

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

**Board of Water and Sewer Commissioners
of the City of Mobile
Mobile, Alabama**

Cover Photo: Recent improvements at S. Palmer Gaillard Pumping Station, aka Big Creek Lake Pumping Station, have added an additional layer of protection for our drinking water. A capital project was undertaken to add retractable screens at the spillway. On a daily basis, these screens remove floating vegetation from Big Creek Lake, preventing the aquatic plant life from clogging the pumping station, but the screens are also used to stop contaminants like oil from entering the water intake. MAWSS has also installed generators with an automated transfer switch at the site to ensure a backup power supply in case of a hurricane.

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE
MOBILE, ALABAMA**

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

FOR THE YEAR ENDED

DECEMBER 31, 2018

**Prepared by
MAWSS Accounting Department**

MISSION STATEMENT

Mobile Area Water and Sewer System will protect and enhance the health, safety, and economic well being of our community through responsible management of water resources while providing superior customer service.

VISION STATEMENT

Mobile Area Water and Sewer System will become a model utility to create and protect resources for future generations. We will lead our industry and provide services to accommodate regional economic development and growth.

VALUES

Environment	We are guardians of the environment and honor this great responsibility by ensuring that our actions reflect our resolve to protect the health of the environment.
Communication	Effective communication with the community and throughout our organization is the means by which we will maintain alignment toward our goals and the needs of our customers.
Customer Service	We are servants of the community and make every effort to fulfill this privilege by placing our customers first in all that we do.
Trust	Trust is the foundation of relationships. We strive to understand and rely on each other as we build strong teams and partnerships.
Employees	We acknowledge, respect, and promote the well-being and professional development of our employees because they are the heart of our organization.
Integrity	We weave virtue, honesty, sincerity, and acceptance of duty into our daily efforts so that integrity is the banner of our commitment.
Continuous Improvement	We always seek to improve our organization and ourselves because the community deserves the best we can offer.

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

COMPREHENSIVE ANNUAL
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FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

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INTRODUCTORY SECTION



June 3, 2019

Mr. Sam Jones, and Members of the Board
Board of Water and Sewer Commissioners
of the City of Mobile, Alabama
Mobile, Alabama

To the Chair and Members of the Board:

I am pleased to present the Board of Water and Sewer Commissioners of the City of Mobile's (the Board's) Comprehensive Annual Financial Report (CAFR) for the year ending December 31, 2018. State law and the Board's *Master Trust Indenture* require the Board to publish within 180 days after the close of each year a complete set of audited financial statements. This report is published to fulfill that requirement.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Jackson Thornton, a firm of licensed certified public accountants, has issued an unmodified ("clean") opinion on the Board's financial statements for the year ended December 31, 2018. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Board

The Board was created in 1952 by an Act of the Alabama State Legislature as an independent water and sewer utility. The Board, doing business as Mobile Area Water and Sewer System (MAWSS), provides water and wastewater services to customers in the City of Mobile and the surrounding areas.

While the Board is a separate legal entity from the City of Mobile, each councilperson of the City of Mobile appoints a commissioner to the Board for a six-year term. These seven appointed commissioners are the policy-making body of the Board. The Board has the authority, among others, to operate and maintain any water or sewer system inside or outside the Mobile corporate limits, issue revenue bonds, and set rates and user fees. While the Board is a related entity of the City of Mobile, it is not considered a component unit of the City of Mobile or any other governmental agency.

The Board currently provides services to approximately 90,000 accounts within the City of Mobile and portions of the unincorporated areas of Mobile County. It also sells treated water from the J. B. Converse Reservoir (Big Creek Lake) to Prichard Water Works and the Spanish Fort Water System. Untreated or raw water is provided to industrial customers from the Board's raw water source, Mobile River.

The budget serves as the foundation for the Board's financial planning and control. The Board's *Master Trust Indenture* requires the Board to adopt a balanced budget by December 31 of each year. The budget is prepared by cost center and by department. During the year, department heads may make budget transfers within their various cost centers. Budget-to-actual comparisons are provided monthly for each cost center and for the Board as a whole.

Local economy

The City of Mobile serves as the economic hub for the Mobile metropolitan area which includes Mobile and Baldwin counties in lower Alabama. Mobile, located approximately thirty miles north of the Gulf of Mexico at the head of Mobile Bay, is the only seaport in Alabama. The Port of Mobile is the ninth largest port in the nation in total tonnage. Mobile is also served by five class-one railway lines, two municipal airports, and is accessible by interstate highways I-10 and I-65.

Mobile's business sector is diversified with over forty international companies located in the area. These include some of our largest consumers, Evonik Degussa Corp., INEOS Phenol Inc., USA, and Mitsubishi Polycrystalline Silicon America Corp. Mobile is home to Evonik's largest North American site, with over 700 employees producing hydrogen peroxide, fumed silica, and animal feed additives. INEOS Phenol Inc. is the world's third largest chemical company and leading manufacturer of petrochemicals; and their Mobile plant is the largest single train Phenol facility in the United States and the second largest in the world due to the excellent transportation networks and access to raw materials and utilities needed for processing. Mobile has a diverse chemical industry, a growing steel industry, and is a regional center for medical care, research and education.

At the end of 2018, Mobile's unemployment rate was at 4.2% compared to the state's 3.8% and the nation's 3.9%. Industries are working with Alabama Industrial Development Training (AIDT), Alabama's worker training agency, to train workers in these expanding job fields. AIDT is the first state workforce training organization in the United States to earn international certification for its quality management system.

Financial planning

Meeting new and revised regulatory permit requirements in the future will require additional capital investment in both the water and wastewater sectors. A master planning effort began in 2016 that evaluated MAWSS assets and used a risk based approach to prioritizing assets for long term renewal and funding. This master plan was completed in 2018 and will assist MAWSS in forecasting their needs moving forward. Forecasting regulatory requirements is also a component of the planning effort.

In regard to the water system, the treatment plants and raw water conveyance systems were evaluated during the master plan for resiliency to ensure the systems remain operational during times of power outage. The E.M. Stickney water treatment plant was constructed in 1944. Although the plant has had several upgrades, it is in need of an overall condition assessment for the purpose of scoping a general renovation of the facility. Means of further protecting Big Creek Lake from hazardous material spills will be studied.

The predominant cause of sanitary sewer overflows (SSOs) in MAWSS' aging collection system is storm water inflow and infiltration through defects in collection system piping and manholes.

