2012, the Board issued \$51,710,000 of Water Revenue Bonds. The 2012-A Bonds were issued for the purpose of advance refunding the Series 2004A Bonds. The Series 2012-A Bonds are payable solely out of and secured by a pledge and assignment of the revenues attributable to the system. The bonds were issued at a premium of \$1,283,128. After issuance costs, underwriter discounts, and bond insurance premiums of \$521,299, the remaining \$52,867,932, which included \$396,103 of the Board's debt service funds related to the refunding bonds, was deposited into a 2004-A escrow fund.

On February 15, 2012, the Board issued Subordinate Water Revenue Bonds, Series 2012-DWSRF-DL. The bonds were issued in the aggregate principal amount of \$1,365,000 for the purpose of funding certain capital improvements to the System. The 2012 SRF Bonds are presently outstanding in the aggregate principal amount of \$1,260,000 and mature or are subject to mandatory redemption in the years 2014 through 2032.

On June 7, 2011, the Board issued \$133,565,000 of Water Revenue Bonds. The 2011 Bonds were issued for the purposes of financing the costs of certain capital improvements to the System and funding the Reserve Fund under the Trust Indenture, as amended, and paying the costs of issuance of the bonds. The Series 2011 Bonds are payable solely out of and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a premium of \$1,127,806. After issuance costs, underwriter, discounts and bond insurance premiums of \$1,171,856, \$8,520,950 was deposited into the Debt Reserve Fund, the remaining \$125,000,000 was deposited into the Construction Fund.

On February 25, 2011, the Board issued Subordinate Water Revenue Bonds, Series 2011-DWSRF-DL. The bonds were issued in the aggregate principal amount of \$2,045,000 for the purpose of funding certain capital improvements to the System. The 2011 SRF Bonds are presently outstanding in the aggregate principal amount of \$1,810,000 and mature or are subject to mandatory redemption in the years 2014 through 2031.

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

On November 4, 2010, the Board issued \$86,975,000 of Water Revenue Refunding Bonds. The 2010-A Bonds were issued for the purpose of refunding the Board's outstanding Series 1998-A Warrants that mature in 2021 and 2029. The Series 2010-A Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a premium of \$5,677,960. After issuance costs, underwriter discounts and bond insurance premiums of \$722,868, the remaining \$93,529,555, which included \$1,599,463 of the Board's debt service funds related to the refunded bonds, was deposited into an escrow fund for the 1998-A Bonds maturing in years 2021 through 2029.

On November 4, 2010, the Board issued \$7,525,000 of Taxable Water Revenue Refunding Bonds. The 2010-B Bonds were issued for the purpose of refunding the Board's outstanding Series 2004-B Taxable Water and Sewer Revenue Bonds that mature from 2011 through 2017. The Series 2010-B Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. After issuance costs, underwriter discounts and bond insurance premiums of \$65,274, the remaining \$10,767,735, which included \$3,308,009 of the Board's debt service funds related to the refunded bonds, was deposited into an escrow fund for the 2004-B Bonds maturing in years 2011 through 2017.

On December 15, 2009, the Board issued \$73,890,000 of Subordinate Water Revenue Refunding Bonds. The Series 2009 Bonds were issued for the purposes of refunding the Board's outstanding Series 1998-A G.O., the 1998-B G.O. Warrants and the Series 2000-A G.O. Warrants, and paying the costs of issuance of the bonds. The Series 2009 Bonds are payable solely out of and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a discount of \$59,930. After issuance costs, underwriter discounts and bond insurance premiums of \$900,732, \$1,684,959 was deposited into the Debt Reserve Fund, and \$74,514,198, which included \$3,269,819 of the Board's debt service funds related to the refunded issues, was deposited into escrow funds for the Series 1998-A G.O. Warrants, the 1998-B G.O. Warrants and the Series 2000-A G.O. Warrants.

On May 1, 2009, the Board issued \$108,305,000 of Water Revenue Bonds. The 2009-A Bonds were issued for the purposes of financing the costs of certain capital improvements to the System and funding the Reserve Fund under the Trust Indenture, as amended, and paying the costs of issuance of the bonds. The Series 2009-A Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a premium of \$1,509,234. After issuance costs, underwriter discounts and bond insurance premiums of \$2,814,803, \$6,999,431 was deposited into the Debt Reserve Fund, and the remaining \$100,000,000 was deposited into the Construction Fund.

On May 1, 2009, the Board issued \$46,760,000 of Water Revenue Refunding Bonds. The 2009-B Bonds were issued for the purposes of refunding the Board's outstanding Series 1998-A Warrants that mature in the years 2011 through 2019, and paying the costs of issuance of the bonds. The Series 2009-B Bonds are payable solely out of, and secured by a pledge and assignment of, the

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

revenues of the Board attributable to the System. The bonds were issued at a premium of \$4,232,889. After issuance costs, underwriter discounts and bond insurance premiums of \$911,234, the remaining \$50,916,570, which included \$834,915 of the Board's debt service funds related to the refunded bonds, was deposited into an escrow fund for the 1998-A Bonds maturing in years 2011 through 2019.

On December 1, 2008, the Board issued \$10,000,000 of Water Revenue Bonds. The 2008-A Bonds were issued for the purposes of financing the costs of certain capital improvements to the System and funding the Reserve Fund under the Trust Indenture, as amended, and paying the costs of issuance of the bonds. The Series 2008-A Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a discount of \$55,218. After issuance costs, underwriter discounts and bond insurance premiums of \$210,950, \$815,538 was deposited into the Debt Reserve Fund, and the remaining \$8,918,294 was deposited into the Construction Fund.

On March 1, 2007, the Board issued \$326,305,000 of Subordinate Water and Sewer Revenue Bonds, Series 2007-A. The 2007-A Bonds were issued for the purposes of advance refunding of outstanding 2002-B Bonds, providing for the addition of a surety bond or insurance policy to the Reserve Fund under the Trust Indenture, as amended, and paying the costs of issuance of the bonds, as well as refunding the 2007-B Bonds that were issued in the amount of \$11,160,000 in February 2007 for the purpose of providing funds for the Board's capital improvement program. The Series 2007-A Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a discount of \$3,689,128. After issuance costs, underwriter discounts and bond insurance premiums of \$4,556,588, the remaining \$306,899,284 was deposited into an escrow fund for the 2002-B Bonds, and \$11,160,000 was used to pay off the 2007-B Bonds.

The debt service reserve fund for the Subordinate Water and Sewer Revenue Bonds, Series 2007-A, was funded initially with a reserve fund surety bond (the Original Surety Bond) in the approximate amount of \$27,200,000 that was issued by Ambac Assurance Corporation (Ambac). Because of rating changes that have occurred with respect to Ambac during 2008, the Board was required, by the provisions of the Subordinate Indenture, to either (i) replace the Original Surety Bond, by no later than December 5, 2008, with a surety bond or insurance policy in the same amount issued by a AAA-rated municipal bond insurer or with a letter of credit issued by a AA-rated bank or (ii) make cash deposits to the reserve fund to replace the Original Surety Bond, with such installments to be made in installments on at least a monthly basis over the 12-month period that ends November 5, 2009. The Board satisfied that replenishment requirement by making cash deposits to the Reserve Fund. In March 2009, \$10,000,000 was deposited, and the balance was funded in October 2009 from operating reserves.



The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

On April 1, 2006, the Board issued \$90,310,000 of Water and Sewer Revenue Bonds, Series 2006-A. The 2006-A Bonds were issued for the purposes of financing the costs of certain capital improvements to the System, providing for the addition of a surety bond or insurance policy to the Reserve Fund under the Trust Indenture, as amended, and paying the costs of issuance of the bonds. The Series 2006-A Bonds are payable solely out of, and secured by a pledge and assignment of, the revenues of the Board attributable to the System. The bonds were issued at a reoffering premium of \$1,575,287. After issuance costs, underwriter discounts and bond insurance premiums of \$1,885,287, the remaining \$90,000,000 was deposited into the Construction Fund. On April 17, 2014, the Board advance refunded a portion of Series 2006-A Bonds from the proceeds of the Series 2013-A Bonds. The portions of the Series 2006-A Bonds refunded included \$5,000,000 principal amount maturing January 1, 2040, and subject to mandatory redemption beginning in 2036 and \$14,760,000 principal amount maturing January 1, 2043, subject to mandatory redemption in 2041 and 2042.

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Long-term debt outstanding at December 31, is summarized as follows:

	2014	2013
Series 2006-A Water and Sewer Revenue Bonds, issued April 1, 2006, 4.50% to 5.00% interest, due annually through 2043	\$ 70,550,000	\$ 70,550,000
Series 2007-A Water and Sewer Revenue Bonds, issued March 1, 2007, 3.95% to 5.00% interest, due annually through 2043	314,890,000	316,345,000
Series 2008-A Water and Sewer Revenue Bonds, issued December 1, 2008, 4.00% to 5.625% interest, due annually through 2029	8,350,000	8,710,000
Series 2009-A Water and Sewer Revenue Bonds, issued May 1, 2009, 3.00% to 5.25% interest, due annually through 2039	99,135,000	101,100,000
Series 2009-B Water Revenue Refunding Bonds, issued May 1, 2009, 5.00% interest only due annually through 2011, principal and interest due annually 2012 through 2019	31,635,000	37,065,000
Series 2009 Subordinate Water Revenue Refunding Bonds, issued December 15, 2009, 3.00% to 5.00% interest, due annually through 2029	56,410,000	60,040,000
Series 2010-A Water Revenue Refunding Bonds, issued November 4, 2010, 4.00% to 5.00% interest only due annually through 2019, principal and interest due annually 2020 through 2029	86,975,000	86,975,000
Series 2010-B Taxable Water Revenue Refunding Bonds, issued November 4, 2010, 1.574% to 3.463%, due annually through 2017	3,875,000	5,115,000
Series 2011 Water Revenue Refunding Bonds, issued June 7, 2011, 3.00% to 5.00%, due annually through 2041	128,020,000	130,405,000
Series 2011 Subordinate Water Revenue Bonds, issued February 25, 2011, 3.00% to 5.00%, due 2014 through 2031	1,810,000	1,965,000
Series 2012-A Water Revenue Refunding Bonds, issued March 15, 2012, 2.00% to 5.00%, due annually through 2034	51,205,000	51,460,000
Series 2012 Subordinate Water Revenue Bonds, issued February 15, 2012, 2.00% to 5.00%, due 2014 through 2032	1,260,000	1,315,000
Series 2013-A Water Revenue Refunding Bonds, issued April 17, 2013, 2.00% to 4.00%, due annually through 2043	23,335,000	23,335,000
Series 2013-B Water Revenue Bonds, issued April 17, 2013, 5.00%, due annually 2030 through 2034	70,785,000	70,785,000
Series 2013 Subordinate Water Revenue Bonds, issued February 1, 2013, 2.00% to 5.00%, due 2014 through 2033	5,560,000	5,780,000
Series 2014 Subordinate Water Revenue Bonds, issued September 15, 2015, 2.45%, due 2016 through 2035	615,000	-
Total long-term debt	954,410,000	970,945,000
Unamortized premium (discount)	14,056,007	15,377,500
Unamortized accounting loss on long-term debt refunding	(20,566,734)	(21,803,449)
Long-term obligations	947,899,273	964,519,051
Less current portion	(17,845,000)	(17,070,000)
Long-term obligations - net	\$930,054,273	\$947,449,051

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Activity during 2014 related to long-term debt principal obligations is as follows:

	Balance at December 31, 2013	Additions	Payments	Balance at December 31, 2014	Due Within One Year
Water Works and Sewer Board Series 2006-A	\$ 70,550,000	\$ -	\$ -	\$ 70,550,000	\$ -
Water Works and Sewer Board Series 2007-A	316,345,000	-	(1,455,000)	314,890,000	1,515,000
Water Works Board Series 2008-A	8,710,000	-	(360,000)	8,350,000	380,000
Water Works Board Series 2009-A	101,100,000	-	(1,965,000)	99,135,000	2,060,000
Water Works Board Series 2009-B	37,065,000	-	(5,430,000)	31,635,000	5,710,000
Water Works Board Subordinate Series 2009	60,040,000	-	(3,630,000)	56,410,000	3,730,000
Water Works Board Series 2010-A	86,975,000	-	-	86,975,000	-
Water Works Board Series 2010-B	5,115,000	-	(1,240,000)	3,875,000	1,270,000
Water Works Board Series 2011	130,405,000	-	(2,385,000)	128,020,000	2,470,000
Water Works Board Series 2012-A	51,460,000	-	(255,000)	51,205,000	260,000
Water Works Board Sub Series 2011	1,965,000	-	(155,000)	1,810,000	80,000
Water Works Board Sub Series 2012	1,315,000	-	(55,000)	1,260,000	55,000
Water Works Bond Series 2013-A	23,335,000	-	-	23,335,000	90,000
Water Works Board Series 2013-B	70,785,000	-	-	70,785,000	-
Water Works Board Sub Series 2013	5,780,000	-	(220,000)	5,560,000	225,000
Water Works Board Sub Series 2014	-	615,000	-	615,000	-
	<u>\$ 970,945,000</u>	<u>\$ 615,000</u>	<u>\$ (17,150,000)</u>	<u>\$ 954,410,000</u>	<u>\$17,845,000</u>

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Activity during 2013 related to long-term debt principal obligations is as follows:

	Balance at			Balance at	
	December 31, 2012	Additions		Payments	December 31, 2013
Water Works and Sewer Board Series 2006-A	\$ 90,310,000	\$ -	\$ (19,760,000)	\$ 70,550,000	
Water Works and Sewer Board Series 2007-A	317,740,000	-	(1,395,000)	316,345,000	
Water Works Board Series 2008-A	9,055,000	-	(345,000)	8,710,000	
Water Works Board Series 2009-A	102,990,000	-	(1,890,000)	101,100,000	
Water Works Board Series 2009-B	42,230,000	-	(5,165,000)	37,065,000	
Water Works Board Subordinate Series 2009	63,555,000	-	(3,515,000)	60,040,000	
Water Works Board Series 2010-A	86,975,000	-	-	86,975,000	
Water Works Board Series 2010-B	6,330,000	-	(1,215,000)	5,115,000	
Water Works Board Series 2011	132,720,000	-	(2,315,000)	130,405,000	
Water Works Board Series 2012-A	51,710,000	-	(250,000)	51,460,000	
Water Works Board Sub Series 2011	-	1,965,000	-	1,965,000	
Water Works Board Sub Series 2012	-	1,315,000	-	1,315,000	
Water Works Bond Series 2013-A	-	23,335,000	-	23,335,000	
Water Works Board Series 2013-B	-	70,785,000	-	70,785,000	
Water Works Board Sub Series 2013	-	5,780,000	-	5,780,000	
	<u>\$ 903,615,000</u>	<u>\$ 103,180,000</u>	<u>\$ (35,850,000)</u>	<u>\$ 970,945,000</u>	

The aggregate maturities of long-term debt at December 31, 2014, are as follows:

Years ending December 31,	Principal	Interest
2015	\$ 17,845,000	\$ 43,697,798
2016	18,625,000	42,959,451
2017	19,420,000	42,165,158
2018	20,720,000	41,255,443
2019	21,680,000	40,346,517
2020-2024	122,420,000	185,264,826
2025-2029	126,200,000	155,019,264
2030-2034	195,385,000	117,067,235
2035-2039	236,620,000	67,616,170
2040-2044	175,495,000	13,555,936
	<u>\$ 954,410,000</u>	<u>\$ 748,947,798</u>

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Bond Discount

The following is a schedule of original issue discount, reoffering premium and amortization per issue at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Water Works and Sewer Board Series 2006-A reoffering premium	\$ 865,418	\$ 915,834
Water Works and Sewer Board Series 2007-A original issue discount	(2,682,801)	(2,812,092)
Water Works and Sewer Board Series 2008-A original issue discount	(31,914)	(35,779)
Water Works Board Series 2009-A premium	1,104,217	1,179,237
Water Works Board Series 2009-B premium	1,152,593	1,633,964
Water Works Board Series 2009 discount	(35,859)	(40,729)
Water Works Board Series 2010-A premium	4,202,672	4,609,648
Water Works Board Series 2011-premium	951,636	1,008,854
Water Works Board Series 2012-A premium	1,071,510	1,160,329
Water Works Board Series 2013-A discount	(764,095)	(781,818)
Water Works Board Series 2013-B premium	8,222,630	8,540,052
Original Discounts and Premiums	<u>\$ 14,056,007</u>	<u>\$ 15,377,500</u>

Bond discounts and premiums totaling \$14,056,006 are being amortized over the terms of the respective bonds using the effective interest method. Unamortized discounts and premiums are netted against long-term debt in the accompanying statements of net position - enterprise fund.

Optional Redemption Provisions

The Series 2006-A Water and Sewer Revenue Bonds are subject to optional redemption on or after January 1, 2016 at a redemption price equal to 100%.

The Series 2007-A Water and Sewer Revenue Bonds are subject to optional redemption on or after January 1, 2017 at a redemption price equal to 100%.

The Series 2008-A Water and Sewer Revenue Bonds are subject to optional redemption on or after January 1, 2018 at a redemption price equal to 100%.

The Series 2009-A Water Revenue Bonds are subject to optional redemption on or after January 1, 2019 at a redemption price equal to 100%.

The Series 2009-B Water Revenue Bonds are not subject to optional redemption.

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The Series 2009 Subordinate Water Revenue Bonds are subject to optional redemption on or after January 1, 2019 at a redemption price equal to 100%.

The Series 2010-A Water Revenue Bonds are subject to optional redemption on or after January 1, 2021 at a redemption price equal to 100%.

The Series 2010-B Water Revenue Bonds are not subject to optional redemption.

The Series 2011 Water Revenue Bonds are subject to optional redemption at any time on or after January 1, 2021, at a redemption price equal to 100%.

The Series 2011 Subordinate Water Revenue Bonds are subject to optional redemption on or after January 1, 2021 at a redemption price equal to 100%.

The Series 2012-A Water Revenue Bonds are subject to optional redemption on or after January 1, 2022 at a redemption price equal to 100%.

The Series 2012 Subordinate Water Revenue Bonds are subject to optional redemption on or after January 1, 2022 at a redemption price equal to 100%.

The Series 2013-A Water Revenue Bonds maturing in 2024 are subject to optional redemption on or after January 1, 2023 at a redemption price equal to 100%.

The Series 2013-B Water Revenue Bonds maturing in 2030 are subject to optional redemption on or after January 1, 2023 at a redemption price equal to 100%.

The Series 2014 Subordinate Water Revenue Bonds are subject to optional redemption on or after January 1, 2024 at a redemption price equal to 100%.

Bond Issue Costs

As mentioned in Note 1 to the financial statements, In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, bond issue costs, other than insurance cost, are expensed in the period incurred.

Bond Refundings

The Board issued the Series 2013-A Refunding Revenue Bonds for the purpose of refunding a portion of the previously issued and outstanding 2006-A bonds in the amount of \$19,760,000. Neither the assets of the trust accounts nor this defeased indebtedness are included in the accompanying statements of net position - enterprise fund.

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The refunding in April 2013 resulted in an accounting loss of \$2,853,393 which has been capitalized in accordance with GASB Statement No. 23, and is being amortized using the effective interest method through 2043. The Board decreased its aggregate debt service by approximately \$1,418,340 and incurred an economic gain (the difference between the present values of the old debt service requirements and the new debt service requirements) of approximately \$731,663.

When the Board defeased the previously described indebtedness, it deposited funds in certain escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Under the trust agreements, all funds deposited in the trust accounts are invested in obligations of the U.S. government. Neither the assets of the trust accounts nor this defeased indebtedness are included in the accompanying statements of net position enterprise fund. The principal outstanding on this defeased indebtedness at December 31, 2014 and 2013, was approximately \$21,152,468 and \$71,546,805, respectively.

NOTE 6 - TRUSTEED FUNDS - INVESTMENTS

Restricted assets are established to the extent required by bond resolutions for the Board's long-term debt (see Note 5) and Board action. Bond proceeds, water revenue and interest income are utilized to maintain the various funds at their required levels. Amounts not needed to fund requirements may be used for any lawful purpose. Components and descriptions of the various funds, exclusive of accrued interest, are as follows at December 31, 2014 and 2013:

	<u>2014</u>	<u>Restated 2013</u>
Construction funds	\$ 4,956,398	\$ 49,370,106
Debt service funds	37,677,603	32,640,958
Development, renewal and replacement funds	1,206,319	1,200,527
Revenue funds	99,879,570	63,290,000
Debt service reserve funds	60,898,849	60,587,435
Total	<u>\$ 204,618,739</u>	<u>\$ 207,089,026</u>

Construction Funds - Construction funds account for unexpended debt proceeds and interest income thereon from the Revenue Bonds, Series 2006-A, Series 2007-B, Series 2008-A, Series 2009-A, Series 2011 and Series 2013-B.

Debt Service Funds - Debt service funds represent the principal and interest amounts for the next debt service payment due on all outstanding long-term debt.

The Water Works Board of the City of Birmingham Notes to Financial Statements

Development, Renewal and Replacement Funds - Development, renewal and replacement funds are required for renewal and replacement of the water production, transmission and treatment facilities.

Revenue Funds - All system revenues are deposited in this fund. Monies in the Revenue Fund are applied for payment of all operating expenses. After operating expenses have been paid, remaining monies are to be used for payments into the Debt Service Fund, the Reserve Fund and the Improvement Fund, in the order named, and of such amounts required by the Trust Indenture.

