

**The Water Works Board
of The City of Birmingham**

**Financial Statements
and Other Information**

December 31, 2014



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The Water Works Board of the City of Birmingham
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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, 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.

Case, 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	1,054,017,573	1,052,408,406	1,609,167	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	999,363,478	1,015,318,376	(15,954,898)	(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	\$ 54,654,095	\$ 37,090,030	\$ 17,564,065	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

Utility Plant	2014	2013	Increase (decrease)	Percentage Change
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**

	2014	2013	Increase (decrease)	Percentage Change
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 trusted investments to "eligible investments." The Board has not adopted a formal investment policy for trusted 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
Trusted 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
Trusted 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,			December 31,	
	2012	Additions	Payments	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:

	<u>2014</u>	<u>2013</u>
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:

	<u>2014</u>	<u>2013</u>
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)

	2014	2013
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
Discount Rate/Investment Return	<i>Healthy</i> - RP-2000 Mortality Table. <i>Disabled</i> Healthy Mortality set forward 10 years
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		<u>8,350,000</u>	<u>\$ 3,717,235</u>	<u>\$ 12,067,235</u>		<u>99,135,000</u>	<u>\$ 75,803,284</u>	<u>\$174,938,284</u>
Less: Deferred amount on refunding			-			(1,262,727)		
Bond (discount) premium		<u>(31,914)</u>				<u>1,104,217</u>		
TOTAL		<u>\$ 8,318,086</u>				<u>\$ 98,976,490</u>		

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	Plant	Plant	Balance as of	Balance as of	Retirements	Balance as of	Net Balance as of	
	December 31,			December 31,	December 31,		December 31,		
	2013	Additions	Retirements	2014	2013	Depreciation	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>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>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



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**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.

Car, Riggs & Ingram, L.L.C.

Birmingham, Alabama
June 5, 2015