SSOs that reach Waters of the State are considered unauthorized discharges under the Clean Water Act and are prohibited. MAWSS will continue to need to expend resources, and both capital and operational budgets, to continue to control and prevent SSOs within the system so that the potential for future U.S. EPA enforcement action is minimized. The effort to minimize SSOs includes ongoing collection system rehabilitation and the construction of increased conveyance and storage capacity in Halls Mill Creek, Three Mile Creek and Eslava Creek sewer sheds. The storage capacity component at Halls Mill Creek will be complete in the second quarter of 2019. The 36-inch/48-inch PCCP sewer force main that conveys wastewater from the Halls Mill Creek Lift Station to the Williams WWTP has reached its design life and will need to be replaced. Planning for the force main replacement will be achieved in the aforementioned master plan.

The Board has developed a Master Plan for the C. C. Williams WWTF. A \$26 million project to construct new headworks, primary clarifiers is underway at the Williams WWTF and will be completed in the second quarter of 2019. \$20 million of the cost is being funded with a 2014 CWSRF Loan. Within five years of completing the primary clarifiers, construction of a dewatering facility and possibly new aeration basins is anticipated.

Major initiatives

As part of the 2019 budget planning process, MAWSS pursued a \$20 million DWSRF loan to cover the funding for the Advanced Metering Infrastructure (AMI) project. The total investment cost for the AMI project is approximately \$30 million. Staff recommended in the 2019 budget that \$20 million for the remaining funding for this project come from a DWSRF loan. Installation of all meters will be completed by both MAWSS staff and outside contractors. MAWSS plans on continuing this project in phases and depending on budget will replace almost 100,000 meters and install 6 total towers when complete.

The Board also pursued a \$32 million CWSRF loan that closed in the fall of 2018. These funds will be used for the Three Mile Creek truncated sewer wet weather conveyance and storage facility upgrades, as well as various sewer rehabilitation projects. These projects are part of the previously mentioned efforts to minimize SSOs through collection system rehabilitation and increased conveyance and storage capacity.

In the second quarter of 2019, the Board approved submitting pre-applications to ADEM for both a CWSRF loan of \$138,709,000, and a DWSRF loan of \$32,550,000. If the primary loan applications to ADEM are approved by the Board later in 2019, the money will be borrowed as needed over the next five years to fund projects identified by the master plan.

Relevant financial policies

In conjunction with the new issue and the refunding, the Board adopted its *Master Trust Indenture*, dated November 1, 2014. The new covenants provide for, among other things, the establishment of the following unrestricted and restricted funds: the Revenue Fund, Bond Fund, Reserve Fund, Subordinated Debt Fund, and Capital Improvement Fund. The Board is required to maintain a minimum Capital Improvement Fund balance of \$15 million. The *Master Trust Indenture* requires that the Board maintain a debt service coverage ratio of both parity and subordinate bonds of not less than 1.25.

The Board revised the Cash Reserve Requirements Policy in December 2015, in order to react to the required recording of the unfunded pension liability. This revision created an additional cash reserve for the accumulation of funds to offset the unfunded pension liability due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

As a result of two of the GASB Statements adopted in 2017, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Board must also report its net OPEB liability, and has addressed the issue in the budget process for 2019.

The Board chose to implement GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, as of December 31, 2018. As a result, all interest incurred during the year was expensed.

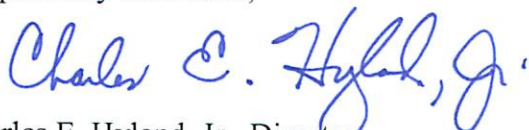
Awards and acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Board of Water and Sewer Commissioners of the City of Mobile for its comprehensive annual financial report for the fiscal year ended December 31, 2017. This was the seventeenth consecutive year that the Board received this prestigious award. In order to be awarded a Certificate of Achievement, the Board published an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Accounting Department. Additionally, I realize that the cooperation of each department within the company is essential, and I wish to express my appreciation for each individual's contribution.

Respectfully submitted,

A handwritten signature in blue ink that reads "Charles E. Hyland, Jr." The signature is written in a cursive, flowing style.

Charles E. Hyland, Jr., Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Board of Water and Sewer
Commissioners of the City of Mobile
Alabama**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2017

Christopher P. Morill

Executive Director/CEO

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

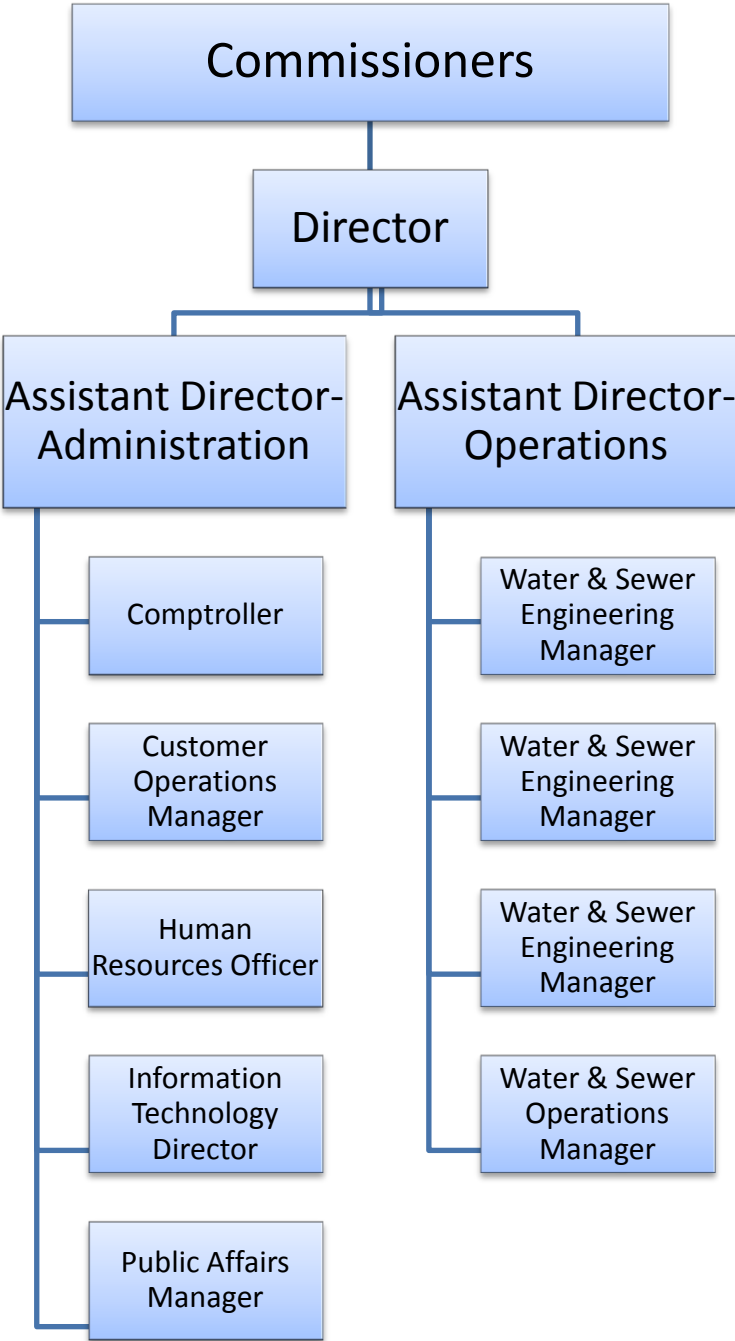
**Appointed Commissioners
December 31, 2018**