Debt Service Reserve Funds - The debt service reserve funds are required to maintain one year's maximum debt service for the 2006-A, 2007-A, 2008-A, 2009-A, 2010-A and 2010-B. The reserve fund requirement may be satisfied, in whole or in part, with an insurance policy, surety bond or letter of credit.

Bond resolutions place certain limitations on investments permitted by the various funds.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are summarized as follows at December 31, 2014 and 2013:

	2014	2013
Accounts payable	\$ 8,325,371	\$ 2,384,883
Agency payables	1,300,795	2,952,222
Contract retentions	674,380	600,171
Payroll deduction payables	2,357,104	1,055,975
Accrued professional fees	147,052	244,423
Workers' compensation reserve	2,958,313	2,110,148
Landfill closure costs reserve	540,190	200,000
Other payables/accruals	116,713	4,857,753
	<u>\$ 16,419,918</u>	<u>\$ 14,405,575</u>

NOTE 8 - CHANGES IN NET INVESTMENT IN CAPITAL ASSETS

The changes in net investment in capital assets are summarized as follows for the years ended December 31, 2014 and 2013:

	2014	2013
Balance at beginning of the year	\$(176,561,399)	\$(135,660,905)
Change in capital assets	27,656,207	32,408,189
Change in related debt	(9,243,581)	(73,308,683)
Balance at end of the year	<u>\$(158,148,773)</u>	<u>\$(176,561,399)</u>

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 9 - EMPLOYEE BENEFIT PLANS

Pension Plan - The Board administers one contributory single employer defined benefit retirement plan, the Retirement Plan for Employees of the Water Works Board of the City of Birmingham (the Plan), which covers all employees of the Board and the employees who were previously employed by the Industrial Water Works Board (IWWB). The following discussion summarizes key provisions of the Plan. The Plan document should be referred to for a more detailed description of terms and assumptions. The Plan issues annual audited financial statements which may be obtained by writing to the Board at 3600 First Avenue North, P.O. Box 830110, Birmingham, Alabama 35283. The following plan information is presented in accordance with the disclosure requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

Significant Accounting Policies

Basis of Accounting - The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments - The Plan's investments are stated at fair value. Quoted market prices are used to value investments. Investment transactions are recorded on the trade date. Realized gains and losses from sales of securities are determined using the average cost basis.

Funding Policy - The contribution requirements of Plan members and benefit provisions are established and may be amended by the Board. Plan members are required to contribute 7% of their annual covered salary. The Board is required to contribute at an actuarially determined rate; the current rate is approximately 9% of annual covered payroll at January 1, 2008. The Board's funding policy is to contribute the employer normal cost plus a 14-year level dollar amortization of the unfunded actuarial accrued liability. Administrative costs of the Plan are financed through investment earnings.

Other - In accordance with the provisions of the Plan to state investments at market value, net unrealized appreciation or depreciation for the year is reflected in the accompanying statements of changes in pension net position - pension trust fund.

Plan Description and Contribution Information

The Plan provides that all employees are covered from the date of their employment and that the Board will make contributions equal to 7% of their compensation. In addition, the Board contributes to the Plan on behalf of the employees, at the Board's discretion. The 2014 contribution of \$7,246,003 was approximately 19.2% of employee compensation. The 2013 contribution of \$6,996,140 was approximately 19.2% of employee compensation. Employees will receive a normal

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

retirement benefit equivalent to 2% of final average earnings times continuous years of service. Early retirement is permitted with reduction of benefits in certain circumstances.

Participants are immediately vested in their contributions and vest in contributions to the Plan by the Board after 10 years of service (5 years of service for former Industrial Water Works Board employees) or reaching age 65.

The funding status of the Plan is summarized as follows:

Year Ended December 31	Annual Pension Cost	Contribution Made	Percentage Contributed	Net Pension Obligation (Asset)
2014	\$5,238,721	\$7,246,003	138%	\$ (16,169,835)
2013	\$7,621,915	\$6,996,140	92%	\$ (14,162,552)
2012	\$7,415,407	\$6,746,278	91%	\$ (14,788,327)
2011	\$6,725,550	\$6,496,416	97%	\$ (15,457,456)
2010	\$6,297,551	\$6,246,554	99%	\$ (15,686,590)
2009	\$5,838,707	\$5,405,995	93%	\$ (15,737,583)
2008	\$3,199,542	\$2,958,780	92%	\$ (16,170,295)

Information about the funded status of the plan as of December 31, 2014 (the most recent valuation date) is as follows:

Actuarial Valuation Date	January 1, 2015
Actuarial Value of Assets (a)	\$ 125,093,497
Actuarial Accrued Liability (AAL) - Entry Age (b)	\$ 163,565,285
Unfunded/Funding Excess AAL (UAAL) (b - a)	\$ 38,471,788
Funded Ratio (a/b)	76.48%
Covered Payroll (c)	\$ 37,771,701
UAAL As a Percentage of Covered Payroll ((b - a)/c)	101.85%

The information presented above was determined as part of the actuarial valuation at the date indicated. The required schedule of pension funding progress and employer contributions immediately following the notes to the basic financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additional information as of the latest actuarial valuation follows:

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry age normal
Asset Valuation Method	Market value of assets less unrecognized returns beginning with the January 1, 2009 valuation. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Amortization Method	Effective amortization period determined based on contribution schedule increasing 4% per year beginning with contributions of \$4,500,000 for 2014.
Mortality	For health lives, the 2000 Group Annuity Mortality Table for males and females. For disabled lives, the 2000 Group Annuity Mortality Table for males and females set forward 10 years.
Discount Rate/Investment Return	7.5% per annum
Projected Salary Increases	3.25% - 13.25%, based on years of service
Inflation Rate	3.25% per annum

The net pension obligation (NPO) calculation for the years ended December 31, 2014 and 2013, is as follows:

	2014	2013
Beginning of the year NPO (asset)	\$ (14,162,552)	\$ (14,788,327)
Annual required contribution (ARC)	4,500,000	6,952,614
Interest on beginning of the year NPO (asset)	(1,062,192)	(1,109,125)
Adjustment to ARC	1,800,912	1,778,426
Annual pension cost	5,238,720	7,621,915
Employer contributions	(7,246,003)	(6,996,140)
Increase (decrease) in NPO	(2,007,283)	625,775
End of the year NPO (asset)	\$ (16,169,835)	\$ (14,162,552)

For purposes of determining the annual required contribution, the unfunded actuarial accrued liability is amortized over a 13-year period from the date of implementation of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description

The Board sponsors a single-employer other postemployment benefit plan (OPEB). The OPEB provides for medical and dental insurance coverage to eligible retirees and their dependents as indicated below:

Eligibility: Participants who are retired and receiving a pension under the Water Works Board of the City of Birmingham Pension Plan or disabled with at least two years of service are eligible for coverage under the OPEB. Benefits are generally available at the earliest of the following:

- A. 30 years of service
- B. The later of age 52 and 20 years of service
- C. The later of age 54 and 10 years of service

Benefit Types: Life, medical and prescription drug benefits are provided to all eligible retirees. Dental and vision benefits are provided only to under age 65 retirees. Dependents of eligible retirees are granted the same benefits as the retiree, with the exception of life insurance coverage, which is not available to dependents.

Duration of Coverage: Coverage is available for eligible participants from the date of retirement until death. When the participant reaches age 65, health benefits will change to Medicare, with the OPEB covering premiums for Medicare Supplemental insurance. Retirees with less than 25 years of service as of January 1, 2008 are not eligible for Post-65 coverage.

Dependent Coverage: Benefits are payable to a spouse of an eligible retiree for the spouse's lifetime, regardless of when the retiree dies. When the dependent reaches age 65, health benefits will change to Medicare, with the OPEB covering premiums for Medicare Supplemental insurance. Spouses of retirees with less than 25 years of service as of January 1, 2008 are not eligible for Post-65 coverage.

At December 31, 2014, the most recent actuarial valuation date, the OPEB had 269 retired participants and beneficiaries receiving benefits. The OPEB had a total of 604 active participants.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits (OPEB) other than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition and disclosure of OPEB expenses and related liabilities and is effective for the Board for the year ended December 31, 2008. Under this statement, all state and local governmental entities that provide other postemployment benefits (OPEB) are required to report the cost of these benefits on their financial statements. The Board implemented GASB Statement No. 45 prospectively.

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

The statement covers postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are not offered as part of a pension plan; and long-term disability insurance for employees. These benefits, referred to as OPEB, are typically financed on a pay-as-you-go basis. The standard introduces an accrual-basis accounting requirement; thereby recognizing the employer cost of postemployment benefits over an employee's career. The standard also introduces a consistent accounting requirement for both pension and nonpension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends and other actuarial assumptions. This amount is then discounted to determine the actuarial present value of the total projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

Once the UAAL is determined, the ARC is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made, and any difference is reported as the net OPEB obligation (NOO). In addition, required supplementary information (RSI) must be reported, including historical information about the UAAL and the progress in funding the Plan.

Funding Policy - The Board made an initial funding of the OPEB trust of \$4,000,000 in 2009. In addition, the Board funded the actuarial required contribution (ARC) to the OPEB in 2011. It is the intention of the Board to fund the ARC on an annual basis as it is determined. Currently, retirees and employees are not required to contribute to the OPEB.

Annual OPEB Cost and Net OPEB Obligation

The Board's OPEB cost is calculated based on the ARC calculated using the projected unit credit method, an allowable cost method under GASB Statement No. 45. The ARC is the basic annual expense recognized under GASB Statement No. 45 that is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years, which is the amortization period used by the Plan. The following table shows the components of the Board's OPEB cost for the years ended December 31, 2014 and 2013, the amount actually contributed to the Plan and the changes in the Board's net OPEB obligation to the Plan:

**The Water Works Board of the City of Birmingham
Notes to Financial Statements**

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

	<u>2014</u>	<u>2013</u>
Annual required contribution	1,989,582	3,641,437
Interest on net OPEB obligation	(337,194)	(541,042)
Adjustment to annual required contribution	332,033	515,086
Annual OPEB cost	1,984,421	3,615,481
Contributions made	(1,978,720)	(897,502)
Change in net OPEB obligation	5,701	2,717,979
Net OPEB obligation, beginning of the year	(4,495,914)	(7,213,893)
Net OPEB (asset) obligation, end of the year	(4,490,213)	(4,495,914)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2014 and 2013 were as follows:

Actual Annual Year Ended	OPEB Cost	Employer Contribution	Percentage Contributed	Net Ending OPEB (Asset) Obligation
12/31/2014	\$ 2,009,907	\$ 1,978,720	98.45%	\$ (4,490,213)
12/31/2013	3,615,481	897,502	24.82%	(4,495,914)
12/31/2012	3,665,474	4,871,996	132.90%	(7,213,893)
12/31/2011	3,535,379	4,651,072	131.60%	(6,007,371)
12/31/2010	3,601,895	5,216,314	144.80%	(4,891,679)
12/31/2009	4,329,367	8,579,643	198.70%	(3,277,260)

Funded Status and Funding Progress

As of December 31, 2014, the most recent actuarial valuation date, the OPEB was 68% funded. The actuarial accrued liability was \$37,349,879, and the actuarial value of assets was \$25,289,600, resulting in an unfunded actuarial accrued liability of \$12,060,279. Covered payroll was approximately \$37.7 million, resulting in unfunded actuarial accrued liability as a percentage of covered payroll of 31.93%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the OPEB and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of pension funding progress and employer contributions, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of OPEB assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

The accompanying Schedules of OPEB Funding Progress Employer Contributions, Net OPEB Obligation, and Employer Contributions present trend information about the amounts contributed to the OPEB by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Actuarial Methods and Assumptions

The information presented above was determined as part of the actuarial valuation at the date indicated. Projections of benefits for financial reporting purposes are based on the substantive plan (the OPEB as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation Date	January 1, 2015
Actuarial Cost Method	Projected Unit Credit Method
Asset Valuation Method	Market Value
Amortization Method	Closed, 25-year level percent of payroll
Mortality	<i>Healthy</i> - RP-2000 Mortality Table. <i>Disabled</i> Healthy Mortality set forward 10 years
Discount Rate/Investment Return	
Projected Salary Increases	
Inflation Rate	
Health Care Costs Rates	7.50% per annum
	3.25% - 13.25%, based on years of service
	3.00% per annum
	Under 65 combined Medical and Vision cost trend rate for - 7.00% graded to 5.00% over 4 years
	Over 65 combined Medical and Vision cost trend rate - 8.00% graded to 5.00% over 6 years
	Drug cost trend rate - 6.20% graded to 5.00% over 4 years
	Dental cost trend rate - 5.00%

The Water Works Board of the City of Birmingham Notes to Financial Statements

NOTE 11 - DEFERRED COMPENSATION PLAN

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the participating employees. In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the deferred compensation assets and liabilities are not recorded in the accompanying enterprise fund statements of net position.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Litigation - The Board is a party to various lawsuits and claims arising in the normal course of System business. While the results of litigation cannot be predicted with certainty, management believes that the outcome of such litigation will not have a material adverse effect on the Board's financial position or results of operations.

Self-Insurance. The Board is self-insured for workers' compensation claims up to \$500,000 per occurrence in a 12-month liability period. Claims in excess of \$500,000 are covered by an excess insurance policy. Provision is made in the financial statements for estimates of both reported claims and claims incurred but not reported.

The Board is self-insured for active and retired employees' health care coverage up to \$150,000 per covered employee during a calendar year. Claims in excess of \$150,000 are covered by an excess health policy. Provision is made in the financial statements for estimates of both reported claims and claims incurred but not reported.

Both of these estimates are actuarially determined using details of historical activity provided by the Board's claims administrators. The following is a reconciliation of changes in the aggregate liabilities for self-insured workers' compensation and health care coverage claims for the years ended December 31, 2014 and 2013. The end of year accrual is included in accrued expenses in the accompanying statements of net position - enterprise fund.

**The Water Works Board of the City of Birmingham
Notes to Financial Statements**

NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

	<u>2014</u>	<u>2013</u>
Beginning of the year accrual	\$ 2,110,148	\$ 2,005,148
Claims expense	7,102,345	7,968,088
Claims paid	(6,254,180)	(7,863,088)
End of the year accrual	<u>\$ 2,958,313</u>	<u>\$ 2,110,148</u>

At December 31, 2014, commitments for capital expenditures totaled approximately \$21,000,000.

NOTE 13 - AGENCY AGREEMENTS

The Board, in an agreement with Jefferson County, Alabama (the County) and as provided by State of Alabama law, collects service charges for use of the County sewer disposal system from the Board's water customers as a separate item on the Board's water bills. The Board remits weekly to the County all sewer service charges collected, and it bills the County for the cost of collecting such charges which, under the agreement with the County, includes a portion of the Board's general overhead expense. Sewer service charges have been collected for the County by the Board since 1962. The Board has similar agreements with the City of Hoover (Hoover), South West Water and Alabama Utilities. The liability for unremitted collections under these agency agreements is included in accounts payable in the accompanying statements of net position - enterprise fund. The amounts charged under these agency agreements are reflected as reductions in operating expenses in the accompanying statements of revenues, expenses and changes in net position - enterprise fund.

The Board also bills its customers a State of Alabama utility tax based on a percentage of revenues. The funds collected are remitted to the State monthly. The liability for unremitted collections to the State is included in general taxes payable in the accompanying statements of net position - enterprise fund.

**The Water Works Board of the City of Birmingham
Notes to Financial Statements**

NOTE 13 - AGENCY AGREEMENTS (CONTINUED)

Following is a summary of amounts received and disbursed and costs of collecting charges billed under the agency agreements described above for the year ended December 31, 2014:

	<u>Sewer Charges</u>	<u>State of Alabama Utility Taxes</u>
Amounts received:		
Jefferson County	\$ 139,638,745	\$ -
City of Hoover	3,731,043	-
SouthWest Water	6,899,674	-
Alabama Utilities	1,388,795	-
Phoenix	165	-
State of Alabama - utility taxes	-	5,541,864
Total amounts received	<u>151,658,422</u>	<u>5,541,864</u>
Amounts disbursed:		
Jefferson County	141,178,545	-
City of Hoover	3,737,897	-
SouthWest Water	6,988,075	-
Alabama Utilities	1,405,332	-
State of Alabama - utility taxes	-	4,912,219
Total amounts disbursed	<u>153,309,849</u>	<u>4,912,219</u>
Receipts less disbursements	(1,651,427)	629,645
Balance at beginning of the year	2,952,222	461,327
Balance at end of the year	<u>\$ 1,300,795</u>	<u>\$ 1,090,972</u>
Cost of collecting charges billed:		
Jefferson County	<u>\$ 4,460,943</u>	
City of Hoover	<u>175,255</u>	
SouthWest Water	<u>286,448</u>	
Alabama Utilities	<u>56,184</u>	

**The Water Works Board of the City of Birmingham
Notes to Financial Statements**

NOTE 13 - AGENCY AGREEMENT (CONTINUED)

Following is a summary of amounts received and disbursed and costs of collecting charges billed under the agency agreements described above for the year ended December 31, 2013:

	Sewer Charges	State of Alabama Utility Taxes
Amounts received:		
Jefferson County	\$ 125,529,013	\$ -
City of Hoover	3,685,599	-
SouthWest Water	6,539,425	-
Alabama Utilities	1,442,251	-
State of Alabama - utility taxes	-	6,182,858
Total amounts received	<u>137,196,288</u>	<u>6,182,858</u>
Amounts disbursed:		
Jefferson County	125,748,094	-
City of Hoover	3,601,886	-
SouthWest Water	6,567,780	-
Alabama Utilities	1,668,120	-
State of Alabama - utility taxes	-	6,490,900
Total amounts disbursed	<u>137,585,880</u>	<u>6,490,900</u>
Receipts less disbursements	(389,592)	(308,042)
Balance at beginning of the year	<u>3,341,814</u>	<u>769,369</u>
Balance at end of the year	<u>2,952,222</u>	<u>461,327</u>
Cost of collecting charges billed:		
Jefferson County	<u>\$3,889,046</u>	
City of Hoover	<u>155,098</u>	
SouthWest Water	<u>258,484</u>	
Alabama Utilities	<u>66,724</u>	

NOTE 14 – RESTATEMENTS AND RECLASSIFICATIONS

The Board implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of this statement require that bond issuance costs be expensed in the year they are incurred. Previously, bond issuances costs had been treated as an asset and amortized over the life of the related debt. In order to implement GASB Statement No. 65, bond issuance costs previously reported as assets had to be removed from the financial statements. This resulted in a restatement of beginning net position in the amount of \$10,945,400. Assets were reduced by the same amount.

Certain items in the financial statements for 2013 have been reclassified to conform with the current year presentation. Such reclassification had no effect on the change in net position.