Samuel L. Jones	Chair June 3, 2014 to April 28 2020
Kenneth W. Nichols	Vice Chair December 13, 2016 to February 1, 2022
Walter A. Bell	Secretary-Treasurer September 13, 2016 to April 28, 2020
Maynard V. Odom	Commissioner October 2, 2012 to October 1, 2018
Sheri N. Weber	Commissioner October 4, 2016 to October 1, 2022
Barbara Drummond	Commissioner February 4, 2014 to February 2, 2020
Thomas Zoghby	Commissioner May 29, 2018 to October 1, 2020

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

Organization Chart

December 31, 2018



**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**Selected Administrative Staff
December 31, 2018**

Charles Hyland, Jr.	Director
Billy McCrory, Jr.	Assistant Director-Administration
Doug Cote	Assistant Director-Operations
Dedra Cassidey	Comptroller
Mitch Jackson	Customer Operations Manager
Sharon King	Human Resources Officer
Mahir Butt	Information Technology Director
Monica Allen	Public Affairs Manager
Calressia Clark	Water and Sewer Engineering Manager
Daryl Russell	Water and Sewer Engineering Manager
Vacant	Water and Sewer Engineering Manager
Russell Lomax	Water and Sewer Operations Manager

FINANCIAL SECTION

Independent Auditor's Report

The Board of Commissioners
The Board of Water and Sewer Commissioners
of the City of Mobile, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type and fiduciary activities of The Board of Water and Sewer Commissioners of the City of Mobile, Alabama (the Board) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type and fiduciary activities of The Board of Water and Sewer Commissioners of the City of Mobile, Alabama as of December 31, 2018 and 2017, 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.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 and the Schedule of Changes in the Net Pension Liability, the Schedule of Employer Contributions, the Schedule of Changes in the Board's Net OPEB Liability and Related Ratios, and the Schedule of Board Contributions on pages 52 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The introductory section, supplementary information section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules presented in the supplementary information section, appearing on pages 56 through 62, 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Change in Accounting Principle

As discussed in Note 18 to the financial statements, the Board adopted new accounting guidance, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 29, 2019 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, grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of 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.

Jackson Thornton & Co. PC

Montgomery, Alabama
May 29, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of the Board of Water and Sewer Commissioners of the City of Mobile (the Board) provides an overview of the Board's financial activities for the year ended December 31, 2018. Please read it in conjunction with the transmittal letter, beginning on page i, and the Board's financial statements which begin on page 14.

Financial Highlights

The following are financial highlights of the Board for the year ending December 31, 2018:

- The assets and deferred outflows of resources of the Board exceeded its liabilities and deferred inflows of resources at the close of 2018 and 2017 by \$381.4 million (net position) and \$362.6 million (net position), respectively. Of these amounts, unrestricted net position was a deficit of \$(6.4) million and \$(13.5) million as of December 31, 2018 and 2017, respectively. The Board adopted both GASB Statement No. 74 and GASB Statement No. 75 dealing with OPEB reporting by recording the full OPEB liability as of January 1, 2017. As a result, a liability of \$14.8 million was recorded. After adopting GASB Statement No. 68, which required the recording of the unfunded pension liability in the amount of \$31 million as of December 31, 2015, the Board has designated a total of \$5.2 million over the past four years to offset this liability, and will continue to fund it in the 2019 Budget.
- The Board's net position increased by \$18.8 million during the current year and \$16.9 million during the prior year.
- Operating expenses increased by \$4.2 million to \$85.5 million in 2018, or 5.2%, due to increases in transmission and collection costs, supervision and general costs, and depreciation expense. For the year 2017, expenses increased \$1.0 million, or 1.0%, due to increases in wastewater treatment costs and depreciation expense, offset by a decrease in supervision and general costs.
- Operating revenue increased by \$7.3 million in 2018, or 7.2%, due to increased revenues from a water and sewer rate increase. For 2018, the Board passed a volumetric increase of less than 1%, but increases in fees to reflect the actual cost of services amounted to an overall increase of approximately 5%. Operating revenue decreased in 2017 by \$2.8 million, or 2.7%. The Board did not implement a rate increase in 2017.
- Transfers to the Capital Improvement Fund accounts for capital projects totaled \$19.8 million in 2018 compared to \$19.1 million in 2017.

Overview of the Financial Statements

The Board's Annual Financial Report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and other supplementary information. The Board's basic financial statements are comprised of financial statements, notes to the financial statements, and required supplementary information.

Financial Statements. The *balance sheets* provide information on the Board's assets and deferred outflows of resources, and also on its liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the Board is improving or deteriorating.

The *statements of revenues, expenses, and changes in net position* show the business-type activity of the Board (water and wastewater) and provide information regarding income and expenses, both operating and non-operating, that affect net position. While income and direct expenses of the water system and wastewater system are shown separately, there are no external requirements to account for the activities separately. It is management's decision to report income and direct expenses separately in order to provide support for rates charged for services rendered.

The *statements of cash flows* report changes in cash from the prior year attributed to operating activities, capital and related financing activities, and investing activities. Operating income is reconciled to cash provided by operating activities. The statements, in addition to providing an explanation of changes in cash, help provide insight into future cash flows.

The *statements of fiduciary net position* and the *statements of changes in fiduciary net position* present information on the Board's Other Post-employment Benefits (OPEB) Trust Fund. The *statements of fiduciary net position* include all assets and liabilities of the OPEB Trust Fund and provide a snapshot of the financial net position of the OPEB Trust Fund at year end. Assets are reduced by liabilities, as applicable, resulting in the net position held in trust for OPEB at year end. The *statements of changes in fiduciary net position* report all additions and deductions during the year for the OPEB Trust Fund. Additions are comprised primarily of employer contributions and investment income. Deductions consist of benefits paid and administrative expenses. The change in net position held in trust for OPEB plus the beginning net position held in trust for OPEB results in net position held in trust for OPEB at year end.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 21 to 51 of this report.

Required Supplementary Information. The *schedule of changes in net pension liability* and the *schedule of employer contributions* provide information on the Board's net pension liability as well as contributions made to the plan by the Board. These statements are discussed in detail in Note 5, and can be found following the Notes to the Financial Statements.

The *schedule of changes in net OPEB liability and related ratios* and the *schedule of board contributions* provide information on the Board's net OPEB liability as well as contributions made to the trust by the Board. These statements are discussed in detail in Note 6, and can be found following the Notes to the Financial Statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information that may be beneficial to the reader.

Financial Analysis

Net position may serve over time as a useful indicator of an entity's financial position. In the case of the Board, assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$381.4 million at the end of 2018, \$362.6 million at the end of 2017, and \$345.7 million at the end of 2016.

Condensed Balance Sheets (In Thousands)

	2018	2017	2016 (restated)
Current assets	\$ 68,761	\$ 64,026	\$ 64,669
Noncurrent assets	65,052	33,072	50,344
Capital assets	562,045	552,849	527,224
Total assets	695,858	649,947	642,237
Deferred outflows of resources	4,207	5,433	6,308
Current liabilities	37,218	33,711	31,807
Noncurrent liabilities	278,472	259,024	271,062
Total liabilities	315,690	292,735	302,869
Deferred inflows of resources	2,974	27	-
Net position:			
Net investment in capital assets	364,662	352,048	338,984
Restricted	23,104	24,077	21,055
Unrestricted	(6,365)	(13,506)	(14,363)
Total net position	\$ 381,401	\$ 362,619	\$ 345,676

The largest portion of the Board's net position (95.6% in 2018, 97.1% in 2017, and 98.1% in 2016) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) less any related outstanding debt used to acquire those assets. The Board uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Board's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from user fees or other sources of revenue, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted Net Position includes funds restricted for debt service, construction, and capital improvements and replacements. The Board's *Master Trust Indenture* dated November 1, 2014, as supplemented, required the establishment of certain restricted accounts. In addition to accounts relating to bond construction and debt service, the Board is required to maintain the Capital Improvement Fund, previously known as the General Reserve and Repair and Replacement Fund. Monies deposited into the Capital Improvement Fund accounts are used to fund pay-as-you-go projects, extraordinary repairs and maintenance, and if needed, debt service obligations. Over the past five years, the Board has budgeted an average of \$19.2 million annually for pay-as-you-go projects and major repairs and replacements to the system. The Board transferred \$19.8 million from the Operating account to the Capital Improvement Fund account in 2018 compared to \$19.1 million in 2017 and \$23.8 million in 2016.

The Board's Unrestricted Net Position increased by \$7.1 million during 2018 compared to a decrease of \$.9 million in 2017. The 2018 rate increase was a factor in the current year increase, as was the absence of a rate increase in the prior year decrease. Operating Revenues and Expenses for each of the two years are discussed below.

The following condensed statements of revenues, expenses, and changes in net position show the results of operations for the current and prior two years. The Board is a separate entity from the City of Mobile, and as such, is not included as a part of the financial statements of the City of Mobile.

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(In thousands)

	2018	2017	2016 (restated)
REVENUES			
Operating revenues, pledged as security:			
Water sales	\$ 43,189	\$ 39,948	\$ 41,764
Sewer charges	64,699	60,670	61,687
Total operating revenues	<u>107,888</u>	<u>100,618</u>	<u>103,451</u>
Non-operating revenues:			
Investment earnings	1,006	541	331
Miscellaneous and sale of property	1,018	981	633
Total non-operating revenues	<u>2,024</u>	<u>1,522</u>	<u>964</u>
Total revenues	109,912	102,140	104,415
EXPENSES			
Operating expenses:			
Water and sewer services	37,002	35,949	34,115
Support services	4,852	4,356	4,354
Supervision and general expenses	19,702	16,930	18,701
Restricted accounts expenses	1,466	2,314	2,227
Depreciation expense	22,446	21,685	20,846
Total operating expenses	<u>85,468</u>	<u>81,234</u>	<u>80,243</u>
Non-operating expenses	<u>7,502</u>	<u>5,457</u>	<u>6,347</u>
Total expenses	<u>92,970</u>	<u>86,691</u>	<u>86,590</u>
Income before contributions	16,942	15,449	17,825
Capital grants and contributions	<u>1,840</u>	<u>1,494</u>	<u>1,082</u>
Change in net position	18,782	16,943	18,907
Net position - beginning of year	362,619	345,676	342,583
Prior year adjustments:			
Debt issuance costs	-	-	(471)
OPEB	-	-	(14,590)
Pension	-	-	(753)
Net position - end of year	<u>\$ 381,401</u>	<u>\$ 362,619</u>	<u>\$ 345,676</u>

Net position increased by \$18.8 million in 2018 over 2017 and increased by \$16.9 million the year before. Key elements of the changes are as follows:

Revenue:

- For 2018, operating revenues increased by \$7.3 million over the prior year. Total water sold for 2018 reflected an increase of 495 billion gallons, or 4.6%. This increase in consumption, combined with the increased fees and charges set by the Board, resulted in the increase of 7.2%. Revenues from potable water sales and wastewater treatment were up 7.0% and 6.7%, respectively, while revenues from industrial water accounts were up 20%. Non-operating revenues increased by \$.5 million, which was almost all due to investment earnings.
- For 2017, operating revenues decreased by \$2.8 million or 2.7% from the prior year. After five years of 5% rate increases from 2012 through 2016, the Board did not adopt a rate increase as of January 1, 2017. This fact, along with a decrease in consumption, contributed to the decrease in revenues. Total water consumption decreased by 11%. Capacity fees and pretreatment fees were the only sources of income showing increases. Non-operating revenues increased by \$.6 million. Of this amount, \$.2 million was an increase in investment earnings. The remaining \$.4 million was due to additional sales of vehicles and equipment.

Expenses:

- Operating expenses increased by \$4.2 million, or 5.2% in 2018. This increase was mainly due to increases of \$1.0 million in water and sewer service expenses, namely the costs transmission and collection, and \$2.8 million in supervision and general expenses. Non-operating expenses increased by \$2.0 million due to increased bond interest expense. This was a result of the two additional SRF loans that were closed in 2018. Details on this can be found in Note 8.
- Operating expenses in 2017 increased by \$1.0 million over 2016. There was a decrease of \$1.6 million in supervision and general expenses, offset mainly by an increase of \$1.4 million in water and wastewater treatment costs. Non-operating expenses decreased by \$.9 million.