REQUIRED SUPPLEMENTARY INFORMATION

The Water Works Board of the City of Birmingham Schedules of Pension Funding Progress and Employer Contributions

SCHEDULE OF PENSION FUNDING PROCESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded/Excess AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2015	\$ 125,093,497	\$163,565,285	\$ 38,471,788	76.48%	\$37,771,701	101.85%
1/1/2014	\$ 113,129,443	\$155,780,833	\$ 42,601,390	72.60%	\$36,473,189	116.80%
1/1/2013	\$ 100,802,004	\$148,101,641	\$ 47,299,637	68.00%	\$36,969,463	127.90%
1/1/2012	\$ 95,385,329	\$144,592,235	\$ 49,206,906	66.00%	\$37,403,410	131.60%
1/1/2011	\$ 90,175,900	\$136,219,674	\$ 46,043,774	66.20%	\$36,225,354	127.10%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year End	Annual Required Contribution	Percentage Contribution
12/31/2014	\$4,500,000	>100%
12/31/2013	\$6,952,614	>100%
12/31/2012	\$6,805,177	99.10%
12/31/2011	\$6,183,116	>100%
12/31/2010	\$5,819,396	>100%
12/31/2009	\$5,405,995	100%
12/31/2008	\$2,846,567	>100%

The Water Works Board of the City of Birmingham Schedules of OPEB Funding Progress, Net OPEB Obligation, and Employer Contributions

SCHEDULES OF OPEB FUNDING PROGRESS AND NET OPEB OBLIGATION

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) -			Funded Ratio (a/b)	Covered Payroll (millions) (c)	UAAAL as a
		Projected Unit Credit (b)	Unfunded/ AAL (UAAAL) (b-a)	Funded			Percentage of Covered Payroll ((b-a)/c)
1/1/2015	\$ 25,289,600	\$ 37,349,879	\$ 12,060,279	67.71%	\$ 37.70	31.93%	
1/1/2014	\$ 23,647,205	\$ 36,123,818	\$ 12,476,613	65.50%	\$ 36.40	34.21%	
1/1/2013	\$ 20,055,130	\$ 47,632,657	\$ 27,577,527	42.10%	\$ 37.00	74.60%	
1/1/2012	\$ 15,049,878	\$ 44,693,825	\$ 29,643,947	33.70%	\$ 37.40	79.25%	
12/31/2010	\$ 11,875,713	\$ 42,367,275	\$ 30,491,562	28.03%	\$ 36.20	87.41%	
12/31/2009	\$ 7,426,358	\$ 41,189,353	\$ 33,762,995	18.03%	\$ 34.10	98.91%	

NET OPEB OBLIGATION (NOO)

Actuarial Valuation Date	Fiscal Year End	Annual Required Contribution A(ARC) (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a)+(b)(c) (d)	Annual Contribution Amount (e)	Net increase	NOO as of Valuation Date (g)
							(Decrease) in NOO (d)-(e) (f)	
12/31/2014	12/31/2014	\$1,989,582	\$(337,194)	\$ 332,033	\$1,984,421	\$ 1,978,720	\$ 5,701	\$(4,490,213)
12/31/2013	12/31/2014	\$3,641,437	\$(541,042)	\$ 515,086	\$3,615,481	\$ 897,502	\$ 2,717,979	\$(4,495,914)
12/31/2012	12/31/2013	\$3,700,336	\$(450,553)	\$ 415,691	\$3,665,474	\$ 4,871,996	\$(1,206,522)	\$(7,213,893)
12/31/2011	12/31/2012	\$3,700,336	\$(450,553)	\$ 415,691	\$3,665,474	\$ 4,871,996	\$(1,206,522)	\$(7,213,893)
12/31/2010	12/31/2011	\$3,573,518	\$(366,876)	\$ 328,737	\$3,535,379	\$ 4,651,072	\$(1,115,693)	\$(6,007,371)
12/31/2008	12/31/2009	\$4,318,418	\$ 72,976	\$(62,027)	\$4,329,367	\$ 8,579,643	\$(4,250,276)	\$(3,277,260)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year End	Annual Required Contribution	Percentage Contributed
12/31/2014	\$ 1,989,582	99.45%
12/31/2013	\$ 3,641,437	24.65%
12/31/2012	\$ 3,700,336	131.66%
12/31/2011	\$ 3,573,518	130.15%
12/31/2010	\$ 3,633,377	143.57%
12/31/2009	\$ 4,318,418	198.68%

ADDITIONAL INFORMATION

The Water Works Board of the City of Birmingham Schedules of Long-Term Debt

Maturity Date	Series 2006-A Bonds				Series 2007-A Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2015		\$ -	\$ 3,428,850	\$ 3,428,850	5.000	\$ 1,515,000	\$ 14,136,604	\$ 15,651,604
2016		-	3,428,850	3,428,850	5.000	1,595,000	14,056,894	15,651,894
2017		-	3,428,850	3,428,850	5.000	1,675,000	13,975,104	15,650,104
2018		-	3,428,850	3,428,850	5.000	1,760,000	13,885,104	15,645,104
2019		-	3,428,850	3,428,850	4.000	1,850,000	13,811,106	15,661,106
2020		-	3,428,850	3,428,850	5.000	1,930,000	13,714,604	15,644,604
2021		-	3,428,850	3,428,850	5.000	2,025,000	13,619,354	15,644,354
2022		-	3,428,850	3,428,850	5.000	2,130,000	13,506,854	15,636,854
2023		-	3,428,850	3,428,850	5.000	2,235,000	13,305,106	15,540,106
2024		-	3,428,850	3,428,850	4.380	2,350,000	13,292,291	15,642,291
2025		-	3,428,850	3,428,850	4.380	2,455,000	13,184,885	15,639,885
2026	4.500	165,000	3,421,425	3,586,425	4.750	2,565,000	13,075,873	15,640,873
2027	4.500	175,000	3,413,550	3,588,550	4.250	2,675,000	12,962,185	15,637,185
2028	4.500	185,000	3,405,225	3,590,225	4.250	2,795,000	12,843,397	15,638,397
2029	4.500	190,000	3,396,675	3,586,675	4.250	2,915,000	12,719,510	15,634,510
2030	4.500	2,190,000	3,298,125	5,488,125	4.375	14,845,000	12,070,041	26,915,041
2031	4.500	2,290,000	3,195,075	5,485,075	4.375	15,515,000	11,391,260	26,906,260
2032	4.500	2,395,000	3,087,300	5,482,300	4.375	16,215,000	10,681,854	26,896,854
2033	4.500	2,505,000	2,974,575	5,479,575	4.500	16,950,000	9,919,110	26,869,110
2034	4.500	2,620,000	2,856,675	5,476,675	4.500	17,710,000	9,122,154	26,832,154
2035	4.500	7,015,000	2,541,000	9,556,000	4.500	18,530,000	8,288,306	26,818,306
2036	5.000	7,355,000	2,173,250	9,528,250	4.500	19,385,000	7,415,979	26,800,979
2037	5.000	7,735,000	1,786,500	9,521,500	4.500	20,280,000	6,505,379	26,785,379
2038	5.000	3,135,000	1,629,750	4,764,750	4.500	21,220,000	5,548,479	26,768,479
2039	5.000	8,550,000	1,202,250	9,752,250	4.500	22,205,000	4,549,254	26,754,254
2040	5.000	8,985,000	753,000	9,738,000	4.500	23,230,000	3,505,904	26,735,904
2041	5.000	9,445,000	280,750	9,725,750	4.500	24,305,000	2,410,179	26,715,179
2042	5.000	5,615,000	-	5,615,000	4.500	25,425,000	1,266,056	26,691,056
2043		-	-	-	4.500	26,605,000	68,829	26,673,829
TOTAL		70,550,000	\$ 77,132,475	\$ 147,682,475		314,890,000	\$294,831,655	\$609,721,655
Less: Deferred amount on refunding		(11,228,504)				-		
Bond (discount) premium		865,417				(2,682,801)		
TOTAL		\$ 60,186,913				\$ 312,207,199		

The Water Works Board of the City of Birmingham Schedules of Long Term Debt (continued)

Maturity Date	Series 2008-A Bonds				Series 2009-A Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2015	5.000	\$ 380,000	\$ 431,163	\$ 811,163	5.000	\$ 2,060,000	\$ 4,939,306	\$ 6,999,306
2016	5.000	400,000	411,163	811,163	5.000	2,165,000	4,833,681	6,998,681
2017	5.000	420,000	390,163	810,163	5.000	2,275,000	4,722,681	6,997,681
2018	5.000	440,000	368,163	808,163	5.000	2,390,000	4,606,056	6,996,056
2019	5.000	465,000	344,913	809,913	5.000	2,515,000	4,483,431	6,998,431
2020	5.000	485,000	320,663	805,663	5.000	2,645,000	4,354,431	6,999,431
2021	5.125	510,000	294,525	804,525	5.000	2,780,000	4,218,806	6,998,806
2022	5.200	540,000	266,445	806,445	5.000	2,920,000	4,076,306	6,996,306
2023	5.300	570,000	236,235	806,235	5.000	3,070,000	3,926,556	6,996,556
2024	5.400	600,000	203,835	803,835	5.000	3,230,000	3,769,056	6,999,056
2025	5.550	630,000	169,185	799,185	4.375	3,385,000	3,614,259	6,999,259
2026	5.550	670,000	132,000	802,000	4.500	3,535,000	3,460,675	6,995,675
2027	5.625	705,000	92,344	797,344	4.625	3,700,000	3,295,575	6,995,575
2028	5.750	745,000	50,438	795,438	4.750	3,880,000	3,117,863	6,997,863
2029	5.750	790,000	6,000	796,000	4.750	4,065,000	2,929,169	6,994,169
2030		-	-	-	5.125	4,275,000	2,723,078	6,998,078
2031		-	-	-	5.125	4,500,000	2,498,219	6,998,219
2032		-	-	-	5.125	4,735,000	2,261,572	6,996,572
2033		-	-	-	5.125	4,985,000	2,012,498	6,997,498
2034		-	-	-	5.125	5,245,000	1,750,353	6,995,353
2035		-	-	-	5.250	5,525,000	1,470,919	6,995,919
2036		-	-	-	5.250	5,825,000	1,172,981	6,997,981
2037		-	-	-	5.250	6,140,000	858,900	6,998,900
2038		-	-	-	5.250	6,470,000	527,888	6,997,888
2039		-	-	-	5.250	6,820,000	179,025	6,999,025
TOTAL		8,350,000	\$ 3,717,235	\$ 12,067,235		99,135,000	\$ 75,803,284	\$174,938,284
Less: Deferred amount on refunding			-			(1,262,727)		
Bond (discount) premium		(31,914)				1,104,217		
TOTAL		\$ 8,318,086				\$ 98,976,490		

The Water Works Board of the City of Birmingham Schedules of Long Term Debt (continued)

Maturity Date	Series 2009-B Bonds				Series 2009 Subordinate Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2015	5.000	\$ 5,710,000	\$ 1,439,000	\$ 7,149,000	3.000	\$ 3,730,000	\$ 2,323,731	\$ 6,053,731
2016	5.000	6,005,000	1,146,125	7,151,125	3.000	3,840,000	2,211,831	6,051,831
2017	5.000	6,310,000	838,250	7,148,250	4.000	3,960,000	2,096,631	6,056,631
2018	5.000	6,635,000	514,625	7,149,625	3.625	4,110,000	1,938,231	6,048,231
2019	5.000	6,975,000	174,375	7,149,375	3.750	4,265,000	1,789,243	6,054,243
2020		-	-	-	4.000	4,420,000	1,629,306	6,049,306
2021		-	-	-	4.250	4,600,000	1,452,506	6,052,506
2022		-	-	-	5.000	4,795,000	1,257,006	6,052,006
2023		-	-	-	4.375	5,030,000	1,017,256	6,047,256
2024		-	-	-	4.375	5,245,000	797,194	6,042,194
2025		-	-	-	4.500	5,475,000	567,725	6,042,725
2026		-	-	-	4.500	1,625,000	321,350	1,946,350
2027		-	-	-	4.500	1,695,000	248,225	1,943,225
2028		-	-	-	4.750	1,770,000	171,950	1,941,950
2029		-	-	-	4.750	1,850,000	87,875	1,937,875
2030		-	-	-		-	-	-
2031		-	-	-		-	-	-
2032		-	-	-		-	-	-
2033		-	-	-		-	-	-
2034		-	-	-		-	-	-
2035		-	-	-		-	-	-
2036		-	-	-		-	-	-
2037		-	-	-		-	-	-
2038		-	-	-		-	-	-
2039		-	-	-		-	-	-
2040		-	-	-		-	-	-
2041		-	-	-		-	-	-
2042		-	-	-		-	-	-
2043		-	-	-		-	-	-
TOTAL		<u>31,635,000</u>	<u>\$ 4,112,375</u>	<u>\$ 35,747,375</u>		<u>56,410,000</u>	<u>\$17,910,060</u>	<u>\$ 74,320,060</u>
Less: Deferred amount on refunding		-	-	-		-	-	-
Bond (discount) premium		<u>1,152,593</u>				<u>(35,859)</u>		
TOTAL		<u>\$ 32,787,593</u>				<u>\$ 56,374,141</u>		

The Water Works Board of the City of Birmingham Schedules of Long Term Debt (continued)

Maturity Date	Series 2010-A Bonds				Series 2010-B Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2015		\$ -	\$ 4,239,713	\$ 4,239,713	2.476	\$ 1,270,000	\$ 98,926	\$ 1,368,926
2016		-	4,239,713	4,239,713	2.926	1,305,000	64,111	1,369,111
2017		-	4,239,713	4,239,713	2.926	1,300,000	22,510	1,322,510
2018		-	4,239,713	4,239,713		-	-	-
2019		-	4,239,713	4,239,713		-	-	-
2020	5.000	6,890,000	4,067,463	10,957,463		-	-	-
2021	5.000	7,240,000	3,714,213	10,954,213		-	-	-
2022	5.000	7,615,000	3,342,838	10,957,838		-	-	-
2023	5.000	8,000,000	2,952,463	10,952,463		-	-	-
2024	5.000	8,410,000	2,542,213	10,952,213		-	-	-
2025	4.000	8,835,000	2,125,388	10,960,388		-	-	-
2026	5.000	9,270,000	1,687,063	10,957,063		-	-	-
2027	5.000	9,745,000	1,211,688	10,956,688		-	-	-
2028	5.000	10,245,000	711,938	10,956,938		-	-	-
2029	4.250	10,725,000	227,906	10,952,906		-	-	-
TOTAL		86,975,000	\$43,781,738	\$ 130,756,738		3,875,000	\$ 185,547	\$ 4,060,547
Less: Deferred amount on refunding		(1,667,079)				-		
Bond (discount) premium		4,202,672				-		
TOTAL		<u>\$ 89,510,593</u>				<u>\$ 3,875,000</u>		

The Water Works Board of the City of Birmingham Schedules of Long Term Debt (continued)

Maturity Date	Series 2011 Bonds				Series 2012-A Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2015	4.000	\$ 2,470,000	\$ 6,052,263	\$ 8,522,263	2.000	\$ 260,000	\$ 1,963,650	\$ 2,223,650
2016	3.000	2,560,000	5,964,463	8,524,463	2.000	265,000	1,958,400	2,223,400
2017	4.631	2,655,000	5,864,588	8,519,588	2.000	320,000	1,952,550	2,272,550
2018	4.802	2,785,000	5,736,244	8,521,244	3.000	2,105,000	1,917,775	4,022,775
2019	3.000	2,895,000	5,625,950	8,520,950	4.000	2,180,000	1,842,600	4,022,600
2020	5.000	3,015,000	5,507,150	8,522,150	5.000	2,280,000	1,742,000	4,022,000
2021	4.700	3,165,000	5,357,400	8,522,400	5.000	2,400,000	1,625,000	4,025,000
2022	5.000	3,320,000	5,200,025	8,520,025	5.000	2,520,000	1,502,000	4,022,000
2023	5.000	3,495,000	5,029,650	8,524,650	5.000	2,650,000	1,372,750	4,022,750
2024	4.027	3,655,000	4,868,675	8,523,675	3.000	2,760,000	1,265,100	4,025,100
2025	4.320	3,810,000	4,712,775	8,522,775	3.000	2,840,000	1,181,100	4,021,100
2026	4.316	3,975,000	4,544,694	8,519,694	3.250	2,930,000	1,090,888	4,020,888
2027	5.000	4,165,000	4,354,798	8,519,798	3.500	3,035,000	990,163	4,025,163
2028	4.923	4,380,000	4,142,859	8,522,859	3.500	3,140,000	882,100	4,022,100
2029	4.923	4,600,000	3,921,828	8,521,828	3.500	3,255,000	770,188	4,025,188
2030	4.923	4,835,000	3,689,591	8,524,591	3.750	3,375,000	649,944	4,024,944
2031	4.923	5,075,000	3,445,666	8,520,666	3.875	3,505,000	518,753	4,023,753
2032	4.873	5,330,000	3,190,888	8,520,888	3.875	3,645,000	380,222	4,025,222
2033	4.873	5,600,000	2,924,581	8,524,581	4.000	3,790,000	233,800	4,023,800
2034	4.873	5,875,000	2,645,006	8,520,006	4.000	3,950,000	79,000	4,029,000
2035	4.873	6,170,000	2,351,556	8,521,556		-	-	-
2036	4.872	6,480,000	2,043,369	8,523,369		-	-	-
2037	5.000	6,805,000	1,715,375	8,520,375		-	-	-
2038	5.000	7,155,000	1,366,375	8,521,375		-	-	-
2039	5.000	7,525,000	999,375	8,524,375		-	-	-
2040	5.000	7,910,000	613,500	8,523,500		-	-	-
2041	5.000	8,315,000	207,875	8,522,875		-	-	-
TOTAL		128,020,000	\$ 102,076,519	\$ 230,096,519		51,205,000	\$ 23,917,983	\$ 75,122,983
Less: Deferred amount on refunding			-			(3,619,717)		
Bond (discount) premium		951,636				1,071,510		
TOTAL		\$ 128,971,636				\$ 48,656,793		

The Water Works Board of the City of Birmingham Schedules of Long Term Debt (continued)

Maturity Date	Series 2011 Subordinate Bonds				Series 2012 Subordinate Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2015	3.100	\$ 80,000	\$ 54,870	\$ 134,870	2.900	\$ 55,000	\$ 35,743	\$ 90,743
2016	3.100	85,000	52,313	137,313	2.900	55,000	34,148	89,148
2017	3.100	90,000	49,600	139,600	2.900	55,000	32,553	87,553
2018	3.100	90,000	46,810	136,810	2.900	60,000	30,886	90,886
2019	3.100	95,000	43,943	138,943	2.900	60,000	29,146	89,146
2020	3.100	95,000	40,998	135,998	2.900	65,000	27,333	92,333
2021	3.100	100,000	37,975	137,975	2.900	65,000	25,448	90,448
2022	3.100	100,000	34,875	134,875	2.900	65,000	24,505	89,505
2023	3.100	105,000	31,698	136,698	2.900	70,000	22,620	92,620
2024	3.100	110,000	28,365	138,365	2.900	70,000	19,575	89,575
2025	3.100	110,000	24,955	134,955	2.900	70,000	17,545	87,545
2026	3.100	115,000	21,468	136,468	2.900	75,000	15,443	90,443
2027	3.100	120,000	17,825	137,825	2.900	75,000	13,268	88,268
2028	3.100	125,000	14,028	139,028	2.900	80,000	11,020	91,020
2029	3.100	125,000	10,153	135,153	2.900	80,000	8,700	88,700
2030	3.100	130,000	6,200	136,200	2.900	85,000	6,308	91,308
2031	3.100	135,000	2,093	137,093	2.900	85,000	3,842	88,842
2032		-	-	-	2.900	90,000	1,305	91,305
2033		-	-	-		-	-	-
2034		-	-	-		-	-	-
2035		-	-	-		-	-	-
2036		-	-	-		-	-	-
2037		-	-	-		-	-	-
2038		-	-	-		-	-	-
2039		-	-	-		-	-	-
2040		-	-	-		-	-	-
2041		-	-	-		-	-	-
2042		-	-	-		-	-	-
2043		-	-	-		-	-	-
TOTAL		1,810,000	\$ 518,169	\$ 2,328,169		1,260,000	\$ 359,388	\$ 1,619,388
Less: Deferred amount on refunding			-	-			-	-
Bond (discount) premium			-	-			-	-
TOTAL		\$ 1,810,000				\$ 1,260,000		

The Water Works Board of the City of Birmingham Schedules of Long Term Debt (continued)

Maturity Date	Series 2013-A Bonds				Series 2013-B Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2015	2.000	\$ 90,000	\$ 864,925	\$ 954,925	5.000	\$ -	\$ 3,539,250	\$ 3,539,250
2016	2.000	95,000	863,075	958,075	5.000	-	3,539,250	3,539,250
2017	2.000	95,000	861,175	956,175	5.000	-	3,539,250	3,539,250
2018	2.000	75,000	859,475	934,475	5.000	-	3,539,250	3,539,250
2019	3.000	100,000	857,225	957,225	5.000	-	3,539,250	3,539,250
2020	3.000	100,000	854,225	954,225	5.000	-	3,539,250	3,539,250
2021	3.000	105,000	851,150	956,150	5.000	-	3,539,250	3,539,250
2022	3.000	110,000	847,925	957,925	5.000	-	3,539,250	3,539,250
2023	3.000	110,000	844,625	954,625	5.000	-	3,539,250	3,539,250
2024	3.000	115,000	841,250	956,250	5.000	-	3,539,250	3,539,250
2025	3.000	120,000	837,725	957,725	5.000	-	3,539,250	3,539,250
2026	3.000	120,000	834,089	954,089	5.000	-	3,539,250	3,539,250
2027	3.000	125,000	830,450	955,450	5.000	-	3,539,250	3,539,250
2028	3.250	130,000	826,462	956,462	5.000	-	3,539,250	3,539,250
2029	3.250	135,000	821,987	956,987	5.000	-	3,539,250	3,539,250
2030	3.250	140,000	817,175	957,175	5.000	3,580,000	3,449,750	7,029,750
2031	3.250	145,000	812,187	957,187	5.000	3,765,000	3,266,125	7,031,125
2032	3.250	150,000	807,025	957,025	5.000	3,955,000	3,073,125	7,028,125
2033	3.500	155,000	801,687	956,687	5.000	4,160,000	2,870,250	7,030,250
2034	3.500	160,000	795,975	955,975	5.000	4,370,000	2,657,000	7,027,000
2035	3.500	165,000	789,881	954,881	5.000	4,595,000	2,432,875	7,027,875
2036	3.500	170,000	783,600	953,600	5.000	4,830,000	2,197,250	7,027,250
2037	3.500	180,000	777,037	957,037	5.000	5,080,000	1,949,500	7,029,500
2038	3.750	5,155,000	677,006	5,832,006	5.000	5,340,000	1,689,000	7,029,000
2039	3.750	125,000	578,006	703,006	5.000	5,615,000	1,415,125	7,030,125
2040	3.750	130,000	573,225	703,225	5.000	5,905,000	1,127,125	7,032,125
2041	3.750	135,000	568,256	703,256	5.000	6,205,000	824,375	7,029,375
2042	3.823	4,430,000	481,050	4,911,050	5.000	6,525,000	506,125	7,031,125
2043	3.786	10,470,000	198,187	10,668,187	5.000	6,860,000	171,500	7,031,500
TOTAL		23,335,000	\$ 22,156,060	\$ 45,491,060		70,785,000	\$ 80,717,875	\$ 151,502,875
Less: Deferred amount on refunding		(2,788,706)					-	
Bond (discount) premium		(764,095)				8,222,630		
TOTAL		\$ 19,782,199				\$ 79,325,052		

The Water Works Board of the City of Birmingham Schedules of Long Term Debt (continued)

Maturity Date	Series 2013 Subordinate Bonds				Series 2014 Subordinate Bonds			
	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total
2015	2.750	\$ 225,000	\$ 149,806	\$ 374,806		\$ -	\$ -	\$ -
2016	2.750	230,000	143,550	373,550	2.450	25,000	11,887	36,887
2017	2.750	240,000	137,088	377,088	2.450	25,000	14,455	39,455
2018	2.750	245,000	130,419	375,419	2.450	25,000	13,842	38,842
2019	2.750	255,000	123,544	378,544	2.450	25,000	13,230	38,230
2020	2.750	260,000	116,462	376,462	2.450	25,000	12,618	37,618
2021	2.750	265,000	109,244	374,244	2.450	25,000	12,006	37,006
2022	2.750	275,000	101,819	376,819	2.450	30,000	11,392	41,392
2023	2.750	280,000	94,188	374,188	2.450	30,000	10,658	40,658
2024	2.750	290,000	86,350	376,350	2.450	30,000	9,922	39,922
2025	2.750	300,000	78,237	378,237	2.450	30,000	9,188	39,188
2026	2.750	305,000	69,919	374,919	2.450	30,000	8,452	38,452
2027	2.750	315,000	61,394	376,394	2.450	30,000	7,718	37,718
2028	2.750	325,000	52,594	377,594	2.450	30,000	6,982	36,982
2029	2.750	330,000	43,588	373,588	2.450	35,000	6,248	41,248
2030	2.750	340,000	34,375	374,375	2.450	35,000	5,390	40,390
2031	2.750	350,000	24,888	374,888	2.450	35,000	4,532	39,532
2032	2.750	360,000	15,125	375,125	2.450	35,000	3,676	38,676
2033	2.750	370,000	5,087	375,087	2.450	35,000	2,818	37,818
2034		-	-	-	2.450	40,000	1,960	41,960
2035		-	-	-	2.450	40,000	954	40,954
2036		-	-	-		-	-	-
2037		-	-	-		-	-	-
2038		-	-	-		-	-	-
2039		-	-	-		-	-	-
2040		-	-	-		-	-	-
2041		-	-	-		-	-	-
2042		-	-	-		-	-	-
2043		-	-	-		-	-	-
TOTAL		5,560,000	\$ 1,577,677	\$ 7,137,677		615,000	\$ 167,928	\$ 1,745,719
Less: Deferred amount on refunding		-	-	-		-	-	-
Bond (discount) premium		-	-	-		-	-	-
TOTAL		\$ 5,560,000				\$ 615,000		

**The Water Works Board of the City of Birmingham
Schedules of Long Term Debt (continued)**

Aggregate Debt Service			
Maturity Date	Principal	Interest	Total
2015	\$ 17,845,000	\$ 43,697,800	\$ 61,542,800
2016	18,625,000	42,959,454	61,584,454
2017	19,420,000	42,165,161	61,585,161
2018	20,720,000	41,255,443	61,975,443
2019	21,680,000	40,346,519	62,026,519
2020	22,210,000	39,355,353	61,565,353
2021	23,280,000	38,285,727	61,565,727
2022	24,420,000	37,140,090	61,560,090
2023	25,645,000	35,811,905	61,456,905
2024	26,865,000	34,691,926	61,556,926
2025	28,060,000	33,491,067	61,551,067
2026	25,380,000	32,222,589	57,602,589
2027	26,560,000	31,038,433	57,598,433
2028	27,830,000	29,776,106	57,606,106
2029	29,095,000	28,489,077	57,584,077
2030	33,830,000	26,749,977	60,579,977
2031	35,400,000	25,162,640	60,562,640
2032	36,910,000	23,502,092	60,412,092
2033	38,550,000	21,744,406	60,294,406
2034	39,970,000	19,908,123	59,878,123
2035	42,040,000	17,875,491	59,915,491
2036	44,045,000	15,786,429	59,831,429
2037	46,220,000	13,592,691	59,812,691
2038	48,475,000	11,438,498	59,913,498
2039	50,840,000	8,923,035	59,763,035
2040	46,160,000	6,572,754	52,732,754
2041	48,405,000	4,291,435	52,696,435
2042	41,995,000	2,253,231	44,248,231
2043	43,935,000	438,516	44,373,516
TOTAL	954,410,000	\$ 748,965,968	\$ 1,703,375,968
Less: Deferred amount on refunding Bond (discount) premium	(20,566,733) 14,056,006		
TOTAL	\$ 947,899,273		

The Water Works Board of the City of Birmingham Schedules of Changes in Utility Plant Assets

	Asset Account				Accumulated Depreciation					
	Balance as of			Balance as of	Balance as of			Balance as of	Net Balance as of	
	December 31,	Plant	Plant	December 31,	December 31,	Depreciation	Retirements	December 31,	December 31,	
	2013	Additions	Retirements	2014	2013			2014	2014	
Utility plant in service:										
Land and land rights:										
Reservoirs	\$ 3,280,021	\$ -	\$ -	\$ 3,280,021	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,280,021
Other sources of supply	1,188,285	-	-	1,188,285	-	-	-	-	-	1,188,285
Power and pumping	6,455,092	-	-	6,455,092	-	-	-	-	-	6,455,092
Purification	2,284,564	-	-	2,284,564	-	-	-	-	-	2,284,564
Transmission	227,059	-	-	227,059	-	-	-	-	-	227,059
Distribution reservoirs and standpipes	734,720	-	-	734,720	-	-	-	-	-	734,720
Distribution	5,608,726	8,156	-	5,616,882	-	-	-	-	-	5,616,882
General land	1,114,253	-	-	1,114,253	-	-	-	-	-	1,114,253
Office	3,807,488	-	-	3,807,488	-	-	-	-	-	3,807,488
Stores, shop and garage	744,648	-	-	744,648	-	-	-	-	-	744,648
Miscellaneous	11,827,011	-	-	11,827,011	-	-	-	-	-	11,827,011
Total land and land rights	<u>37,271,867</u>	<u>8,156</u>	<u>-</u>	<u>37,280,023</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,280,023</u>
Structures and improvements:										
Collecting and impounding reservoirs	12,880,565	-	-	12,880,565	7,231,818	464,841	-	7,696,659	-	5,183,906
Lake, river and other intakes	20,256,515	23,796	-	20,280,311	3,543,037	241,843	-	3,784,880	-	16,495,431
Infiltration galleries and tunnels	182,665	-	-	182,665	132,274	753	-	133,027	-	49,638
Other water sources	1,981,662	-	-	1,981,662	379,066	57,530	-	436,596	-	1,545,066
Power and pumping	13,537,306	4,016	-	13,541,322	6,168,393	391,592	-	6,559,985	-	6,981,337
Purification building	28,983,598	2,631	-	28,986,229	13,804,975	954,072	-	14,759,047	-	14,227,182
Distribution reservoirs and standpipes	57,122,238	21,295	-	57,143,533	19,547,966	1,351,623	-	20,899,589	-	36,243,944
Office	22,225,590	43,646	-	22,269,236	9,582,926	643,652	-	10,226,578	-	12,042,658
Stores, shop and garage	4,596,219	-	-	4,596,219	2,102,341	152,402	-	2,254,743	-	2,341,476
Miscellaneous	11,068,713	1,260,951	-	12,329,664	5,915,283	1,134,510	-	7,049,793	-	5,279,871
Total structures and improvements	<u>172,835,071</u>	<u>1,356,335</u>	<u>-</u>	<u>174,191,406</u>	<u>68,408,079</u>	<u>5,392,818</u>	<u>-</u>	<u>73,800,897</u>	<u>-</u>	<u>100,390,509</u>

The Water Works Board of the City of Birmingham Schedules of Changes in Utility Plant Assets (continued)

Account Reference	Asset Account				Accumulated Depreciation					
	Balance as of	Plant	Plant	Balance as of	Balance as of		Balance as of	Net Balance as of		
	December 31,	Additions	Retirements	December 31,	December 31,	Depreciation	Retirements	December 31,	December 31,	
	2013			2014	2013			2014	2014	
Equipment:										
103310	Boiler	\$ 177,196	\$ -	\$ -	\$ 177,196	\$ 177,196	\$ -	\$ -	\$ 177,196	\$ -
103315	Other power production	447,832	-	-	447,832	103,172	23,333	-	126,505	321,327
103320	Steam pumping	423,108	-	-	423,108	423,108	-	-	423,108	-
103323	Electric pumping	24,938,749	1,814,515	-	26,753,264	14,541,433	860,708	-	15,402,141	11,351,123
103325	Oil engine pumping equipment	20,993	3,655	-	24,648	19,422	1,207	-	20,629	4,019
103327	Other power pumping	405,124	-	-	405,124	219,218	15,533	-	234,751	170,373
103330	Purification system	25,799,556	95,187	-	25,894,743	8,289,074	557,073	-	8,846,147	17,048,596
103332	Chemical treating plant - sewer	32,010,154	-	-	32,010,154	13,459,147	586,891	-	14,046,038	17,964,116
103333	Clean water basins	19,132,298	-	-	19,132,298	3,167,202	440,094	-	3,607,296	15,525,002
103335	Filter plant	52,298,447	57,922,375	-	110,220,822	15,450,355	1,414,568	-	16,864,923	93,355,899
103340	Softening plant	6,813	-	-	6,813	3,859	80	-	3,939	2,874
103345	Transmission mains and accessories	126,449,869	2,989,284	-	129,439,153	20,192,125	1,285,343	-	21,477,468	107,961,685
103350	Distribution mains and accessories	247,557,767	17,974,224	-	265,531,991	86,908,783	3,647,661	-	90,556,444	174,975,547
103355	Services	52,331,943	8,786,095	-	61,118,038	13,078,119	1,246,030	-	14,324,149	46,793,889
103360	Meters	37,430,210	5,672,834	(357,503)	42,745,541	14,148,645	1,699,227	(260,126)	15,587,746	27,157,795
103365	Hydrants	20,376,344	3,025,078	-	23,401,422	7,838,567	434,432	-	8,272,999	15,128,423
103370	Office furniture and equipment	17,178,581	618,493	(175,646)	17,621,428	14,326,456	794,389	(172,121)	14,948,724	2,672,704
103375	Transportation	11,904,741	46,247	(308,152)	11,642,836	8,910,719	569,619	(250,158)	9,230,180	2,412,656
103380	Stores	33,920	-	-	33,920	31,813	329	-	32,142	1,778
103383	Shop	198,269	-	-	198,269	195,398	1,877	-	197,275	994
103385	Laboratory	2,261,279	471,002	(36,004)	2,696,277	2,018,926	103,353	(36,004)	2,086,275	610,002
103387	Tool and work	10,307,219	1,689,838	(39,257)	11,957,800	8,162,544	570,079	(34,668)	8,697,955	3,259,845
103390	Communication	11,515,709	32,500	-	11,548,209	9,890,905	359,692	-	10,250,597	1,297,612
103393	Miscellaneous	5,314,691	847,719	(8,469)	6,153,941	4,717,080	332,766	(8,469)	5,041,377	1,112,564
103395	Other tangible property	23,339	-	-	23,339	22,851	450	-	23,301	38
	Total Equipment	698,544,151	101,989,046	(925,031)	799,608,166	246,296,117	14,944,734	(761,546)	260,479,305	539,128,861
	Total utility plant in service	908,651,089	103,353,537	(925,031)	1,011,079,595	314,704,196	20,337,552	(761,546)	334,280,202	676,799,393
	Construction in progress	169,695,117	46,985,219	(102,181,511)	114,498,825	-	-	-	-	114,498,825
	Total utility plant	\$ 1,078,346,206	\$ 150,338,756	\$ (103,106,542)	\$ 1,125,578,420	\$314,704,196	\$ 20,337,552	\$ (761,546)	\$ 334,280,202	\$ 791,298,218

The Water Works Board of the City of Birmingham Schedule of Operating Expenses

Year ended December 31	2014	2013
Operations:		
Sources of supply other	\$ 1,710,351	\$ 1,641,487
Power and pumping	10,129,905	9,541,078
Purification	10,405,781	10,295,060
Transmission and distribution	10,716,567	11,056,156
Customer's accounting and collection	7,525,413	7,425,468
Administrative and general	24,562,386	29,715,865
Payroll taxes	2,373,698	2,394,604
License fees - Birmingham	1,828,286	1,807,151
License fees - other	2,159,017	2,105,054
Total operations	71,411,404	75,981,923
Maintenance:		
Source of supply	449,908	439,269
Power and pumping	2,052,080	2,233,480
Purification	888,583	836,748
Transmission and distribution	10,593,074	8,725,976
Administrative and general	2,408,970	3,269,407
Total maintenance	16,392,615	15,504,880
Depreciation expense	20,337,553	19,479,493
Total operating expenses	\$ 108,141,572	\$ 110,966,296

**The Water Works Board of the City of Birmingham
Schedule of Nonoperating Revenues (Expenses)**

Year ended December 31,	2014	2013
Other income:		
Investment interest income	\$ 2,560,117	\$ 2,620,461
Other interest income	17,496	5,496
Gain (loss) on disposal of property	(280,005)	(120,406)
Land and timber sales	-	90,512
	<hr/>	<hr/>
Total other income	2,297,608	2,596,063
Interest expense:		
Interest on long-term debt and long-term obligations due to the City of Birmingham, including amortization of accounting loss on advance refunding and original issue discount	(43,938,583)	(43,281,748)
Interest paid on customers' guarantee deposits	(3,565)	(3,357)
	<hr/>	<hr/>
Total interest expense	(43,942,148)	(43,285,105)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	<u>\$ (41,644,540)</u>	<u>\$ (40,689,042)</u>

**The Water Works Board of the City of Birmingham
 Schedule Of Amounts On Deposit With Trustee By Fund
 December 31, 2014**

Fund Type	Fair Market Value	Accrued Interest	Carrying Value
Construction funds	\$ 4,956,397	\$ 6,614	\$ 4,963,011
Revenue funds	99,879,570	355,395	100,234,965
Debt service funds	37,677,602	-	37,677,602
Debt service reserve funds	60,898,849	367,770	61,266,619
Development, renewal and replacement funds	1,206,321	1,821	1,208,142
	<u>\$ 204,618,739</u>	<u>\$ 731,600</u>	<u>\$ 205,350,339</u>

The Water Works Board of the City of Birmingham
Schedule Of Major Industrial/Governmental Customers (Unaudited)
December 31, 2014

Customer	Revenues	% Total of Operating Revenue
USX Corporation	\$ 10,773,074	6.62%
University of Alabama at Birmingham	8,292,982	5.09%
Birmingham Housing Authority	5,540,929	3.40%
Samford University	1,947,929	1.20%
Brookwood Hospital	1,640,098	1.01%
Sloss Industries Corporation	1,441,819	0.89%
Graysville Water	1,287,884	0.79%
Coca Cola	1,264,590	0.78%
Colonial Realty	1,211,858	0.74%
Barber's Pure Milk Company	1,148,519	0.71%
	34,549,682	21.23%

The Water Works Board of the City of Birmingham
Schedule Of Insurance Policies
December 31, 2014

Type of Coverage	Policy No.	Deductible	Policy Limits
Property:			
Primary property (TIV - \$520,512,110):	B0621F43121013	\$250,000	\$50,000,000
Dams and structures		250,000	50,000,000
Limited flood and earthquake		250,000	50,000,000
Equipment breakdown coverage		250,000	50,000,000
Inland marine coverage		10,000	4,221,120
Accounts receivable			5,000,000
Valuable papers			5,000,000
Contingent business income (named)		24 Hours	10,000,000
Contingent business income (unnamed)			5,000,000
Auto physical damage (No over the road coverage)		5,000	5,000,000
Newly acquired property			10,000,000
Service interruption deductible			10,000,000
Transit			1,000,000
Excess property	NHT384410	50,000,000	(TIV) 520,512,110
Primary Liability:	PEP G24891574 004		
General liability		100,000	10,000,000
Public Officials		100,000	10,000,000
Employment practice liability		100,000	10,000,000
Employee benefit liability		100,000	10,000,000
Automobile liability		50,000	10,000,000
Uninsured motorist		50,000	250,000
Hired and non-owned liability		50,000	10,000,000
Excess Liability	182240	10,000,000	10,000,000
Pollution	PEC002469902	250,000	5,000,000
Fiduciary	01-542-48-62	\$25,000	\$3,000,000
Commercial Crime	01-543-35-01		
Forgery or Alteration		20,000	1,000,000
Inside premises - theft of money/securities		5,000	350,000
By messenger - theft of money/securities		5,000	350,000
Computer fraud		20,000	1,000,000
Employee theft		20,000	1,000,000
Funds transfer fraud		20,000	1,000,000
Money orders and counterfeit money		5,000	350,000
Clients' property		20,000	1,000,000
Cyber	ASB13B000632	50,000	5,000,000
Specific Excess Worker Compensation and Workers			Statutory
Comp Liability	SP4049786	500,000	\$2,000,000



Carr, Riggs & Ingram, LLC
2100 16th Avenue South
Suite 300
Birmingham, AL 35205

(205) 933-7822
(205) 933-7944 (fax)
www.cricpa.com

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the
Water Works Board of the City of Birmingham
Birmingham, Alabama

We have audited, 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, the accompanying financial statements of the business-type activities of the Water Works Board of the City of Birmingham ("the Board"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated June 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

Birmingham, Alabama
June 5, 2015

APPENDIX C-1

Proposed Forms of Opinions of Co-Bond Counsel,

Maynard, Cooper & Gale, P.C.

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[Date]

Holders of the Series 2016-A Bonds
referred to below

Re: \$150,615,000* Senior Water Revenue Refunding Bonds, Series 2016-A, issued by The Water Works Board of the City of Birmingham

We have acted as bond counsel in connection with the issuance of the above-referenced bonds (the “Series 2016-A Bonds”) by The Water Works Board of the City of Birmingham, a public corporation organized under the laws of the State of Alabama (the “Board”), including particularly Article 8, Chapter 50, Title 11 (Section 11-50-230 *et seq.*) of the Code of Alabama 1975 (the “Enabling Law”). The Series 2016-A Bonds are being issued pursuant to a Trust Indenture dated as of December 1, 1998 (as heretofore amended and supplemented, the “Original Senior Indenture”), as amended and supplemented by a Thirteenth Supplemental Indenture dated as of October 1, 2016, between the Board and Regions Bank, as trustee (the “Trustee”).

The Original Senior Indenture, as amended and supplemented by the Thirteenth Supplemental Indenture, shall hereinafter collectively be referred to as the “Senior Indenture”. Capitalized terms not otherwise defined herein shall have the meanings assigned in the Senior Indenture.

Pursuant to the Senior Indenture, the Board has heretofore issued the following bonds that will remain outstanding following the issuance of the Series 2016-A Bonds: (i) an unrefunded portion (maturities in 2017 through 2019) of the Board’s Water Revenue Bonds, Series 2009-A (issued pursuant to a Seventh Supplemental Indenture), (ii) an unrefunded portion (maturities in 2017 through 2021) of the Board’s Water Revenue Bonds, Series 2011 (issued pursuant to a Ninth Supplemental Indenture), (iii) the Water Revenue Bonds, Series 2009-B (issued pursuant to a Seventh Supplemental Indenture), (iv) the Water Revenue Refunding Bonds, Series 2010-A and Taxable Water Revenue Bonds, Series 2010-B (issued pursuant to an Eighth Supplemental Indenture), (v) the Water Revenue Bonds, Series 2012-A (issued pursuant to a Tenth Supplemental Indenture), (vi) the Water Revenue Refunding Bonds, Series 2013-A and Water Revenue Bonds, Series 2013-B (issued pursuant to an Eleventh Supplemental Indenture), and (vii) the Water Revenue Refunding Bonds, Series 2015-A and Water Revenue Bonds, Series 2015-B (issued pursuant to a Twelfth Supplemental Indenture). The foregoing bonds are herein collectively referred to as the “Outstanding Senior Lien Securities”).

The Board owns and operates a water supply and distribution system (the “System”). The Series 2016-A Bonds are limited obligations of the Board payable solely out of the revenues from the System remaining after payment of the costs of maintaining and operating the System (collectively, the “Pledged Revenues”). Pursuant to the Senior Indenture, the Board has assigned and pledged the Pledged Revenues to the Trustee as security for the payment of the Series 2016-A Bonds, the Outstanding Senior Lien Securities and any Additional Parity Securities hereafter issued under the Senior Indenture.

We have examined an executed counterpart of the Senior Indenture and such certificates, proceedings, proofs and documents as we have deemed necessary in connection with the opinions hereinafter set forth. As to various questions of fact material to our opinion, we have relied upon the representations made in the Senior Indenture and upon certificates of certain public officials and officers of the Board and the Trustee.

* Preliminary; subject to change.

Based on the foregoing and upon such investigation as we have deemed necessary, we are of the opinion that:

1. The Board is validly existing as a public corporation under the Enabling Law.
2. The Board has corporate power and authority to enter into and perform its obligations under the Senior Indenture and to issue and deliver the Series 2016-A Bonds. The execution, delivery and performance by the Board of its obligations under the Senior Indenture and the issuance and delivery of the Series 2016-A Bonds have been duly authorized by all requisite corporate action, and the Series 2016-A Bonds have been duly executed and delivered by the Board.
3. The Series 2016-A Bonds constitute valid and binding special obligations of the Board, payable solely out of the Pledged Revenues.
4. The Senior Indenture constitutes a valid and binding obligation of the Board and is enforceable against the Board in accordance with the terms of the Senior Indenture.
5. The Senior Indenture creates a valid pledge and assignment of the Pledged Revenues for the security of the Series 2016-A Bonds on parity with the Outstanding Senior Lien Securities and any Additional Parity Securities hereafter issued under the Senior Indenture.
6. Interest on the Series 2016-A Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporation; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Board comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2016-A Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Board has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2016-A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016-A Bonds.
7. Under existing law, interest on the Series 2016-A Bonds is exempt from Alabama income taxation.