Capital grants and contributions:

- In 2018, total capital grants and contributions increased by \$.3 million. There was a decrease in contributions of lines and extensions of \$.2 million, offset by principal forgiveness on the 2018 CWSRF loan of \$.5 million.
- In 2017, total capital grants and contributions increased by \$.4 million. There was an increase in contributions of lines and extensions of \$.8 million and a decrease in capital grants of \$.4 million.

Capital Asset and Debt Administration

Capital assets. The Board's investment in capital assets as of December 31, 2018, and 2017 amounted to \$562.0 million and \$552.8 million, respectively, net of accumulated depreciation. The investment in capital assets includes land, buildings, infrastructure, machinery and equipment, and timber rights. During 2018, the total increase in the Board's net investment in capital assets was 1.7% compared to the 2017 increase of 4.9%. Construction project commitments at the end of the year totaled \$4.4 million for 2018 compared to \$11.6 million for 2017. A listing of capital project expenditures for 2018 is included in the statistical section.

Major capital asset events during the current fiscal year included the following:

- Sewer rehabilitation projects accounted for the majority of capital expenditures. A total of \$17,687,474 was spent in 2018 and allocated as follows:
 - Sewer lines, mains, and manhole rehabilitation/replacement, \$6,910,054
 - Sewer lift station and decentralization system improvements, \$1,673,596
 - Sewer plant improvements and miscellaneous costs, \$3,838,043
 - Severe Weather Attenuation Basins, \$5,265,781
- Water-related project costs for 2018 totaled \$7,078,385. The following items are included in these costs:
 - Advanced metering infrastructure, \$2,811,189
 - Water line extensions and improvements, \$2,924,591
 - Water tank painting and repair, \$1,342,605
- Other capital expenditures amounted to \$1,659,955 during 2018 and include the following:
 - Water and sewer combined extensions, \$830,027
 - Utility Relocations and other miscellaneous projects, \$829,928
- Major projects completed and capitalized during 2018 include the following:
 - Resiliency at Stickney and Gaillard Pump Stations, \$2,812,079
 - Mobile to Spanish Fort Waterline Replacement and Upgrades, \$3,395,393
 - Small Diameter CIPP Sewer Lining, \$2,231,947
 - Miscellaneous Mainline Repairs Virginia and Everett Street, \$1,196,042

During 2017, major capital assets events included sewer rehabilitation projects in the amount of \$28,980,019, water-related project costs totaling \$6,709,182, and other capital expenditure amounts of \$1,990,666.

Capital Assets
(net of accumulated depreciation)

	2018	2017	2016
Water and sewer systems	\$ 443,071,940	\$ 436,459,641	\$ 430,452,295
Vehicles	4,031,095	4,092,772	2,980,484
Equipment and furnishings	8,568,099	7,965,995	9,122,041
Buildings and improvements	20,086,800	20,350,246	20,837,788
Land	9,447,188	8,842,146	8,800,646
Timber rights and other intangibles	1,234,515	737,658	382,138
Construction in progress	75,605,016	74,400,487	54,648,430
Total	<u>\$ 562,044,653</u>	<u>\$ 552,848,945</u>	<u>\$ 527,223,822</u>

Additional information on the Board's capital assets can be found in Note 3, beginning on page 30 of this report.

Long-term debt. At December 31, 2018, the Board had total long-term debt outstanding of \$246,336,000 versus \$223,441,000 in 2017, an increase of 10.25%. This increase is due to the addition of a \$31,510,000 CWSRF loan and a \$7,510,000 DWSRF loan less combined reductions of approximately \$16,125,000. The State Revolving fund bonds are subordinate to the Revenue Bonds. All bond debt covenants have been met.

At December 31, 2017, the Board had total long-term debt outstanding of \$223,441,000. Payments totaled 10,973,000. The Board made corrections to the amortization method and presentation of amounts previously reported for bond premiums, discounts, gains, and losses. The Board's beginning net position was restated and resulted in a decrease in beginning net position of \$470,417.

The Board's revenue bond rating from Standard & Poor's is an AA, stable outlook. The rating from Moody's is Aa3.

Additional information on the Board's long-term debt can be found in Note 8, beginning on page 46 of this report.

Economic Factors and Next Year's Budget and Rates

- The unemployment rate at December 31, 2018: Mobile area at 4.2%, compared to the State of Alabama and the nation at 3.8% and 3.9%, respectively
- Identified capital project needs and anticipated repairs and maintenance to the system
- Estimated customer growth/new development; business additions and/or closures
- MAWSS' rates compared to similar systems' rates
- Weather trends
- Customer usage patterns; impact of an approved rate increase on consumption

The Board has approved a 5% volumetric rate increase for 2019.

These factors were considered in preparing the Board's budget for the 2019 year. The Board continues striving to find innovative ways of reducing the cost of service while improving customer services and protecting the environment. It is an ongoing challenge to meet the demands of replacing an aging infrastructure.

Request for Information

This financial report is designed to provide a general overview of the Board's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Comptroller, P.O. Box 180249, Mobile, AL, 36618-0249.

BASIC FINANCIAL STATEMENTS

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BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

BALANCE SHEETS AT
DECEMBER 31, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2018	2017
CURRENT ASSETS		
Cash and equivalents	\$ 18,138,782	\$ 18,197,415
Investments	7,525,029	6,079,921
Restricted cash and cash equivalents:		
Revenue bond covenant accounts	11,635,101	9,749,281
Capital improvement funds, partially restricted	14,905,382	16,691,805
Receivables:		
Interest receivable, unrestricted	78,275	53,897
Interest receivable, restricted	111,218	44,943
Billed user charges, net of allowance of \$345,959 and \$316,896	7,436,720	6,432,116
Unbilled user charges	4,696,976	4,183,669
Contracts receivable, net of allowance of \$109,993 and 113,559	8,124	13,696
Miscellaneous	98,586	123,862
Inventory of materials, chemicals and supplies - at cost	3,155,543	1,687,929
Prepaid expenses	972,203	767,240
Total current assets	<u>68,761,939</u>	<u>64,025,774</u>
NONCURRENT ASSETS		
Investments	15,594,286	12,809,503
Receivable from Alabama Dept of Environmental Mgmt (ADEM), restricted	45,917,698	19,200,483
Capital assets:		
Utility plant and equipment	890,701,708	861,110,125
Less accumulated depreciation	<u>413,709,259</u>	<u>391,503,813</u>
	476,992,449	469,606,312
Land	9,447,188	8,842,146
Construction in progress	<u>75,605,016</u>	<u>74,400,487</u>
Total capital assets (net of accumulated depreciation)	<u>562,044,653</u>	<u>552,848,945</u>
Unamortized regulatory asset	<u>3,539,613</u>	<u>1,062,512</u>
Total noncurrent assets	<u>627,096,250</u>	<u>585,921,443</u>
TOTAL ASSETS	<u>695,858,189</u>	<u>649,947,217</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow, bond refunding	3,035,516	3,439,613
Pension related	<u>1,171,817</u>	<u>1,993,868</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>4,207,333</u>	<u>5,433,481</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 700,065,522</u></u>	<u><u>\$ 655,380,698</u></u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND NET POSITION