We express no opinion regarding federal or state tax consequences arising with regard to the Series 2016-A Bonds other than the opinions expressed in paragraphs 6 and 7 above.

The rights of the holders of the Series 2016-A Bonds and the enforceability of the Series 2016-A Bonds and the Senior Indenture may be limited by (i) bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights and (ii) general principles of equity, including the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2016-A Bonds.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Faithfully yours,

[Date]

Holders of the Series 2016-B Bonds
referred to below

Re: \$273,245,000* Subordinate Water Revenue Bonds, Series 2016-B, issued by The Water Works Board of the City of Birmingham

We have acted as bond counsel in connection with the issuance of the above-referenced bonds (the “Series 2016-B Bonds”) by The Water Works Board of the City of Birmingham, a public corporation organized under the laws of the State of Alabama (the “Board”), including particularly Article 8, Chapter 50, Title 11 (Section 11-50-230 *et seq.*) of the Code of Alabama 1975 (the “Enabling Law”). The Series 2016-B Bonds are being issued pursuant to a Trust Indenture dated as of March 1, 2007 (as heretofore amended and supplemented, the “Original Subordinate Indenture”), as amended and supplemented by a Sixth Supplemental Indenture dated as of October 1, 2016, between the Board and Regions Bank, as trustee (the “Trustee”).

The Original Subordinate Indenture, as amended and supplemented by the Sixth Supplemental Indenture, shall hereinafter collectively be referred to as the “Subordinate Indenture”. Capitalized terms not otherwise defined herein shall have the meanings assigned in the Subordinate Indenture.

Simultaneously with the issuance of the Series 2016-B Bonds, pursuant to the Subordinate Indenture, the Board is issuing its Subordinate Water Revenue Refunding Bonds, Series 2016-C (Taxable) (the “Series 2016-C Bonds”). In addition, the Board has heretofore issued the following bonds pursuant to the Subordinate Indenture that will remain outstanding after the issuance of the Series 2016-B Bonds and Series 2016-C Bonds: (i) Subordinate Water Revenue Bonds, Series 2011-DWSRF-DL (issued pursuant to a Second Supplemental Indenture); (ii) Subordinate Water Revenue Bond, Series 2012-DWSRF-DL (issued pursuant to a Third Supplemental Indenture); (iii) Subordinate Water Revenue Bond, Series 2013-DWSRF-DL (issued pursuant to a Fourth Supplemental Indenture); and (iv) Subordinate Water Revenue Bonds, Series 2014-DWSRF-DL (issued pursuant to a Fifth Supplemental Indenture). The foregoing bonds, together with the Series 2016-C Bonds, are herein referred to as the “Outstanding Subordinate Securities”.

The Board owns and operates a water supply and distribution system (the “System”). The Series 2016-B Bonds are limited obligations of the Board payable solely out of the revenues from the System remaining after payment of the costs of maintaining and operating the System (collectively, the “Pledged Revenues”). Pursuant to the Subordinate Indenture, the Board has assigned and pledged the Pledged Revenues to the Trustee as security for the payment of the Series 2016-B Bonds, the Outstanding Parity Securities and any Additional Parity Securities hereafter issued under the Subordinate Indenture.

We have examined an executed counterpart of the Subordinate Indenture and such certificates, proceedings, proofs and documents as we have deemed necessary in connection with the opinions hereinafter set forth. As to various questions of fact material to our opinion, we have relied upon the representations made in the Subordinate Indenture and upon certificates of certain public officials and officers of the Board and the Trustee.

Based on the foregoing and upon such investigation as we have deemed necessary, we are of the opinion that:

* Preliminary; subject to change.

1. The Board is validly existing as a public corporation under the Enabling Law.
2. The Board has corporate power and authority to enter into and perform its obligations under the Subordinate Indenture and to issue and deliver the Series 2016-B Bonds. The execution, delivery and performance by the Board of its obligations under the Subordinate Indenture and the issuance and delivery of the Series 2016-B Bonds have been duly authorized by all requisite corporate action, and the Series 2016-B Bonds have been duly executed and delivered by the Board.
3. The Series 2016-B Bonds constitute valid and binding special obligations of the Board, payable solely out of the Pledged Revenues.
4. The Subordinate Indenture constitutes a valid and binding obligation of the Board and is enforceable against the Board in accordance with the terms of the Subordinate Indenture.
5. The Subordinate Indenture creates a valid pledge and assignment of the Pledged Revenues for the security of the Series 2016-B Bonds on parity with the Outstanding Subordinate Securities and any Additional Parity Securities hereafter issued under the Subordinate Indenture.
6. Interest on the Series 2016-B Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporation; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Board comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2016-B Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Board has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2016-B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016-B Bonds.
7. Under existing law, interest on the Series 2016-B Bonds is exempt from Alabama income taxation.

We express no opinion regarding federal or state tax consequences arising with regard to the Series 2016-B Bonds other than the opinions expressed in paragraphs 6 and 7 above.

The rights of the holders of the Series 2016-B Bonds and the enforceability of the Series 2016-B Bonds and the Subordinate Indenture may be limited by (i) bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights and (ii) general principles of equity, including the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2016-B Bonds.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Faithfully yours,

[Date]

Holders of the Series 2016-C Bonds
referred to below

Re: \$33,885,000* Subordinate Water Revenue Bonds, Series 2016-C (Taxable), issued by The Water Works Board of the City of Birmingham

We have acted as bond counsel in connection with the issuance of the above-referenced bonds (the “Series 2016-C Bonds”) by The Water Works Board of the City of Birmingham, a public corporation organized under the laws of the State of Alabama (the “Board”), including particularly Article 8, Chapter 50, Title 11 (Section 11-50-230 *et seq.*) of the Code of Alabama 1975 (the “Enabling Law”). The Series 2016-C Bonds are being issued pursuant to a Trust Indenture dated as of March 1, 2007 (as heretofore amended and supplemented, the “Original Subordinate Indenture”), as amended and supplemented by a Sixth Supplemental Indenture dated as of October 1, 2016, between the Board and Regions Bank, as trustee (the “Trustee”).

The Original Subordinate Indenture, as amended and supplemented by the Sixth Supplemental Indenture, shall hereinafter collectively be referred to as the “Subordinate Indenture”. Capitalized terms not otherwise defined herein shall have the meanings assigned in the Subordinate Indenture.

Simultaneously with the issuance of the Series 2016-C Bonds, pursuant to the Subordinate Indenture, the Board is issuing its Subordinate Water Revenue Refunding Bonds, Series 2016-B (the “Series 2016-B Bonds”). In addition, the Board has heretofore issued the following bonds pursuant to the Subordinate Indenture that will remain outstanding after the issuance of the Series 2016-B Bonds and Series 2016-C Bonds: (i) Subordinate Water Revenue Bonds, Series 2011-DWSRF-DL (issued pursuant to a Second Supplemental Indenture); (ii) Subordinate Water Revenue Bond, Series 2012-DWSRF-DL (issued pursuant to a Third Supplemental Indenture); (iii) Subordinate Water Revenue Bond, Series 2013-DWSRF-DL (issued pursuant to a Fourth Supplemental Indenture; and (iv) Subordinate Water Revenue Bonds, Series 2014-DWSRF-DL (issued pursuant to a Fifth Supplemental Indenture). The foregoing bonds, together with the Series 2016-B Bonds, are herein referred to as the “Outstanding Subordinate Securities”.

The Board owns and operates a water supply and distribution system (the “System”). The Series 2016-C Bonds are limited obligations of the Board payable solely out of the revenues from the System remaining after payment of the costs of maintaining and operating the System (collectively, the “Pledged Revenues”). Pursuant to the Subordinate Indenture, the Board has assigned and pledged the Pledged Revenues to the Trustee as security for the payment of the Series 2016-C Bonds, the Outstanding Parity Securities and any Additional Parity Securities hereafter issued under the Subordinate Indenture.

We have examined an executed counterpart of the Subordinate Indenture and such certificates, proceedings, proofs and documents as we have deemed necessary in connection with the opinions hereinafter set forth. As to various questions of fact material to our opinion, we have relied upon the representations made in the Subordinate Indenture and upon certificates of certain public officials and officers of the Board and the Trustee.

Based on the foregoing and upon such investigation as we have deemed necessary, we are of the opinion that:

1. The Board is validly existing as a public corporation under the Enabling Law.

2. The Board has corporate power and authority to enter into and perform its obligations under the Subordinate Indenture and to issue and deliver the Series 2016-C Bonds. The execution, delivery and performance by the Board of its obligations *under the Subordinate Indenture and the issuance and delivery of the Series 2016-C Bonds have been duly authorized* by all requisite corporate action, and the Series 2016-C Bonds have been duly executed and delivered by the Board.

3. The Series 2016-C Bonds constitute valid and binding special obligations of the Board, payable solely out of the Pledged Revenues.

4. The Subordinate Indenture constitutes a valid and binding obligation of the Board and is enforceable against the Board in accordance with the terms of the Subordinate Indenture.

5. The Subordinate Indenture creates a valid pledge and assignment of the Pledged Revenues for the security of the Series 2016-C Bonds on parity with the Outstanding Subordinate Securities and any Additional Parity Securities hereafter issued under the Subordinate Indenture.

6. Interest on the Series 2016-C Bonds is not excludable from gross income for federal tax purposes.

7. Under existing law, interest on the Series 2016-C Bonds is exempt from Alabama income taxation.

We express no opinion regarding federal or state tax consequences arising with regard to the Series 2016-C Bonds other than the opinions expressed in paragraphs 6 and 7 above.

The rights of the holders of the Series 2016-C Bonds and the enforceability of the Series 2016-C Bonds and the Subordinate Indenture may be limited by (i) bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights and (ii) general principles of equity, including the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2016-C Bonds.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Faithfully yours,

APPENDIX C-2

Proposed Forms of Opinions of Co-Bond Counsel,

Yvonne Green Davis, P.C.

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[Date]

The Water Works Board of the City of Birmingham
Birmingham, Alabama

Holders of the Series 2016-A Bonds
referred to below

Re: \$150,615,000* Senior Water Revenue Refunding Bonds, Series 2016-A, issued by The Water Works Board of the City of Birmingham

I have acted as co-bond counsel in connection with the issuance of the above-referenced bonds (the “Series 2016-A Bonds”) by The Water Works Board of the City of Birmingham, a public corporation organized under the laws of the State of Alabama (the “Board”), including particularly Article 8, Chapter 50, Title 11 (Section 11-50-230 *et seq.*) of the Code of Alabama 1975 (the “Enabling Law”). The Series 2016-A Bonds are being issued pursuant to a Trust Indenture dated as of December 1, 1998 (as heretofore amended and supplemented, the “Original Senior Indenture”), as amended and supplemented by a Thirteenth Supplemental Indenture dated as of October 1, 2016, between the Board and Regions Bank, as trustee (the “Trustee”).

The Original Senior Indenture, as amended and supplemented by the Thirteenth Supplemental Indenture, shall hereinafter collectively be referred to as the “Senior Indenture”. Capitalized terms not otherwise defined herein shall have the meanings assigned in the Senior Indenture.

Pursuant to the Senior Indenture, the Board has heretofore issued the following bonds that will remain outstanding following the issuance of the Series 2016-A Bonds: (i) an unrefunded portion (maturities in 2017 through 2019) of the Board’s Water Revenue Bonds, Series 2009-A (issued pursuant to a Seventh Supplemental Indenture), (ii) an unrefunded portion (maturities in 2017 through 2021) of the Board’s Water Revenue Bonds, Series 2011 (issued pursuant to a Ninth Supplemental Indenture), (iii) the Water Revenue Bonds, Series 2009-B (issued pursuant to a Seventh Supplemental Indenture), (iv) the Water Revenue Refunding Bonds, Series 2010-A and Taxable Water Revenue Bonds, Series 2010-B (issued pursuant to an Eighth Supplemental Indenture), (v) the Water Revenue Bonds, Series 2012-A (issued pursuant to a Tenth Supplemental Indenture), (vi) the Water Revenue Refunding Bonds, Series 2013-A and Water Revenue Bonds, Series 2013-B (issued pursuant to an Eleventh Supplemental Indenture), and (vii) the Water Revenue Refunding Bonds, Series 2015-A and Water Revenue Bonds, Series 2015-B (issued pursuant to a Twelfth Supplemental Indenture). The foregoing bonds are herein collectively referred to as the “Outstanding Senior Lien Securities”).

The Board owns and operates a water supply and distribution system (the “System”). The Series 2016-A Bonds are limited obligations of the Board payable solely out of the revenues from the System remaining after payment of the costs of maintaining and operating the System (collectively, the “Pledged Revenues”). Pursuant to the Senior Indenture, the Board has assigned and pledged the Pledged Revenues to the Trustee as security for the payment of the Series 2016-A Bonds, the Outstanding Senior Lien Securities and any Additional Parity Securities hereafter issued under the Senior Indenture.

I have examined certified copies of proceedings, certificates and other documents relating to the organization under the laws of the State of Alabama of the Board and to the authorization, sale and issuance by the Board of the series 2016-A Bonds.

I have examined an executed counterpart of the Senior Indenture and such authorizing resolution, certificates, proceedings, proofs and documents as I have deemed necessary in connection with the opinions hereinafter set forth. As to various questions of fact material to my opinion, I have relied upon the representations

* Preliminary; subject to change.

made in the Senior Indenture and upon certificates of certain public officials and officers of the Board and the Trustee.

Based on the foregoing and upon such investigation as I have deemed necessary, I am of the opinion that:

1. The Board is validly existing as a public corporation under the Enabling Law.
2. The Board has corporate power and authority to enter into and perform its obligations under the Senior Indenture and to issue and deliver the Series 2016-A Bonds. The execution, delivery and performance by the Board of its obligations under the Senior Indenture and the issuance and delivery of the Series 2016-A Bonds have been duly authorized by all requisite corporate action, and the Series 2016-A Bonds have been duly executed and delivered by the Board.
3. The Series 2016-A Bonds constitute valid and binding special obligations of the Board, payable solely out of the Pledged Revenues.
4. The Senior Indenture constitutes a valid and binding obligation of the Board and is enforceable against the Board in accordance with the terms of the Senior Indenture.
5. The Senior Indenture creates a valid pledge and assignment of the Pledged Revenues for the security of the Series 2016-A Bonds on parity with the Outstanding Senior Lien Securities and any Additional Parity Securities hereafter issued under the Senior Indenture.
6. Interest on the Series 2016-A Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporation; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Board comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2016-A Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Board has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2016-A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016-A Bonds.
7. Under existing law, interest on the Series 2016-A Bonds is exempt from Alabama income taxation.

I express no opinion regarding federal or state tax consequences arising with regard to the Series 2016-A Bonds other than the opinions expressed in paragraphs 6 and 7 above.

The rights of the holders of the Series 2016-A Bonds and the enforceability of the Series 2016-A Bonds and the Senior Indenture may be limited by (i) bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights and (ii) general principles of equity, including the exercise of judicial discretion in appropriate cases.

I express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2016-A Bonds.

This opinion is given as of the date hereof and I assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Yvonne Green Davis, P.C.

[Date]

The Water Works Board of the City of Birmingham
Birmingham, Alabama

Holders of the Series 2016-B Bonds
referred to below

Re: \$273,245,000* Subordinate Water Revenue Bonds, Series 2016-B, issued by The Water Works Board of the City of Birmingham

I have acted as co-bond counsel in connection with the issuance of the above-referenced bonds (the “Series 2016-B Bonds”) by The Water Works Board of the City of Birmingham, a public corporation organized under the laws of the State of Alabama (the “Board”), including particularly Article 8, Chapter 50, Title 11 (Section 11-50-230 *et seq.*) of the Code of Alabama 1975 (the “Enabling Law”). The Series 2016-B Bonds are being issued pursuant to a Trust Indenture dated as of March 1, 2007 (as heretofore amended and supplemented, the “Original Subordinate Indenture”), as amended and supplemented by a Sixth Supplemental Indenture dated as of October 1, 2016, between the Board and Regions Bank, as trustee (the “Trustee”).

The Original Subordinate Indenture, as amended and supplemented by the Sixth Supplemental Indenture, shall hereinafter collectively be referred to as the “Subordinate Indenture”. Capitalized terms not otherwise defined herein shall have the meanings assigned in the Subordinate Indenture.

Simultaneously with the issuance of the Series 2016-B Bonds, pursuant to the Subordinate Indenture, the Board is issuing its Subordinate Water Revenue Refunding Bonds, Series 2016-C (Taxable) (the “Series 2016-C Bonds”). In addition, the Board has heretofore issued the following bonds pursuant to the Subordinate Indenture that will remain outstanding after the issuance of the Series 2016-B Bonds and Series 2016-C Bonds: (i) Subordinate Water Revenue Bonds, Series 2011-DWSRF-DL (issued pursuant to a Second Supplemental Indenture); (ii) Subordinate Water Revenue Bond, Series 2012-DWSRF-DL (issued pursuant to a Third Supplemental Indenture); (iii) Subordinate Water Revenue Bond, Series 2013-DWSRF-DL (issued pursuant to a Fourth Supplemental Indenture); and (iv) Subordinate Water Revenue Bonds, Series 2014-DWSRF-DL (issued pursuant to a Fifth Supplemental Indenture). The foregoing bonds, together with the Series 2016-C Bonds, are herein referred to as the “Outstanding Subordinate Securities”.

The Board owns and operates a water supply and distribution system (the “System”). The Series 2016-B Bonds are limited obligations of the Board payable solely out of the revenues from the System remaining after payment of the costs of maintaining and operating the System (collectively, the “Pledged Revenues”). Pursuant to the Subordinate Indenture, the Board has assigned and pledged the Pledged Revenues to the Trustee as security for the payment of the Series 2016-B Bonds, the Outstanding Parity Securities and any Additional Parity Securities hereafter issued under the Subordinate Indenture.

I have examined certified copies of proceedings, certificates and other documents relating to the organization under the laws of the State of Alabama of the Board and to the authorization, sale and issuance by the Board of the series 2016-B Bonds.

I have examined an executed counterpart of the Subordinate Indenture and such authorizing resolution, certificates, proceedings, proofs and documents as I have deemed necessary in connection with the opinions hereinafter set forth. As to various questions of fact material to my opinion, I have relied upon the representations

* Preliminary; subject to change.

made in the Subordinate Indenture and upon certificates of certain public officials and officers of the Board and the Trustee.

Based on the foregoing and upon such investigation as I have deemed necessary, I am of the opinion that:

1. The Board is validly existing as a public corporation under the Enabling Law.
2. The Board has corporate power and authority to enter into and perform its obligations under the Subordinate Indenture and to issue and deliver the Series 2016-B Bonds. The execution, delivery and performance by the Board of its obligations under the Subordinate Indenture and the issuance and delivery of the Series 2016-B Bonds have been duly authorized by all requisite corporate action, and the Series 2016-B Bonds have been duly executed and delivered by the Board.
3. The Series 2016-B Bonds constitute valid and binding special obligations of the Board, payable solely out of the Pledged Revenues.
4. The Subordinate Indenture constitutes a valid and binding obligation of the Board and is enforceable against the Board in accordance with the terms of the Subordinate Indenture.
5. The Subordinate Indenture creates a valid pledge and assignment of the Pledged Revenues for the security of the Series 2016-B Bonds on parity with the Outstanding Subordinate Securities and any Additional Parity Securities hereafter issued under the Subordinate Indenture.
6. Interest on the Series 2016-B Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporation; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Board comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2016-B Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Board has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2016-B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016-B Bonds.
7. Under existing law, interest on the Series 2016-B Bonds is exempt from Alabama income taxation.

I express no opinion regarding federal or state tax consequences arising with regard to the Series 2016-B Bonds other than the opinions expressed in paragraphs 6 and 7 above.

The rights of the holders of the Series 2016-B Bonds and the enforceability of the Series 2016-B Bonds and the Subordinate Indenture may be limited by (i) bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights and (ii) general principles of equity, including the exercise of judicial discretion in appropriate cases.

I express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2016-B Bonds.

This opinion is given as of the date hereof and I assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to my attention or any changes in law that may hereafter occur.

Very truly yours,

Yvonne Green Davis, P.C.

[Date]

The Water Works Board of the City of Birmingham
Birmingham, Alabama

Holders of the Series 2016-C Bonds
referred to below

Re: \$33,885,000* Subordinate Water Revenue Bonds, Series 2016-C (Taxable), issued by The Water Works Board of the City of Birmingham

I have acted as co-bond counsel in connection with the issuance of the above-referenced bonds (the “Series 2016-C Bonds”) by The Water Works Board of the City of Birmingham, a public corporation organized under the laws of the State of Alabama (the “Board”), including particularly Article 8, Chapter 50, Title 11 (Section 11-50-230 *et seq.*) of the Code of Alabama 1975 (the “Enabling Law”). The Series 2016-C Bonds are being issued pursuant to a Trust Indenture dated as of March 1, 2007 (as heretofore amended and supplemented, the “Original Subordinate Indenture”), as amended and supplemented by a Sixth Supplemental Indenture dated as of October 1, 2016, between the Board and Regions Bank, as trustee (the “Trustee”).

The Original Subordinate Indenture, as amended and supplemented by the Sixth Supplemental Indenture, shall hereinafter collectively be referred to as the “Subordinate Indenture”. Capitalized terms not otherwise defined herein shall have the meanings assigned in the Subordinate Indenture.

Simultaneously with the issuance of the Series 2016-C Bonds, pursuant to the Subordinate Indenture, the Board is issuing its Subordinate Water Revenue Refunding Bonds, Series 2016-B (the “Series 2016-B Bonds”). In addition, the Board has heretofore issued the following bonds pursuant to the Subordinate Indenture that will remain outstanding after the issuance of the Series 2016-B Bonds and Series 2016-C Bonds: (i) Subordinate Water Revenue Bonds, Series 2011-DWSRF-DL (issued pursuant to a Second Supplemental Indenture); (ii) Subordinate Water Revenue Bond, Series 2012-DWSRF-DL (issued pursuant to a Third Supplemental Indenture); (iii) Subordinate Water Revenue Bond, Series 2013-DWSRF-DL (issued pursuant to a Fourth Supplemental Indenture; and (iv) Subordinate Water Revenue Bonds, Series 2014-DWSRF-DL (issued pursuant to a Fifth Supplemental Indenture). The foregoing bonds, together with the Series 2016-B Bonds, are herein referred to as the “Outstanding Subordinate Securities”.

The Board owns and operates a water supply and distribution system (the “System”). The Series 2016-C Bonds are limited obligations of the Board payable solely out of the revenues from the System remaining after payment of the costs of maintaining and operating the System (collectively, the “Pledged Revenues”). Pursuant to the Subordinate Indenture, the Board has assigned and pledged the Pledged Revenues to the Trustee as security for the payment of the Series 2016-C Bonds, the Outstanding Parity Securities and any Additional Parity Securities hereafter issued under the Subordinate Indenture.

I have examined an executed counterpart of the Subordinate Indenture and such certificates, proceedings, proofs and documents as I have deemed necessary in connection with the opinions hereinafter set forth. As to various questions of fact material to my opinion, I have relied upon the representations made in the Subordinate Indenture and upon certificates of certain public officials and officers of the Board and the Trustee.

Based on the foregoing and upon such investigation as I have deemed necessary, I am of the opinion that:

1. The Board is validly existing as a public corporation under the Enabling Law.
2. The Board has corporate power and authority to enter into and perform its obligations under the Subordinate Indenture and to issue and deliver the Series 2016-C Bonds. The execution, delivery and performance

by the Board of its obligations under the Subordinate Indenture and the issuance and delivery of the Series 2016-C Bonds have been duly authorized by all requisite corporate action, and the Series 2016-C Bonds have been duly executed and delivered by the Board.

3. The Series 2016-C Bonds constitute valid and binding special obligations of the Board, payable solely out of the Pledged Revenues.

4. The Subordinate Indenture constitutes a valid and binding obligation of the Board and is enforceable against the Board in accordance with the terms of the Subordinate Indenture.

5. The Subordinate Indenture creates a valid pledge and assignment of the Pledged Revenues for the security of the Series 2016-C Bonds on parity with the Outstanding Subordinate Securities and any Additional Parity Securities hereafter issued under the Subordinate Indenture.

6. Interest on the Series 2016-C Bonds is not excludable from gross income for federal tax purposes.

7. Under existing law, interest on the Series 2016-C Bonds is exempt from Alabama income taxation.

I express no opinion regarding federal or state tax consequences arising with regard to the Series 2016-C Bonds other than the opinions expressed in paragraphs 6 and 7 above.

The rights of the holders of the Series 2016-C Bonds and the enforceability of the Series 2016-C Bonds and the Subordinate Indenture may be limited by (i) bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights and (ii) general principles of equity, including the exercise of judicial discretion in appropriate cases.

I express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2016-C Bonds.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Yvonne Green Davis, P.C.

APPENDIX D
REPORT OF INDEPENDENT CONSULTANTS
2016 FORECAST

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REPORT OF INDEPENDENT CONSULTANTS

The Water Works Board of the City of Birmingham
Water Senior Lien Revenue Refunding Bonds, Series 2016-A
Water Subordinate Lien Revenue Refunding Bonds, Series 2016-B, and
Water Taxable Subordinate Lien Revenue Refunding Bonds, Series 2016-C

Raftelis Financial Consultants, Inc. (RFC) has evaluated the accompanying Forecast Statement of Revenues, Expenses, Debt Service, and Debt Service Coverage (“Forecast Statement”) of The Water Works Board of the City of Birmingham (the “Board”) for the six fiscal years ending December 31, 2016 through December 31, 2021. Our evaluation was conducted in accordance with guidelines for the water industry and includes such procedures as we considered necessary to evaluate the assumptions of the Board.

RFC’s forecast is based on estimated rates and charges and numerous assumptions related to cost, demand, and other factors, as detailed in the Forecast Statement. The most significant assumptions are listed below.

- The Senior Water Revenue Refunding Bonds, Series 2016-A of \$150,280,000 will be issued by the Board to refund a portion of outstanding Series 2009-A and Series 2011 Revenue Bonds.
- The Subordinate Water Revenue Refunding Bonds, Series 2016-B of \$272,035,000 will be issued by the Board to refund all outstanding Series 2007-A Subordinate Revenue Bonds and a portion of Series 2009 Subordinate Revenue Bonds and to fund certain capital improvements.
- The Subordinate Water Revenue Refunding Bonds, Series 2016-C (Taxable) of \$33,910,000 will be issued by the Board to advance refund the remainder of the Series 2009 Subordinate Revenue Bonds and to fund certain capital improvements.
- The Series 2016-A Bonds are being issued under a Trust Indenture between the City of Birmingham, Alabama and the Chase Manhattan Bank, dated as of December 1, 1998 (the “Original Senior Indenture”) as supplemented and amended by various supplemental indentures, including the Thirteenth Supplemental Indenture between the Board and Regions Bank, dated as of October 1, 2016 (the “Thirteenth Supplemental Indenture”).
- The Series 2016-B Bonds and the Series 2016-C Bonds are being issued under a Trust Indenture between The Water Works Board of the City of Birmingham and U.S. Bank,

National Association, dated as of March 1, 2007 (the “Original Subordinate Indenture”) as supplemented and amended by various supplemental indentures, including the Sixth Supplemental Indenture between the Board and Regions Bank, dated as of October 1, 2016 (the “Sixth Supplemental Indenture”).

- The Board will continue to establish rates based on the rate stabilization and equalization process adopted by the Board of Directors in 2005 and four annual rate increases of 3.9% and one annual rate increase of 4.2% are currently projected for 2017 through 2021.
- A combination of senior debt, the Series 2016-B Bonds, the Series 2016-C Bonds, and additional revenue bond issues in 2017 and 2019, and rate-financed capital will be used to meet relevant capital requirements during the forecast period.
- Estimated 2016 demand is based on year-to-date usage through the end of June. Usage in 2016 is below forecasted levels and this situation is recognized in the forecast. Demand for 2017 and beyond is based on an adjusted estimate of 2016 demand that includes year-to-date information.
- Demand is projected to continue to decrease slightly annually throughout the forecast period.

The accompanying Forecast Statement is presented on a basis consistent with the Original Indenture and the Thirteenth Supplemental Indenture to generate forecast requirements for debt service coverage, as described in more detail in the Forecast Statement. The Forecast Statement does not show a calculation of net income, but focuses instead on the information needed to calculate Net Revenues Available for Debt Service to show compliance with the debt service coverage requirements of the Original Indenture and the Thirteenth Supplemental Indenture, and to demonstrate that the total cash needs of the Board are being addressed throughout the forecast period.

The accompanying Forecast Statement is also presented on a basis consistent with the Original Subordinate Indenture and the Sixth Supplemental Indenture to generate forecast requirements for total debt service coverage, as described in the Forecast Statement. The Forecast Statement focuses on the information needed to calculate Net Revenues Available for Debt Service to show compliance with the debt service coverage requirements of the Original Subordinate Indenture and the Sixth Supplemental Indenture, and to demonstrate that the total cash needs of the Board are being addressed throughout the forecast period.

In our opinion, the accompanying Forecast Statement is presented in conformity with industry guidelines for presentation of a forecast, and the underlying assumptions provide a reasonable basis for the Board’s forecast. Based upon the assumptions supporting our Forecast Statement, the projected revenues provide adequate funds to maintain the debt service coverage ratios required

by the Original Senior Indenture and the Original Subordinate Indenture during the forecast period for the issuance of the Board's Water Senior Lien Revenue Refunding Bonds, Series 2016-A, Water Subordinate Lien Revenue Refunding Bonds, Series 2016-B, and Water Taxable Subordinate Lien Revenue Refunding Bonds, Series 2016-C.

There will usually be differences between the forecast and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. RFC has no responsibility to update this report for events and circumstances occurring after the date of this report.

A handwritten signature in cursive script that reads "Peiffer A. Brandt".

Peiffer A. Brandt
Chief Operating Officer
Raftelis Financial Consultants, Inc.

Charlotte, North Carolina
August 11, 2016

Water Works Board of the City of Birmingham
Preliminary Forecast Statement of Revenues, Expenses, Debt, and Debt Service Coverage

	Actual	Estimated	Projected				
	2015	2016	2017	2018	2019	2020	2021
Operating Revenues (1)							
Volume Charge Revenues							
Residential	\$ 35,564,591	\$ 37,049,300	\$ 38,421,925	\$ 39,706,636	\$ 41,050,434	\$ 42,460,860	\$ 43,856,156
Non-residential	51,326,178	54,756,000	56,810,520	58,688,682	60,700,314	62,690,362	64,811,131
Base Charge Revenues	63,283,204	66,696,229	69,834,144	72,915,889	76,113,388	79,452,674	82,958,412
Raw Water Revenues	7,156,657	4,380,002	4,555,801	4,728,997	4,901,966	5,074,768	5,247,467
Fire Protection	4,164,476	4,255,717	4,328,765	4,399,444	4,472,880	4,549,179	4,628,454
Subtotal: Water Rate Revenues	\$ 161,495,107	\$ 167,137,248	\$ 173,951,155	\$ 180,439,648	\$ 187,238,982	\$ 194,227,844	\$ 201,501,621
Other Operating Revenue (2)	\$ 3,445,700	\$ 3,320,041	\$ 3,320,041	\$ 3,320,041	\$ 3,320,041	\$ 3,320,041	\$ 3,320,041
Total Operating Revenues	\$ 164,940,807	\$ 170,457,289	\$ 177,271,195	\$ 183,759,689	\$ 190,559,023	\$ 197,547,885	\$ 204,821,662
Projected Rate Increase	3.90%	4.90%	4.20%	3.90%	3.90%	3.90%	3.90%
Non-operating Revenues (3)	\$ 2,256,772	\$ 3,000,000	\$ 3,045,000	\$ 3,090,675	\$ 3,137,035	\$ 3,184,091	\$ 3,231,852
Interest Income from New Debt Service Reserves	-	-	-	-	-	-	-
Total Non-operating Revenues	\$ 2,256,772	\$ 3,000,000	\$ 3,045,000	\$ 3,090,675	\$ 3,137,035	\$ 3,184,091	\$ 3,231,852
Total Revenues	\$ 167,197,579	\$ 173,457,289	\$ 180,316,195	\$ 186,850,364	\$ 193,696,058	\$ 200,731,975	\$ 208,053,514
Operating Expenses							
O&M Expenditures (4)	\$ 98,835,582	\$ 94,390,994	\$ 99,282,724	\$ 102,261,205	\$ 105,329,041	\$ 108,488,913	\$ 111,743,580
Total Operating Expenses	\$ 98,835,582	\$ 94,390,994	\$ 99,282,724	\$ 102,261,205	\$ 105,329,041	\$ 108,488,913	\$ 111,743,580
Net Revenues Available for Debt Service	\$ 68,361,997	\$ 79,066,295	\$ 81,033,472	\$ 84,589,159	\$ 88,367,017	\$ 92,243,063	\$ 96,309,933
Senior Debt Service							
Series 2006 A Bonds	1,714,425	-	-	-	-	-	-
Series 2008 A Bonds	602,061	-	-	-	-	-	-
Series 2009 A Bonds	6,372,363	5,641,794	2,577,125	2,575,500	2,577,875	-	-
Series 2009 B Bonds	7,149,000	7,151,125	7,148,250	7,149,625	7,149,375	-	-
Series 2010 A Bonds	4,239,713	4,239,713	4,239,713	4,239,713	4,239,713	10,957,463	10,954,213
Series 2010 B Bonds	1,368,926	1,369,111	1,322,510	-	-	-	-
2010 DWSRF - \$10M	-	-	-	-	-	-	-
Series 2011 Bonds	8,522,263	8,524,463	3,236,563	3,238,219	3,237,925	3,239,125	3,239,375
Series 2012 A Bonds	2,223,650	2,223,400	2,272,550	4,022,775	4,022,600	4,022,000	4,025,000
Series 2013 A Bonds	954,925	958,075	956,175	934,475	957,225	954,225	956,150
Series 2013 B Bonds	3,539,250	3,539,250	3,539,250	3,539,250	3,539,250	3,539,250	3,539,250
Series 2015 A Bonds	1,045,248	5,330,125	5,331,400	5,332,225	5,332,600	5,327,600	8,068,625
Series 2015 B Bonds	762,017	4,212,775	4,217,600	3,817,825	3,794,050	4,228,750	4,296,125
Proposed Series 2016 A Bonds	-	-	5,552,011	7,514,000	7,514,000	9,517,625	7,411,250
Forecast Senior Debt Service	-	-	1,649,054	3,298,108	6,667,772	10,037,436	12,957,923
Total Senior Debt Service	\$ 38,493,840	\$ 43,189,830	\$ 42,042,200	\$ 45,661,715	\$ 49,032,385	\$ 51,823,474	\$ 55,447,911
Senior Debt Service Coverage (5)	1.78	1.83	1.93	1.85	1.80	1.78	1.74
Subordinate Debt Service							
Series 2007 A Bonds	\$ 15,620,650	\$ 15,622,900	\$ -	\$ -	\$ -	\$ -	\$ -
Series 2009 Bonds	6,053,731	6,051,831	-	-	-	-	-
2011 Carson DWRF Loan	134,870	137,313	139,600	136,810	138,943	135,998	137,975
2012 DWRF Loan	90,743	89,148	87,553	90,885	89,145	92,333	90,448
2013 DWRF Loan	374,806	373,550	377,088	375,419	378,544	376,463	374,244
2014 DWRF Loan	-	36,887	39,455	38,843	38,230	37,618	37,005
Proposed Series 2016 B Subordinate Bonds	-	-	10,050,182	13,601,750	13,601,750	13,601,750	13,601,750
Proposed Series 2016 C Taxable Subordinate Bonds	-	-	1,764,863	5,718,917	5,730,780	5,721,519	5,722,228
Total Subordinate Debt Service	\$ 22,274,800	\$ 22,311,628	\$ 12,458,740	\$ 19,962,623	\$ 19,977,392	\$ 19,965,679	\$ 19,963,649
Total Debt Service Requirements	\$ 60,768,640	\$ 65,501,458	\$ 54,500,941	\$ 65,624,337	\$ 69,009,777	\$ 71,789,153	\$ 75,411,560
Total Debt Service Coverage (6)	1.12	1.21	1.49	1.29	1.28	1.28	1.28

Notes

- (1) The actual operating revenues for FY 2015 have been allocated between volumetric (residential and non-residential) and base charges.
- (2) Other operating revenues exclude system development charge revenue of approximately \$1 million per year.
- (3) Non-operating revenues include interest income less bond fund earnings.
- (4) For FY 2015, O&M Expenditures include approximately \$14 million in non-cash expenses associated with pension liability as required by GASB 68.
- (5) The Senior Debt Service Coverage requirement is 1.25.
- (6) The Total Debt Service Coverage requirement is 1.00.

Forecast Statement of Revenues, Expenses, Debt Service and Debt Service Coverage

1. Basis of Presentation

Raftelis Financial Consultants, Inc. (“RFC”) has been engaged by The Water Works Board of the City of Birmingham (the “Board”) to prepare a forecast of revenues, expenses, debt service, and debt service coverage to support the Board’s proposed Senior Water Revenue Refunding Bonds, Series 2016-A, Subordinate Water Revenue Refunding Bonds, Series 2016-B, and Subordinate Water Revenue Refunding Bonds, Series 2016-C (Taxable) (together, the “Series 2016 Bonds”).

All schedules in the Forecast Statement of Revenues, Expenses, Debt Service, and Debt Service Coverage (“Forecast Statement”) have been presented in accordance with the Board’s annual accounting cycle, based upon its fiscal year beginning January 1 and ending December 31 (“Fiscal Year”). The Forecast Statement reflects the Board’s judgment as of August 11, 2016, the date of this Forecast Statement, of the anticipated conditions and the Board’s expected course of action during the forecast period.

The Forecast Statement is presented in conformity with the methodology for calculating debt service coverage of the outstanding indebtedness set forth in the Trust Indenture between the City of Birmingham, Alabama and the Chase Manhattan Bank, dated as of December 1, 1998 (the “Original Senior Indenture”) as supplemented and amended by various supplemental indentures, including the Thirteenth Supplemental Indenture between the Board and Regions Bank, dated as of October 1, 2016 (the “Thirteenth Supplemental Indenture”); and the Trust Indenture between the Water Works Board of the City of Birmingham and U.S. Bank, National Association, dated as of March 1, 2007 (the “Original Subordinate Indenture”) as supplemented and amended by various supplemental indentures, including the Sixth Supplemental Indenture between the Board and Regions Bank, dated as of October 1, 2016 (the “Sixth Supplemental Subordinate Indenture”).

The Original Senior Indenture sets forth in Section 9.2 a condition for the issuance of Additional Parity Securities. This condition requires that the Net Revenues Available for Debt Service during the most recently completed Fiscal Year, or during any period of twelve consecutive months in the eighteen-month period preceding the date of issuance of the proposed Additional Parity Securities, be not less than 125% of the Maximum Annual Debt Service (“MADS”) payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities. For this test, the Net Revenues Available for Debt Service may be adjusted to account for

any rate increases that have been implemented prior to the issuance of the additional parity securities. Similarly, the Original Subordinate Indenture sets forth in Section 9.2. a condition for the issuance of Additional Parity Securities. This condition requires that the Net Revenues Available for Debt Service during the most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period preceding the date of issuance of the proposed Additional Parity Securities is not less than 110% of the Maximum Annual Debt Service (“MADS”) payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities. Again, the Net Revenues Available for Debt Service may be adjusted to account for any rate increases that have been implemented prior to the issuance of the additional parity securities. However, for both the Original Senior Indenture and Original Subordinate Indenture, additional bonds may be issued to refund bonds without having to meet the additional bonds test if the new debt service in each year is less than the existing debt service in that year, which is the case for this refunding.

The Original Senior Indenture also sets forth a Rate Covenant in Section 12.5(b) requiring that in each Fiscal Year, Net Revenues Available for Debt Service shall not be less than 125% of the aggregate amount payable during such Fiscal Year for debt service on all outstanding Parity Securities. In addition, the Original Subordinate Indenture sets forth in Section 12.2 a Rate Covenant requiring that in each Fiscal Year, Net Revenues Available for Debt Service shall not be less than 100% of the aggregate amount payable during such Fiscal Year for debt service on all outstanding Securities.

Forecasts of revenues, expenses, debt service, and debt service coverage are presented on a basis consistent with the Original Indenture and the Thirteenth Supplemental Indenture to generate a forecast of Net Revenues Available for Debt Service. As such, the Forecast Statement does not show a calculation of net income, but focuses instead on the information needed to show compliance with the debt service coverage requirements of the Original Indenture and the Thirteenth Supplemental Indenture and to demonstrate that the total cash needs of the Board are being addressed throughout the forecast period.

The assumptions described below are those that the Board believes are significant to the Forecast Statement. There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. RFC bears no responsibility for updating the forecast as circumstances change.

2. Scope of Operations

The Board's primary function is to provide potable water to the residents of the City of Birmingham and surrounding communities. The Board is the largest water supplier in the State of Alabama, with a service area covering much of a five-county region. The Board serves approximately 196,000 customer accounts and provides service to over 600,000 Alabama citizens. The Board's water system consists of approximately 4,000 miles of transmission lines and possesses a water treatment capacity of 189 million gallons per day (MGD). Currently, the Board treats an average of just over 100 MGD.

The Board also provides raw water to certain large industrial customers in the Birmingham region. These raw water customers were originally customers of the Industrial Water Board of the City of Birmingham which merged with the Board in 1994. In addition, the Board provides other miscellaneous water services to customers in its service area, including fire protection.

The Board collects charges for wastewater service from customers served by Jefferson County, the City of Moody, the City of Hoover, the City of Irondale, and Southwest Water Company. For Jefferson County, the collected funds are remitted weekly less the joint services cost. The costs recovered for providing these billing services to Jefferson County are offset against the operating and maintenance (O&M) costs as described in Section 6. For the City of Moody, the collected funds are remitted monthly less 4%, which is the fee paid to the Board for providing billing and collection services. For the City of Hoover and the City of Irondale, the full amount collected is remitted monthly to each city and then the Board sends each city a bill of 4% of the collections for the billing and collections services provided. For Southwest Water Company, the full amount collected is remitted weekly and the Board sends a bill of 4% of the collections for the billing and collections services provided.