	2018	2017
CURRENT LIABILITIES		
Accounts payable	\$ 7,708,728	\$ 8,204,215
Accrued payroll and related withholdings	682,119	535,434
Compensated absences - current portion	2,585,437	494,000
Customer meter deposits	5,157,966	5,033,540
Contingent insurance liability	2,554,040	1,940,261
Contracts and retainages payable	1,234,615	1,490,690
Interest payable, funded by restricted assets	3,546,906	716,647
Current maturities of revenue bonds payable	13,748,231	15,296,106
Total current liabilities	<u>37,218,042</u>	<u>33,710,893</u>
NONCURRENT LIABILITIES		
Revenue bonds payable	232,587,628	208,145,229
Compensated absences - long-term portion	2,356,913	3,109,600
Net pension liability	28,743,743	33,010,074
Other postemployment benefits	14,783,864	14,758,954
Total noncurrent liabilities	<u>278,472,148</u>	<u>259,023,857</u>
TOTAL LIABILITIES	<u>315,690,190</u>	<u>292,734,750</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related	2,952,341	
Other postemployment benefit related	21,535	26,767
Total deferred inflows of resources	<u>2,973,876</u>	<u>26,767</u>
NET POSITION		
Net investment in capital assets	364,662,008	352,047,706
Restricted for		
Debt service	8,104,795	9,077,577
Other bond covenants	15,000,000	15,000,000
Unrestricted	<u>(6,365,347)</u>	<u>(13,506,102)</u>
TOTAL NET POSITION	<u>381,401,456</u>	<u>362,619,181</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 700,065,522</u>	<u>\$ 655,380,698</u>

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

OPERATING REVENUES PLEDGED AS SECURITY FOR REVENUE BONDS	<u>2018</u>	<u>2017</u>
Water sales	\$ 43,189,371	\$ 39,947,830
Sewer charges	64,699,127	60,670,012
Total operating revenues	<u>107,888,498</u>	<u>100,617,842</u>
 OPERATING EXPENSES		
Water supply	1,874,955	1,659,151
Water treatment	6,365,605	6,423,373
Wastewater treatment	7,677,924	7,692,854
Transmission and collection	21,083,636	20,174,277
Support services	4,852,226	4,355,954
Supervision and general	19,702,151	16,929,398
Capital improvement fund accounts	1,465,627	2,314,627
Depreciation	22,446,265	21,684,555
Total operating expenses	<u>85,468,389</u>	<u>81,234,189</u>
 OPERATING INCOME	<u>22,420,109</u>	<u>19,383,653</u>
 NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	1,006,525	540,985
Miscellaneous rentals and sale of property	1,017,713	981,699
Miscellaneous expense	(96)	(281)
Bond interest expense	(7,481,890)	(5,456,955)
Bond issuance costs	(20,000)	
Total non-operating revenues (expenses)	<u>(5,477,748)</u>	<u>(3,934,552)</u>
 INCOME BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	16,942,361	15,449,101
 CAPITAL GRANTS AND CONTRIBUTIONS	<u>1,839,914</u>	<u>1,494,115</u>
 CHANGE IN NET POSITION	18,782,275	16,943,216
 TOTAL NET POSITION - BEGINNING OF YEAR	<u>362,619,181</u>	<u>345,675,965</u>
 TOTAL NET POSITION - END OF YEAR	<u>\$ 381,401,456</u>	<u>\$ 362,619,181</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 107,383,739	\$ 118,868,498
Payments to suppliers	(44,794,047)	(37,276,912)
Payments to employees	(21,502,364)	(21,748,224)
Net cash from operating activities	<u>41,087,328</u>	<u>59,843,362</u>
CASH FLOWS USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets and payments on construction projects	(30,302,059)	(45,815,563)
Proceeds from bonds	12,802,785	
Principal paid on bonds	(15,605,126)	(10,458,813)
Interest paid on bonds	(4,767,884)	(5,446,416)
Bond issuance costs	(20,000)	
Proceeds from sale of capital assets	69,086	183,890
Net cash used for capital and related financing activities	<u>(37,823,198)</u>	<u>(61,536,902)</u>
CASH FLOWS (USED FOR) FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,966,685	8,178,083
Purchases of investments	(7,196,576)	(5,328,236)
Interest and dividends received	1,006,525	540,985
Net cash (used for) from investing activities	<u>(3,223,366)</u>	<u>3,390,832</u>
 Net increase in cash and equivalents	 40,764	 1,697,292
 Cash and equivalents, beginning of year - restricted and unrestricted	 <u>44,638,501</u>	 <u>42,941,209</u>
 Cash and equivalents, end of year - restricted and unrestricted	 <u><u>\$ 44,679,265</u></u>	 <u><u>\$ 44,638,501</u></u>

The accompanying notes are an integral part of these financial statements.

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

RECONCILIATION OF CASH AND EQUIVALENTS PER STATEMENTS
OF CASH FLOWS TO STATEMENTS OF NET POSITION:

	<u>2018</u>	<u>2017</u>
Cash and equivalents, beginning of year:		
Current	\$ 18,197,415	\$ 14,367,669
Restricted	26,441,086	28,573,540
Total	<u>44,638,501</u>	<u>42,941,209</u>
Net increase (decrease):		
Current	(58,633)	3,829,746
Restricted	99,397	(2,132,454)
Total	<u>40,764</u>	<u>1,697,292</u>
Cash and equivalents, end of period:		
Current	18,138,782	18,197,415
Restricted	26,540,483	26,441,086
Total	<u>\$ 44,679,265</u>	<u>\$ 44,638,501</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:

Operating income	<u>\$ 22,420,109</u>	<u>\$ 19,383,653</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	22,446,265	21,684,555
Bad debts	455,791	527,419
Miscellaneous income	948,531	797,528
(Increase) decrease in receivables	(1,914,653)	17,442,810
(Increase) decrease in contracts receivable	5,572	10,318
(Increase) decrease in inventories	(1,467,614)	123,493
(Increase) decrease in prepaid expenses	(204,963)	(163,182)
(Increase) decrease in regulatory asset	(2,477,101)	(1,062,512)
Increase (decrease) in payables	(751,562)	1,646,212
Increase (decrease) in compensated absences	1,485,435	56,502
Increase (decrease) in contingent insurance liability	613,779	912,405
Increase (decrease) in other postemployment benefits	19,678	(2,415,839)
Increase (decrease) in pension liabilities	(491,939)	900,000
Total adjustments	<u>18,667,219</u>	<u>40,459,709</u>
Net cash provided by operating activities	<u>\$ 41,087,328</u>	<u>\$ 59,843,362</u>

NONCASH INVESTING, CAPITAL,
AND FINANCING ACTIVITIES:

Lines accepted and contributions for extensions	\$ 1,839,914	\$ 1,494,115
Approved but unadvanced bonds	39,500,000	

The accompanying notes are an integral part of these financial statements.