3. Demand for Services

Estimated demand for Fiscal Year (FY) 2016 was projected based on a review of historical usage, particularly FY 2015 and year to date (YTD) 2016. Actual residential consumption for YTD 2016 has been slightly below (approximately 2.1%) the projected consumption. The original residential projections for FY 2016 included a slight decrease from the actual FY 2015 levels to account for a historical trend of decreasing consumption within the residential class, which appears to be declining slightly more than expected. As a result, the original projections of the estimated actuals for FY 2016 have been adjusted downward by a comparable amount; and demand in future years is based on these adjusted FY 2016 estimated actuals.

Non-residential consumption for YTD 2016 has also been slightly lower than originally projected, approximately 5.4% lower, as compared to the projected consumption. The original non-residential consumption projection for FY 2016 also included a slight decrease over actual FY 2015 levels to reflect recent usage trends. The estimated actual demand for FY 2016 has been further reduced by approximately 2.5% to account for the lower than expected actual YTD consumption.

Actual raw water consumption was considerably lower than the budgeted projection for both FY 2015 and YTD 2016. Based on this data, information regarding the shutdown of the U.S. Steel Fairfield operations, and a historical trend analysis, raw water demand was projected to decrease substantially in FY 2016 from actual FY 2015 levels, and it has decreased even more significantly than expected. Therefore, the estimated actual demand for FY 2016 is 4,020,000 CCF, 1,580,000 CCF lower than included in the budget.

As described above, the estimated actual water demand for FY 2016 is based upon several factors using the most recent and accurate data available. Demand from FY 2017 through FY 2021 is projected to decrease 0.5% each year from the FY 2016 estimated actuals, as shown in Table 1, to account for a historical trend of decreasing consumption across all customer classes.

Table 1**Projected Water Demand (in CCF)**

	Estimated	Projected				
	2016	2017	2018	2019	2020	2021
Residential						
0-3 CCF	5,300,000	5,273,500	5,247,133	5,220,897	5,194,792	5,168,818
3-15 CCF	6,170,000	6,139,150	6,108,454	6,077,912	6,047,522	6,017,285
>15 CCF	2,100,000	2,089,500	2,079,053	2,068,657	2,058,314	2,048,022
Total Residential	13,570,000	13,502,150	13,434,639	13,367,466	13,300,629	13,234,126
Nonresidential						
All Usage	15,600,000	15,522,000	15,444,390	15,367,168	15,290,332	15,213,881
Total Nonresidential	15,600,000	15,522,000	15,444,390	15,367,168	15,290,332	15,213,881
Total Finished Water Demand	29,170,000	29,024,150	28,879,029	28,734,634	28,590,961	28,448,006
Total Raw Water Demand	4,020,000	3,999,900	3,979,901	3,960,001	3,940,201	3,920,500

4. Capital Expenditures and Funding Sources

Capital expenditures are based on a capital improvement program (CIP) developed by Board staff and the Board’s Independent Engineer, Arcadis, U.S., Inc. Total projected CIP expenditures for FY 2016 through FY 2021 are shown in Table 2. This table shows the total projects as they are presented in the CIP and in escalated dollars as used in the Board’s financial plan. Specifically, the CIP is escalated 1.5% annually. Because a portion of the projects are in FY 2015 and a portion are in future year dollars, it was determined that an escalation factor of 1.5% would be appropriate, instead of the baseline escalation of 3.0% annually.

Table 2

 *Projected Capital Expenditures*

	Estimated		Projected			
	2016	2017	2018	2019	2020	2021
Total Capital Projects*	\$ 59,408,124	\$ 59,408,124	\$ 59,408,124	\$ 59,408,124	\$ 59,408,124	\$ 59,408,124
Escalated Capital Projects**	\$ 60,357,890	\$ 61,203,735	\$ 62,121,791	\$ 63,053,617	\$ 63,999,422	\$ 64,959,413

* Numbers are presented in a mix of 2015 and future dollars, and are preliminary and subject to change.

** Total Capital Projects are escalated 1.5% annually.

The capital projects included in the CIP include projects related to regulatory compliance, risk management, increasing capacity and performance, and maintenance and repair. Over the planning period, maintenance and repair projects account for approximately 37% of the total CIP.

Regulatory compliance projects account for approximately 21% of the total CIP and are designed to address all existing and pending regulations. Capacity needs projects, which relate to activities associated with addressing the continued growth of the Board service area and demand within the existing service area, account for only 7% of the total CIP.

The remaining CIP dollars are to be used for risk management and performance-related projects. Risk management projects are those associated with the increase of safety of Board facilities for workers, the surrounding community, and the environment; security program implementation; and other upgrades. Projects related to performance encompass maintaining and improving current practices of utility operation, including information technology initiatives and system maintenance and replacement.

A portion of the Series 2016-B and Series 2016-C Bonds will be used for capital projects. It should be noted, with projected bond proceeds, the Board will be able to either increase the time before it returns to the capital markets or decrease the magnitude of the next new

money bond issue. Funding sources for the CIP for FY 2016 through FY 2021 are shown in Table 3.

Table 3

 **Funding Sources for Capital Expenditures**

	Estimated		Projected			
	2016	2017	2018	2019	2020	2021
Series 2015 Bonds	\$ 46,077,502	\$ -	\$ -	\$ -	\$ -	\$ -
Bond Proceeds (1)		27,817,177	-	-	-	-
Future Senior Debt	-	-	45,554,208	46,253,078	46,962,432	47,682,425
Impact Fee Revenue (2)	1,037,135	1,037,135	1,037,135	1,037,135	1,037,135	1,037,135
Cash/Reserve Funded	13,243,253	32,349,423	15,530,448	15,763,404	15,999,855	16,239,853
Total Capital Funding	\$ 60,357,890	\$ 61,203,735	\$ 62,121,790	\$ 63,053,617	\$ 63,999,422	\$ 64,959,413

(1) 2016-B and 2016-C Bond Proceeds

(2) Based on the average revenue for FY 2011 through FY 2015

5. Financing Plan

The financing plan, as prepared by the Board's Managing Underwriter, Goldman Sachs, envisions that \$456,225,000 of Series 2016 Bonds will be sold, and the proceeds will be available no later than November 1, 2016. The sources and uses of the Series 2016 Bonds are shown in Table 4.

Table 4

 Sources and Uses for Series 2016 Bonds

	2016A Senior Lien Bonds (1)	2016B Subordinate Lien Bonds (1)	2016C Taxable Subordinate Lien Bonds (1)	Total(1)
Sources of Funds				
Par Amount of Bonds	\$ 150,280,000	\$ 272,035,000	\$ 33,910,000	\$ 456,225,000
Reoffering Premium	36,638,704	62,015,326		98,654,030
Prior Accrued Interest	2,086,673	3,682,397	338,767	6,107,837
Reserve Funds Released	6,047,777	26,728,136	1,089,041	33,864,954
Prior Principal		1,606,250	640,000	2,246,250
Total	\$ 195,053,155	\$ 366,067,109	\$ 35,977,808	\$ 597,098,072
Uses of Funds				
Refunding Escrow Deposit: SLGS Purchases	\$ 194,050,081	\$ 337,545,614	\$ 34,706,780	\$ 566,302,475
Refunding Escrow Deposit: Cash Deposit	1	1	0	2
Cost of Issuance	1,002,672	1,791,917	181,900	2,976,489
Capital Projects		26,728,136	1,089,041	27,817,177
Contingency	401	1,440	87	1,928
Total	\$ 195,053,155	\$ 366,067,109	\$ 35,977,808	\$ 597,098,072

(1) Amounts presented in this table are preliminary and subject to change.

As referenced above, a portion of the proceeds from the Series 2016 Bonds will be deposited into an escrow that may consist of State and Local Government Securities (SLGS), Open Market Securities (OMS), and/or cash, with the DSRF being released for use toward capital projects. Furthermore, the Board anticipates issuing additional bonds approximately every other year using Senior Lien Revenue Bonds for future capital projects. Forecasted future Senior Lien Revenue Bonds are assumed to have an interest rate of 5.0% in 2018 and 5.0% in 2019, a term of 30 years with equal annual payments, and a half-year payment in the year the bonds are issued. Forecasted debt service payments for FY 2016 through FY 2021 are shown in Table 5.

Table 5

Existing and Proposed Long-Term Debt Service

	Estimated		Projected			
	2016	2017	2018	2019	2020	2021
Senior Debt Service						
<i>Existing Debt</i>						
Series 2006 A Bonds	-	-	-	-	-	-
Series 2008 A Bonds	-	-	-	-	-	-
Series 2009 A Bonds	5,641,794	2,577,125	2,575,500	2,577,875	-	-
Series 2009 B Bonds	7,151,125	7,148,250	7,149,625	7,149,375	-	-
Series 2010 A Bonds	4,239,713	4,239,713	4,239,713	4,239,713	10,957,463	10,954,213
Series 2010 B Bonds	1,369,111	1,322,510	-	-	-	-
2010 DWSRF - \$10M	-	-	-	-	-	-
Series 2011 Bonds	8,524,463	3,236,563	3,238,219	3,237,925	3,239,125	3,239,375
Series 2012 A Bonds	2,223,400	2,272,550	4,022,775	4,022,600	4,022,000	4,025,000
Series 2013 A Bonds	958,075	956,175	934,475	957,225	954,225	956,150
Series 2013 B Bonds	3,539,250	3,539,250	3,539,250	3,539,250	3,539,250	3,539,250
Series 2015 A Bonds	5,330,125	5,331,400	5,332,225	5,332,600	5,327,600	8,068,625
Series 2015 B Bonds	4,212,775	4,217,600	3,817,825	3,794,050	4,228,750	4,296,125
Proposed Series 2016 A Bonds	-	5,552,011	7,514,000	7,514,000	9,517,625	7,411,250
<i>Estimated New Senior Debt</i>						
Series 2017 Revenue Bonds	-	1,649,054	3,298,108	3,298,108	3,298,108	3,298,108
Series 2019 Revenue Bonds	-	-	-	3,369,664	6,739,329	6,739,329
Series 2021 Revenue Bonds	-	-	-	-	-	2,920,486
Total Senior Debt (1)	\$ 43,189,830	\$ 42,042,200	\$ 45,661,715	\$ 49,032,385	\$ 51,823,474	\$ 55,447,911
Subordinate Debt Service						
<i>Existing Debt</i>						
Series 2007 A Bonds	15,622,900	-	-	-	-	-
Series 2009 Bonds	6,051,831	-	-	-	-	-
2011 Carson DWRF Loan	137,313	139,600	136,810	138,943	135,998	137,975
2012 DWRF Loan	89,148	87,553	90,885	89,145	92,333	90,448
2013 DWRF Loan	373,550	377,088	375,419	378,544	376,463	374,244
2014 DWRF Loan	36,887	39,455	38,843	38,230	37,618	37,005
Proposed Series 2016 B Subordinate Bonds	-	10,050,182	13,601,750	13,601,750	13,601,750	13,601,750
Proposed Series 2016 C Taxable Subordinate Bo	-	1,764,863	5,718,917	5,730,780	5,721,519	5,722,228
<i>Estimated New Subordinate Debt</i>						
Debt Resrve Fund Taxable Debt 2012 (\$5.5 M)	-	-	-	-	-	-
Total Subordinate Debt (1)	\$ 22,311,628	\$ 12,458,740	\$ 19,962,623	\$ 19,977,392	\$ 19,965,679	\$ 19,963,649
Total Debt Service (1)	\$ 65,501,458	\$ 54,500,941	\$ 65,624,337	\$ 69,009,777	\$ 71,789,153	\$ 75,411,560

(1) Amounts presented in this table are preliminary and subject to change.

It should be noted that the debt service for FY 2017 will be significantly lower than in future years because it includes only three months of accrued interest as part of the January 1 payment and the interest payments accrued for the bonds to be refunded are offsetting the entire bond issue. There is a much more limited cash flow impact to the Board, but for calculating coverage the amount of debt service actually paid in FY 2017 will be much lower than in future years.

6. Operating and Maintenance Costs

O&M costs include salaries, benefits, electricity, materials, and supplies needed for the normal operation and maintenance of the system in general. These O&M costs do not include any capital costs related to new infrastructure or the rehabilitation and renovation of existing system infrastructure. O&M costs are assumed to escalate by 3.0% annually. This assumption is conservative as actual O&M expenses have increased by a total of only 5.7% over the last five years, or an annual rate of about 1.1%.

As mentioned in Section 2, the Board currently provides billing services for wastewater systems operated by Jefferson County and the City of Hoover. The Board has a joint service cost contract with Jefferson County that defines the costs that may be recovered by the Board. The costs recovered for providing these services are offset against the O&M costs. For FY 2016, these cost reimbursements are estimated to be approximately \$4,100,000. The Board also provides billing and collection services for the City of Moody, the City of Hoover, the City of Irondale, and the Southwest Water Company, for which the Board is paid 4.0% of collections for this service. These payments are included in Other Operating revenues, and have averaged approximately \$509,000 per year over the last three years.

Forecasted total O&M costs for FY 2016 through FY 2021, after the offset for providing billing services, are shown in Table 6. It should be noted that these O&M costs do not include the non-cash operating expense included in the audited financial statements associated with GASB 68. These expenses relate to the annual change in pension liability and since they are non-cash expenses they have been excluded.

Table 6
 *Operation and Maintenance Costs*

	Estimated	Projected				
	2016	2017	2018	2019	2020	2021
Total O&M Costs	\$ 94,390,994	\$ 99,282,724	\$ 102,261,205	\$ 105,329,041	\$ 108,488,913	\$ 111,743,580

7. Rates and Charges

The Board currently charges customers a monthly base charge plus a volumetric rate for water usage. The base charge component is intended to recover certain fixed costs associated with customer service functions and meter maintenance and replacement, plus other system infrastructure costs necessary to maintain a general readiness to serve all customers. The Board's current base charges for water service, which are shown in Table 7, increase by meter size to recognize the higher cost of service associated with higher potential demand from larger meters.

Table 7

 Water Monthly Base Charges

Meter Size	Base Charge
5/8"	\$24.25
3/4"	\$32.16
1"	\$48.40
1.5"	\$87.59
2"	\$137.13
3"	\$289.99
4"	\$437.35
6"	\$841.29
8"	\$1,324.41
10"	\$1,882.70

Customer water usage is measured in units of hundred cubic feet (CCF). One CCF is equivalent to 748 gallons. There are separate rate structures and volumetric rates for residential customers (including irrigation accounts) and non-residential customers (including commercial, industrial, and other water utilities). The Board's standard water volumetric rates are shown in Table 8 below. Both the base charges and volumetric rates reflect an overall 4.9% across-the-board rate increase that was implemented on January 1, 2016

Table 8

 Water Volumetric Rates

Residential	
Volume (in CCF)	Rate (per CCF)
0-3	\$2.27
4-15	\$2.69
>15	\$4.01

Non-Residential	
Volume (in CCF)	Rate (per CCF)
All Usage	\$3.51

A comparison of the average water bills for utilities in the Southeastern United States as of July 2016 is shown below in Table 9. For purposes of the comparison, the average water bill is assumed to include 10 CCF or 7,480 gallons of usage per month, depending upon the method of billing.

Table 9

 Regional Water Rate Comparison (Approximately 7,500 gallons/month) as of July 2016

City	Water Bill
Charlottesville, VA	\$58.59
Chapel Hill, NC	\$58.56
Atlanta, GA	\$55.11
Asheville, NC	\$49.93
Birmingham, AL (2016)	\$49.89
New Orleans, LA	\$47.99
Norfolk, VA	\$47.70
Chattanooga, TN	\$40.41
Jackson, MS	\$39.54
Knoxville, TN	\$35.70
Louisville, KY	\$31.11
San Antonio, TX	\$30.49
Montgomery, AL	\$28.27
Mobile, AL	\$25.19
Nashville, TN	\$21.77

8. Revenues

Operating revenues consist of revenues derived from retail water customers (including other water systems), raw water customers, and fire protection customers. Operating revenues for FY 2016 are estimated based on the forecasted demand and rates as calculated in the rate stabilization and equalization (RSE) model. Annual revenues in subsequent years are estimated by applying projected increases to the rates (for residential and non-residential customers) or to the total revenues (for the other operating revenue items). Projected overall rate increases are shown in Table 10. The rate increases for future years are assumed to be across-the-board rate increases applied to all user rates and charges. However, the Board is currently conducting a cost of service study. The last cost of service analysis was completed in 2011 and the Board has indicated its desire to conduct a cost of service analysis every five to seven years.

Table 10

 *Water Rate Increases (1)*

	Actual	Projected (1)				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Rate Increases	4.90%	4.20%	3.90%	3.90%	3.90%	3.90%

(1) Rates projected for FY 2017 through FY 2021 account for 2016 Refunding Bonds

Other Operating Revenues and Fire Protection revenues increased materially in FY 2015 from the budget for FY 2014, as these revenues had been under-budgeted in recent years. Forecasted levels of Other Operating Revenues are based on FY 2015 information, and to be conservative, are not forecast to increase further in FY 2016 and future years. Fire Protection revenues are expected to increase annually at about half the rate increase percentage applied to user rates and charges.

Non-operating revenues consist of interest earned on unrestricted and debt service reserve fund balances. Interest earned on debt service reserve fund balances is considered non-operating revenue because it can be used to pay debt service. Forecasted revenues for FY 2016 through FY 2021 are shown in Table 11.

Table 11**Operating and Non-operating Revenues**

	Estimated		Projected			
	2016	2017	2018	2019	2020	2021
Operating Revenues						
Volume Charges						
Residential Water Volume	\$ 37,049,300	\$ 38,421,925	\$ 39,706,636	\$ 41,050,434	\$ 42,460,860	\$ 43,856,156
Nonresidential Water Volume	54,756,000	56,810,520	58,688,682	60,700,314	62,690,362	64,811,131
Base Charges	66,696,229	69,834,144	72,915,889	76,113,388	79,452,674	82,958,412
Raw Water	4,380,002	4,555,801	4,728,997	4,901,966	5,074,768	5,247,467
Fire Protection	4,255,717	4,328,765	4,399,444	4,472,880	4,549,179	4,628,454
Total Water Revenues	\$ 167,137,248	\$ 173,951,155	\$ 180,439,648	\$ 187,238,982	\$ 194,227,844	\$ 201,501,621
Other Operating Revenues	\$ 3,320,041	\$ 3,320,041	\$ 3,320,041	\$ 3,320,041	\$ 3,320,041	\$ 3,320,041
Total Operating Revenues	\$ 170,457,289	\$ 177,271,195	\$ 183,759,689	\$ 190,559,023	\$ 197,547,885	\$ 204,821,662
Add: Non-Operating Revenues (1)	\$ 3,000,000	\$ 3,045,000	\$ 3,090,675	\$ 3,137,035	\$ 3,184,091	\$ 3,231,852
Total Non-Operating Revenues	\$ 3,000,000	\$ 3,045,000	\$ 3,090,675	\$ 3,137,035	\$ 3,184,091	\$ 3,231,852
Total Revenues	\$ 173,457,100	\$ 180,316,195	\$ 186,850,364	\$ 193,696,058	\$ 200,731,975	\$ 208,053,514

(1) Primarily interest income, including some limited interest income from the remaining debt service reserve funds.

Another revenue source for the Board is system development charges (or impact fees) — these are costs reimbursed to the Board by customers for installing new infrastructure. The Board has historically received approximately \$1 million annually from impact fees, with the average being \$1,037,135 over the last five years. Reimbursement from impact fees can be used to pay debt service, but is excluded from the calculation of Net Revenues Available for Debt Service.

9. Fund Balances

The forecasted restricted and unrestricted bond funds for FY 2016 through FY 2021 are shown in Table 12. The forecasted unrestricted funds are shown individually and include: the Revenue Fund, Capital Reserve Fund (DR&I), Demand Shortfall Fund, Rate Stabilization Fund, and Economic Development Fund.

The target fund balance for the Revenue Fund is 15.0% of annual operating expenses and debt service, which equates to approximately 55 days of current year revenue requirements. The DR&I fund target is also 15.0% of annual operating expenses and debt service. Additionally, the target for the combined amounts in the Demand Shortfall Fund, Rate Stabilization Fund, and Economic Development Fund is 15.0% of annual operating expenses and debt service. The Demand Shortfall Fund was established in FY 2005 to be used in the case of a material drop in demand impacting revenues or an extraordinary increase in demand that results in significantly increased costs for water supply. Another fund, the RSE Fund was also established in FY 2005, but it has been replaced by the Rate Stabilization Fund. And finally, the Economic Development Fund was established in 2013 to be available to take advantage of opportunities for economic development within the Board's service area. Once the various funds are at their respective targets, any surplus amounts are anticipated to be spent on capital projects. In FY 2016, the Board has not spent reserve funds on capital projects.

The fund balance for the Debt Service Fund is not shown because of its transient nature. Monthly transfers are made to the Debt Service Fund from the Revenue Fund for upcoming bond payments and the bond payments are then made from the Debt Service Fund.