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

STATEMENTS OF FIDUCIARY NET POSITION
MAWSS OPEB TRUST FUND
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 419,163	\$ 626,495
Investments at fair value		
Equities		
Common Stock	4,188,765	4,319,062
Mutual Funds - equity	2,198,412	1,784,953
Fixed income securities		
US Government obligations	1,393,466	2,073,202
Mortgage backed securities	2,031,092	1,553,044
Corporate bonds	2,966,743	2,480,849
Mutual Funds - fixed income	335,505	304,834
International		
Foreign stock	245,603	425,721
Mutual Funds - International	768,388	875,343
Total investments	<u>14,127,974</u>	<u>13,817,008</u>
Accrued income	<u>42,457</u>	<u>39,800</u>
TOTAL ASSETS	<u>\$ 14,589,594</u>	<u>\$ 14,483,303</u>
NET POSITION		
Net position restricted for OPEB	<u>\$ 14,589,594</u>	<u>\$ 14,483,303</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
MAWSS OPEB TRUST FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ADDITIONS		
Employer contributions	\$ 1,859,437	\$ 2,604,285
Investment income		
Dividends	229,343	157,315
Interest	105,276	256,945
Realized gain (loss)	242,346	(44,003)
Net (depreciation) appreciation in FV of investments	(1,092,051)	983,869
Investment expense	(60,303)	(54,348)
Capital gain distributions	158,047	
Other loss	-	(52,956)
Net investment (loss) income	<u>(417,342)</u>	<u>1,246,822</u>
Total additions	<u>1,442,095</u>	<u>3,851,107</u>
DEDUCTIONS		
OPEB benefits paid	1,245,337	1,370,179
Insurance expenses	90,467	67,891
Miscellaneous - noncash distribution		52,021
Total deductions	<u>1,335,804</u>	<u>1,490,091</u>
NET INCREASE IN NET POSITION	106,291	2,361,016
NET POSITION RESTRICTED FOR OPEB BEGINNING OF YEAR	<u>14,483,303</u>	<u>12,122,287</u>
NET POSITION RESTRICTED FOR OPEB END OF YEAR	<u>\$ 14,589,594</u>	<u>\$ 14,483,303</u>

The accompanying notes are an integral part of these financial statements.

THE BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. Summary of Significant Accounting Policies

Reporting Entity

The accompanying financial statements present the activities of the Board of Water and Sewer Commissioners of the City of Mobile (the “Board”). The Board is a public agency or instrumentality existing under the provisions of Act No. 775 adopted at the 1951 Regular Session of the Legislature of Alabama, as amended, which has been recodified as Code of Alabama 1975, Sections 11-50-340 through 11-50-358, as amended, and by an ordinance adopted by the governmental body of the City of Mobile on September 18, 1952. The Board provides water and wastewater services for the City of Mobile and the surrounding area. The Board is composed of seven (7) board members who serve staggered six (6) year terms.

The Board is a separate governmental unit granted independent authority by the State of Alabama General Statutes. The Board does not receive funding from the state or any other local government.

The Board has business activities for the provision of water and sewer services. It is fiscally independent, has the authority to set its own budget, set rates, and issue debt in its own name without the approval of any other governing body. Operations are funded through water and sewer usage fees.

The Board has a fiduciary fund for which it is responsible. The Board established the fiduciary fund to provide assets in trust to meet future other postemployment benefit (OPEB) obligations.

Related Organization

The city council members of the City of Mobile, Alabama are responsible for appointing the seven members of the Board. However, they do not have the power to impose their will upon the members of the Board.

The Board’s financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Under provisions of GASB, the Board is considered a special-purpose government and is not a component unit of any other entity. The Board’s financial statements include both the business activities and fiduciary activities of the Board.

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting using governmental accounting standards applicable to an enterprise fund for business activities and to fiduciary funds for the Board’s OPEB trust fund.

THE BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Adoption of New Accounting Pronouncements – GASB Pronouncements that have been issued and were effective for the Board’s year ended December 31, 2018

GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement is effective for years beginning after June 15, 2017. This Statement has no impact on the financial statements of the Board.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for years beginning after June 15, 2017. This Statement has no impact on the financial statements of the Board.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. This statement also simplifies accounting for interest cost incurred before the end of a construction period. This Statement is effective for reporting periods beginning after December 15, 2019. However, the Board chose to implement GASB Statement No. 89 as of December 31, 2018.

Future Adoption of New Accounting Pronouncements - GASB Pronouncements that have been issued but are not yet effective at December 31, 2018

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement is effective for years beginning after June 15, 2018. The Board is currently evaluating the impact, if any, that GASB 83 will have on its financial statements.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is effective for years beginning after December 15, 2018. The Board is currently evaluating the impact, if any, that GASB 84 will have on its financial statements.

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GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. The Board is currently evaluating the impact, if any, that GASB 87 will have on its financial statements.

GASB Statement No. 88, *Certain Disclosures related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement is effective for reporting periods beginning after June 15, 2018. The Board is currently evaluating the impact, if any, that GASB 88 will have on its financial statements.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement is effective for reporting periods beginning after December 15, 2018. The Board is currently evaluating the impact, if any, that GASB 90 will have on its financial statements.

The Board will implement the new GASB pronouncements in the year no later than the required effective date. The Board has not yet determined if the above listed new GASB pronouncements will have a significant financial impact to the Board or in issuing its financial statements.

Cash and Equivalents

The Board's cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including amounts held in revenue bond covenant accounts.

Investments

The Board's *Master Trust Indenture* authorizes the Board to invest in obligations of the U.S. Treasury, commercial paper, certificates of deposit, repurchase agreements, and federal obligations and agencies. Any stock owned by the Board was given to the Board either when the company went public or in settlement of an outstanding obligation.

Investments are stated at fair value primarily based on bid price at the end of the year.