Table 12**Fund Balances**

	Estimated	Projected				
	2016	2017	2018	2019	2020	2021
Beginning Balance (1)	\$ 195,883,995	\$ 175,877,722	\$ 178,852,431	\$ 135,695,462	\$ 185,999,085	\$ 142,453,572
Sources						
Operating Revenues	\$ 170,457,289	\$ 177,271,195	\$ 183,759,689	\$ 190,559,023	\$ 197,547,885	\$ 204,821,662
Non-Operating Revenues	3,000,000	3,045,000	3,090,675	3,137,035	3,184,091	3,231,852
Bond Proceeds	26,728,136	46,000,000	-	94,000,000	-	73,000,000
Total Sources	\$ 200,185,425	\$ 226,316,195	\$ 186,850,364	\$ 287,696,058	\$ 200,731,975	\$ 281,053,514
Uses						
Operating Expenses	\$ (94,390,994)	\$ (99,282,724)	\$ (102,261,205)	\$ (105,329,041)	\$ (108,488,913)	\$ (111,743,580)
Debt Service	(65,501,458)	(54,500,941)	(65,624,337)	(69,009,777)	(71,789,153)	(75,411,560)
Prior Receipts associated with 2016 Bond Issue		(8,354,087)				
Capital Projects	(60,299,246)	(61,203,735)	(62,121,791)	(63,053,617)	(63,999,422)	(64,959,413)
Total Uses	\$ (220,191,697)	\$ (223,341,486)	\$ (230,007,333)	\$ (237,392,435)	\$ (244,277,488)	\$ (252,114,553)
Ending Balance	\$ 175,877,722	\$ 178,852,431	\$ 135,695,462	\$ 185,999,085	\$ 142,453,572	\$ 171,392,533
Unrestricted Funds						
Revenue Fund (2)	\$ 68,570,725	\$ 55,089,941	\$ 56,179,519	\$ 58,572,407	\$ 61,899,123	\$ 65,286,084
Capital Reserve Fund (DR&I)	15,074,811	15,300,934	15,530,448	15,763,404	15,999,855	16,239,853
Demand Shortfall Fund	7,994,623	7,689,183	8,394,277	8,716,941	9,013,903	9,357,757
Rate Stabilization Fund	7,994,623	7,689,183	8,394,277	8,716,941	9,013,903	9,357,757
Economic Development Fund	7,994,623	7,689,183	8,394,277	8,716,941	9,013,903	9,357,757
Total Unrestricted Funds	107,629,404	93,458,425	96,892,798	100,486,634	104,940,688	109,599,208
<i>Days of Cash on Hand</i>	<i>416</i>	<i>344</i>	<i>346</i>	<i>348</i>	<i>353</i>	<i>358</i>
Total Restricted Funds (3)	\$ 68,248,318	\$ 85,394,007	\$ 38,802,664	\$ 85,512,451	\$ 37,512,885	\$ 61,793,325

(1) FY 2016 value is as of 12/31/2015 from the Board's December Operating and Statistical Reports.

(2) The Revenue Fund decreases in FY2017 as about \$17 million is used for capital funding.

(3) Includes unspent bond funds and debt service reserve funds.

10. Additional Bonds Tests and Coverages

The Original Senior Indenture and Original Subordinate Indenture require a Revenue Certificate confirming that the historic revenues adjusted for rate increases is 125% and 110%, respectively, of the Senior MADS and Total MADS. However, for a refunding, a Revenue Certificate is not required if the new debt service in each year is less than the existing debt service in each year. As this is the case, which is shown in Table 13, there is no need for a Revenue Certificate. Nonetheless, we calculated the MADS senior and total coverage to show that the Board could meet the tests if required.

Table 13

 *Debt Service Comparison*

Year	Senior Debt Service		Total Debt Service	
	Before Refunding	After Refunding (1)	Before Refunding	After Refunding (1)
2017	\$ 43,187,829	\$ 40,393,147	\$ 65,509,306	\$ 52,851,887
2018	43,196,301	42,363,607	65,506,763	62,326,230
2019	43,197,307	42,364,613	65,525,687	62,342,005
2020	43,193,982	41,786,038	65,509,723	61,751,717
2021	43,293,182	42,489,988	65,605,509	62,453,637
2022	43,281,957	41,879,138	65,596,887	61,847,188
2023	43,286,407	41,885,088	65,593,961	61,733,568
2024	43,290,282	41,888,813	65,601,557	61,852,526
2025	43,269,782	41,865,713	65,577,191	61,824,138
2026	43,267,188	41,864,951	61,480,369	57,727,357
2027	43,144,519	41,740,626	61,353,148	57,600,829
2028	43,156,329	41,753,701	61,371,866	57,620,200
2029	43,161,422	41,761,144	61,365,610	57,617,332
2030	37,635,553	36,233,556	65,448,773	61,696,204
2031	36,750,013	35,347,816	64,567,190	60,815,421
2032	37,704,956	36,305,747	65,392,789	61,646,352
2033	37,798,941	36,396,238	65,393,496	61,642,768
2034	38,183,834	36,779,850	65,387,594	61,632,435
2035	38,186,231	36,786,631	65,393,611	61,646,986
2036	38,225,825	36,821,850	65,394,138	61,639,225
2037	38,227,751	36,827,101	65,398,601	61,649,726
2038	38,220,487	36,816,475	65,397,587	61,644,225
2039	38,209,062	36,806,287	65,394,100	61,641,662
2040	32,834,350	31,433,350	60,022,100	56,271,475
2041	32,827,881	31,423,631	60,021,094	56,267,131
2042	24,305,425	24,305,425	51,499,713	49,149,300
2043	24,774,313	24,774,313	51,977,926	49,630,563
2044	7,074,375	7,074,375	7,074,375	7,074,375
2045	7,077,625	7,077,625	7,077,625	7,077,625

(1) Amounts presented account for the Seires 2016 Bonds and are preliminary and subject to change.

Senior MADS

As discussed in Section 1, the minimum required senior debt service coverage and MADS coverage of 1.25 are specified by the Original Senior Indenture. The Total Annual Senior Debt Service, including the proposed Series 2016 Bonds, is shown in Table 14, which includes existing Senior Debt Service and payments for the proposed Series 2016-A Bonds. The maximum Senior Debt Service occurs in FY 2021 as indicated in bold in Table 14. The Net Revenues Available for Debt Service for FY 2015, adjusted according to the Original Senior Indenture (\$76,112,034) would be sufficient to meet the minimum required MADS of 1.25 for the Series 2016 Bonds.

Table 14

 *Annual Senior Debt Service*

<u>Year</u>	<u>Amount (1)</u>	<u>Year</u>	<u>Amount (1)</u>	<u>Year</u>	<u>Amount (1)</u>
2017	\$ 40,393,147	2027	\$ 41,740,626	2037	\$ 36,827,101
2018	\$ 42,363,607	2028	\$ 41,753,701	2038	\$ 36,816,475
2019	\$ 42,364,613	2029	\$ 41,761,144	2039	\$ 36,806,287
2020	\$ 41,786,038	2030	\$ 36,233,556	2040	\$ 31,433,350
2021	\$ 42,489,988	2031	\$ 35,347,816	2041	\$ 31,423,631
2022	\$ 41,879,138	2032	\$ 36,305,747	2042	\$ 24,305,425
2023	\$ 41,885,088	2033	\$ 36,396,238	2043	\$ 24,774,313
2024	\$ 41,888,813	2034	\$ 36,779,850	2044	\$ 7,074,375
2025	\$ 41,865,713	2035	\$ 36,786,631	2045	\$ 7,077,625
2026	\$ 41,864,951	2036	\$ 36,821,850		

(1) Amounts presented in this table are preliminary and subject to change.

Subordinate MADS

Also discussed in Section 1, the minimum required total debt service coverage and MADS coverage of 1.10 are specified by the Original Subordinate Indenture. The Total Annual Debt Service, including the proposed Series 2016 Bonds, is shown in Table 15, which includes all existing debt service and payments for the proposed Series 2016 Bonds. The maximum Total Debt Service occurs in FY 2021 as indicated in bold in Table 16. The Net Revenues Available for Debt Service for FY 2015, adjusted according to the Original Subordinate Indenture (\$76,112,034) would be sufficient to meet the minimum required MADS of 1.10 for the Series 2016 Bonds.

Table 15**Annual Senior Debt Service**

<u>Year</u>	<u>Amount (1)</u>	<u>Year</u>	<u>Amount (1)</u>	<u>Year</u>	<u>Amount (1)</u>
2017	52,851,887	2027	57,600,829	2037	61,649,726
2018	62,326,230	2028	57,620,200	2038	61,644,225
2019	62,342,005	2029	57,617,332	2039	61,641,662
2020	61,751,717	2030	61,696,204	2040	56,271,475
2021	62,453,637	2031	60,815,421	2041	56,267,131
2022	61,847,188	2032	61,646,352	2042	49,149,300
2023	61,733,568	2033	61,642,768	2043	49,630,563
2024	61,852,526	2034	61,632,435	2044	7,074,375
2025	61,824,138	2035	61,646,986	2045	7,077,625
2026	57,727,357	2036	61,639,225		

(1) Amounts presented in this table are preliminary and subject to change.

Coverages

The Board has approved the RSE process based on maintaining a minimum coverage ratio of 1.50 for senior debt service coverage. The Board has also established a minimum of 1.10 for total (senior and subordinate) debt service coverage, though there is no requirement for total debt service coverage in the Original Indenture. The RSE process requires the Board to increase rates if either coverage ratio is forecasted to fall below the minimum target. Forecasted debt service coverage ratios for FY 2016 through FY 2021 are shown in Table 16.

Table 16**Required and Forecasted Long-Term Debt Service Coverage**

	<u>Estimated</u>	<u>Projected</u>				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Senior Debt Service Coverage (1)	1.83	1.93	1.85	1.80	1.78	1.74
Total Debt Service Coverage (1)	1.21	1.49	1.29	1.28	1.28	1.28

(1) Values presented in this table are preliminary and subject to change.

11. Current Issues

Historically, the Board has monitored various situations that could impact the financial sustainability of the Board and has evaluated the potential impacts. Examples of these situations have included unknown Jefferson County sewer rate increases, reductions in usage by US Steel, and a potential sale of a portion of the system outside Jefferson County. At this point, the sewer rate picture has become much clearer, and given the projected magnitude of the sewer rate increases, the Board does not believe these increases will have significant impacts. Also, the Board has abandoned the idea of selling any of its system, so this no longer remains a concern. The US Steel situation, however, is less clear and remains a risk to the Board. As a result, the Board has requested that Executive Management perform a stress test related to US Steel usage and continue to monitor the situation.

US Steel Stress Test Part 1 – No US Steel Raw Water Consumption

US Steel has significantly reduced its raw water usage. Based on an analysis of usage by US Steel over the last two years, it appears US Steel's usage is down approximately 85%. US Steel had been considering shifting to an electric arc furnace, which would have resulted in a material decrease in raw water usage. At this point, however, all indications are US Steel will close its Fairfield operation for good.

Even though there is likely to be some continued water usage by US Steel, even with all major operations halted, for the initial stress test it has been assumed US Steel will have no raw water usage. In addition, because some of the other raw water customers operate in similar industries or are linked to US Steel operations, we have assumed a 25% decrease in the non-US Steel raw water usage. Doing so reduces raw water usage in 2016 from 5.60 million CCF as projected at the end of last year to 2.53 million CCF. Raw water usage in future years is assumed to decrease by 0.5%, as was the assumed growth rate in the RSE update last fall. Because there are some potable water impacts, we have also assumed a 5% reduction in non-residential consumption for FY 2017, with usage in future years also decreasing by 0.5% annually. This analysis should provide the relevant financial impact; however, it does not perfectly match with what could actually occur. With these two assumptions, an evaluation was made of: 1) the potential revenue shortfall under the Board's existing financial plan, which projects annual 3.9% and 4.2% rate increases over the forecast period; and 2) the required rate increases assuming reduced consumption. Table 17 shows that the Board would need a larger increase in 2017 than originally projected, but the increase would still only be 4.7%¹, which is lower than increases in past years.

¹ This rate increase accounts for the 2016 Refunding Bonds

Table 17

Summary of Impact Associated with US Steel Reduced Consumption

	Estimated		Projected			
	2016	2017	2018	2019	2020	2021
Forecast under Current Rate Projections						
Total Revenues	\$ 172,131,000	\$ 176,368,104	\$ 182,765,219	\$ 189,468,379	\$ 196,363,289	\$ 203,538,455
Less: Operating Expenses	(94,390,994)	(99,282,724)	(102,261,205)	(105,329,041)	(108,488,913)	(111,743,580)
<i>Income Available for Debt Service</i>	\$ 77,740,006	\$ 77,085,380	\$ 80,504,014	\$ 84,139,337	\$ 87,874,376	\$ 91,794,875
Senior Debt Service	\$ 43,189,830	\$ 42,042,200	\$ 45,661,715	\$ 49,032,385	\$ 51,823,474	\$ 55,447,911
Senior Debt Service Coverage	1.80	1.83	1.76	1.72	1.70	1.66
Total Debt Service	\$ 65,501,458	\$ 54,500,941	\$ 65,624,337	\$ 69,009,777	\$ 71,789,153	\$ 75,411,560
Total Debt Service Coverage	1.19	1.41	1.23	1.22	1.22	1.22
Contributions/(Withdrawals) to/from R	\$ (1,004,705)	\$ (305,535)	\$ (650,771)	\$ (633,844)	\$ 85,367	\$ 143,462
<i>Projected Rate Increases</i>	4.90%	4.20%	3.90%	3.90%	3.90%	3.90%
Average Monthly Bill (1)	\$ 49.85	\$ 51.94	\$ 53.97	\$ 56.07	\$ 58.26	\$ 60.53
Projected Demand Levels						
Residential	13,570,000	13,502,150	13,434,639	13,367,466	13,300,629	13,234,126
Non-Residential	15,600,000	14,820,000	14,745,900	14,672,171	14,598,810	14,525,816
Raw Water	2,530,000	2,517,350	2,504,763	2,492,239	2,479,778	2,467,379
			Projected			
	2016	2017	2018	2019	2020	2021
Forecast under Revised Rate Projections						
Total Revenues	\$ 172,131,000	\$ 177,078,675	\$ 183,478,565	\$ 190,207,245	\$ 197,128,186	\$ 204,306,610
Less: Operating Expenses	(94,390,994)	(99,282,724)	(102,261,205)	(105,329,041)	(108,488,913)	(111,743,580)
<i>Income Available for Debt Service</i>	\$ 77,740,006	\$ 77,795,951	\$ 81,217,360	\$ 84,878,204	\$ 88,639,274	\$ 92,563,030
Senior Debt Service	\$ 43,189,830	\$ 42,042,200	\$ 45,661,715	\$ 49,032,385	\$ 51,823,474	\$ 55,447,911
Senior Debt Service Coverage	1.80	1.85	1.78	1.73	1.71	1.67
Total Debt Service	\$ 65,501,458	\$ 54,500,941	\$ 65,624,337	\$ 69,009,777	\$ 71,789,153	\$ 75,411,560
Total Debt Service Coverage	1.19	1.43	1.24	1.23	1.23	1.23
Contributions/(Withdrawals) to/from R	\$ (1,004,705)	\$ 405,036	\$ 62,575	\$ 105,023	\$ 850,265	\$ 911,617
<i>Projected Rate Increases</i>	4.90%	4.70%	3.90%	3.90%	3.90%	3.90%
Average Monthly Bill (1)	\$ 49.85	\$ 52.19	\$ 54.23	\$ 56.34	\$ 58.54	\$ 60.82
Difference in Monthly Bill	\$ -	\$ 0.25	\$ 0.26	\$ 0.27	\$ 0.28	\$ 0.29

(1) Based on 5/8" meter and 10 ccf (7,480 gallons) of monthly usage.

US Steel Stress Test Part 2 – Cessation of All Raw Water Consumption

A more drastic stress test scenario is to assume a cessation of all raw water usage by all customers. Though unlikely, this scenario is possible because of the interconnectedness of the customers using raw water. Moreover, when assuming complete cessation in raw water usage, a resulting consequence that must be contemplated is a decrease in potable water consumption by the Board’s customers that predominately consume raw water. The reason for this is that potable water usage also decreases since raw water customers also typically have potable water connections. For this stress test, it has been assumed that raw water would decrease to zero between 2017 and 2021, with the starting point being a usage of

2,530,000 CCF in 2017, and an annual decrease of 632,500 CCF. As with the previous test, we have also assumed a 5% reduction in non-residential consumption for FY 2017, with usage in future years also decreasing by 0.5% annually.

Table 18

Summary of Impact Associated with Phase Out of All Raw Water Usage

	Estimated		Projected			
	2016	2017	2018	2019	2020	2021
Forecast under Current Rate Projections						
Total Revenues	\$ 172,131,000	\$ 175,909,288	\$ 181,808,059	\$ 187,973,337	\$ 194,290,822	\$ 200,849,012
Less: Operating Expenses	(94,390,994)	(99,282,724)	(102,261,205)	(105,329,041)	(108,488,913)	(111,743,580)
<i>Income Available for Debt Service</i>	\$ 77,740,006	\$ 76,626,565	\$ 79,546,853	\$ 82,644,295	\$ 85,801,909	\$ 89,105,432
Senior Debt Service	\$ 43,189,830	\$ 42,042,200	\$ 45,661,715	\$ 49,032,385	\$ 51,823,474	\$ 55,447,911
Senior Debt Service Coverage	1.80	1.82	1.74	1.69	1.66	1.61
Total Debt Service	\$ 65,501,458	\$ 54,500,941	\$ 65,624,337	\$ 69,009,777	\$ 71,789,153	\$ 75,411,560
Total Debt Service Coverage	1.19	1.41	1.21	1.20	1.20	1.18
Contributions/(Withdrawals) to/from R	\$ (1,004,705)	\$ (764,350)	\$ (1,607,932)	\$ (2,128,886)	\$ (1,987,100)	\$ (2,545,981)
<i>Projected Rate Increases</i>	4.90%	4.20%	3.90%	3.90%	3.90%	3.90%
Average Monthly Bill (1)	\$ 49.89	\$ 51.99	\$ 54.01	\$ 56.12	\$ 58.31	\$ 60.58
Projected Demand Levels						
Residential	13,570,000	13,502,150	13,434,639	13,367,466	13,300,629	13,234,126
Non-Residential	15,600,000	14,820,000	14,745,900	14,672,171	14,598,810	14,525,816
Raw Water	2,530,000	2,024,000	1,518,000	1,012,000	506,000	-
			Projected			
	2016	2017	2018	2019	2020	2021
Forecast under Revised Rate Projections						
Total Revenues	\$ 172,131,000	\$ 176,931,513	\$ 183,999,335	\$ 190,276,922	\$ 196,792,325	\$ 203,399,687
Less: Operating Expenses	(94,390,994)	(99,282,724)	(102,261,205)	(105,329,041)	(108,488,913)	(111,743,580)
<i>Income Available for Debt Service</i>	\$ 77,740,006	\$ 77,648,790	\$ 81,738,130	\$ 84,947,881	\$ 88,303,412	\$ 91,656,107
Senior Debt Service	\$ 43,189,830	\$ 42,042,200	\$ 45,661,715	\$ 49,032,385	\$ 51,823,474	\$ 55,447,911
Senior Debt Service Coverage	1.80	1.85	1.79	1.73	1.70	1.65
Total Debt Service	\$ 65,501,458	\$ 54,500,941	\$ 65,624,337	\$ 69,009,777	\$ 71,789,153	\$ 75,411,560
Total Debt Service Coverage	1.19	1.42	1.25	1.23	1.23	1.22
Contributions/(Withdrawals) to/from R	\$ (1,004,705)	\$ 257,874	\$ 583,345	\$ 174,700	\$ 514,403	\$ 4,693
<i>Projected Rate Increases</i>	4.90%	4.90%	4.50%	3.90%	3.90%	3.90%
Average Monthly Bill (1)	\$ 49.89	\$ 52.33	\$ 54.69	\$ 56.82	\$ 59.04	\$ 61.34
Difference in Monthly Bill	\$ -	\$ 0.35	\$ 0.68	\$ 0.70	\$ 0.73	\$ 0.76

(1) Based on 5/8" meter and 10 ccf (7,480 gallons) of monthly usage.

Under this test, there would need to be a slightly larger rate increase, 4.5%, in FY 2018 in addition to a 4.9% increase in FY 2017.

There is no doubt that a further decline in raw water usage by US Steel and other raw water customers could have a material impact on the Board. However, these analyses indicate that even under worst-case assumptions, the Board will only need moderately larger increases than projected to maintain the current financial plan. Also, the existing planned rate increases of 3.9% and 4.2% would allow the Board to still meet its coverage covenants. Even though there would be revenue shortfalls relative to the total revenue requirements, which include annual PAYGO amounts, the Board has sufficient reserves to fully fund its operations. Therefore, in theory, the Board could continue its current course even with

decreased revenues associated with decreased raw water usage, and still meet its covenants. However, it is anticipated that the Board would attempt to further reduce O&M and capital expenses and contemplate larger rate increases if these issues negatively impact Board revenues.

Finally, and importantly, it should be noted that the Board operates in a financially sustainable manner and has always been willing to implement the necessary rate increases to ensure that it meets its financial obligations. If any event occurs negatively impacting demand, and therefore revenue, the Board anticipates continuing to annually utilize the RSE model to calculate rate changes necessary to provide revenue sufficiency. Also, the Board is currently conducting a cost of service study. By its nature, the study will potentially shift some expected revenue recovery away from raw water customers, which would dampen the impact prior to any additional rate increases.

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THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
SENIOR WATER REVENUE REFUNDING BONDS, SERIES 2016-A AND SUBORDINATE WATER REVENUE REFUNDING BONDS, SERIES 2016-B AND SERIES 2016-C (TAXABLE)



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