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Valuation of Accounts Receivable

Accounts receivable consist of amounts due from customers primarily for water and sewer charges and are stated at face amount net of an allowance for doubtful accounts of \$455,952 and \$430,455 as of December 31, 2018 and 2017, respectively. The Board performs credit evaluations and requires meter deposits. The allowance for doubtful accounts is estimated by analysis of accounts receivable balances exceeding 60 days outstanding and historical collection trends. Unbilled receivables represent income earned during the current year but not yet billed. Receivables from Alabama Department of Environmental Management (ADEM) associated with the State Revolving Fund (SRF) Bonds discussed in Note 8 were recorded at the same time as the bond issuance.

Inventory of Materials, Chemicals, and Supplies

Inventories are held for supply purposes. The inventories of materials, chemicals and supplies are stated at cost, which is determined primarily by the average cost method. Inventory items are recorded as expenses when consumed rather than when purchased.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Restricted Assets

Certain proceeds of the Board's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank or trust accounts and their use is limited by applicable bond covenants. Payment of restricted liabilities is funded by these restricted assets. These liabilities are classified as either as funded or partially funded by restricted assets on the balance sheet.

The *Master Trust Indenture* dated November 1, 2014 provides for the establishment of separately named accounts including the following: Bond Fund accounts, Reserve Fund accounts, Subordinated Debt Fund accounts, and a Capital Improvement Fund account. The Bond Fund accounts include a separate trust account for each series of bonds outstanding. The money in each such account is used to pay the principal and interest on the respective series of bonds as they become due and payable. The Reserve Fund accounts include a separate trust account for each series of bonds for which such account is provided for in a Supplemental Indenture. The Subordinated Debt Fund accounts include a separate trust account for each separate issue of Subordinated Debt. The money contained in each account shall be used only to pay the principal and interest for each such issue. There is a special trust fund account designated as the Capital Improvement Fund account. Money in this fund is used only for the purpose of paying the costs of capital improvements or capital-related costs. Only to the extent necessary to prevent an event of default will the money in the Capital Improvement Fund account be used to make required principal and interest payments.

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Under the Series 2014 Supplemental Indenture, a Construction Fund trust account was established to report the proceeds of the bond issue that are restricted for use in construction or capital purchases. If the Capital Improvement Fund account pays for construction that will ultimately be repaid by the Construction Fund account, this is recorded as Due To/Due From Other Accounts. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, and then unrestricted resources as they are needed.

The following is a schedule of restricted assets and liabilities at December 31, 2018 and 2017:

	2018	2017
Assets		
Current assets		
Cash and equivalents	\$ 26,540,483	\$ 24,749,281
Interest receivable	111,218	44,943
Total restricted assets	<u>\$ 26,651,701</u>	<u>\$ 24,794,224</u>
Liabilities		
Current liabilities		
Interest payable	\$ 3,546,906	\$ 716,647
Total restricted liabilities	3,546,906	716,647
Net position		
Debt service	8,104,795	9,077,577
Other bond covenants	15,000,000	15,000,000
Total restricted net position	23,104,795	24,077,577
Total restricted liabilities and net position	<u>\$ 26,651,701</u>	<u>\$ 24,794,224</u>

Capital Assets and Accumulated Depreciation

The practice of the Board is to capitalize expenditures for property, plant additions and improvements, equipment, infrastructure, and intangible assets. Capital assets are defined by the Board as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the books and any resulting gain or loss is recognized in non-operating revenue for the year. Contributions of property are recorded at the contributor's cost, which approximates acquisition value by the Board. The Board capitalized interest on construction projects for the year ended December 31, 2017 (see Note 3). The Board adopted the provisions of GASB Statement No. 89, which allows the Board to expense interest on construction projects as incurred for the year ended December 31, 2018 (See Note 18). The cost of normal maintenance and repairs is charged to operations as incurred and significant renewals and betterments are capitalized.

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Provision for depreciation of capital assets is made on a basis considered adequate to amortize the cost of depreciable assets over their estimated useful lives. Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives presented in years:

Buildings	50
Building improvements	15 - 20
Water infrastructure	50
Sewer infrastructure	24 - 50
Vehicles, equipment, furniture	5 - 10
Timber rights	40

Capital assets acquired with resources externally restricted for capital acquisition (e.g., capital grants) and contributions of lines from external sources are recorded as capital contributions.

Capital assets having an indefinite useful life, such as land and easements, are capitalized but not amortized.

Deferred Outflows and Inflows of Resources

The balance sheet reports deferred outflows of resources separately from assets. Deferred outflows represent decreases in net position to be amortized over future periods. These outflows will not be recognized as such until the applicable future period.

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that apply to future periods. These items will not be recognized as inflows of resources until the applicable future period.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Board's Retiree Benefits Plan and additions to/deductions from the Board's fiduciary net position have been determined on the same basis as they are reported by the Board. For this purpose, the Board recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Bond Discounts, Premiums, and Issuance Costs

Debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred. Prepaid insurance costs are reported as an asset and recognized as an expense in a systematic and rational manner over the duration of related debt.

Bond discount and premiums are presented as a reduction/addition to the face amount of the bonds payable and amortized over the life of the related debt using the interest method.

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Gains and losses upon refinancing of long-term debt are captured as deferred inflows or outflows and amortized over the shorter of the remaining life of the old debt refinanced or the life of the new debt issued. Amortization of gains and losses related to the refinancing of long-term debt is recognized on a straight-line basis.

Compensated Absences

The Board's policy is to permit employees to accumulate earned but unused vacation and sick leave, which will be paid to employees upon separation from the Board's service. All vacation pay is accrued when earned. For employees hired prior to January 1, 2013, seventy-five percent (75%) of sick leave is payable only to those retiring from the system after twenty-five years of service at any age or age sixty with ten years of service. For those employees hired beginning January 1, 2013, the requirements are age sixty-two with ten years of service.

Customer deposits

Customer meter deposits are recorded as a liability, until such time they are refunded. GASB requires the cash related to customer meter deposits be presented as a restricted asset. The Board considers \$5,157,966 and \$5,033,540 of its investments as of December 31, 2018 and 2017 as being restricted for customer deposits.

Net position

Net position is divided into three components:

Net investment in capital assets - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted - consist of net position that is restricted by the Board's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors (including those who have donated to the Board).

Unrestricted - all other net position is reported in this category.

Recognition of revenue

Business activity revenues are recognized when water is used by the customer or services are provided to the customer. Meters are read throughout the month.

Fiduciary fund revenues are recognized when earned. Earned revenues include the change in fair value of investments for the reporting period as all investments are carried at fair value in the statement of fiduciary net position.

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Operating Revenues and Expenses

Operating revenues and expenses result from providing water and wastewater services, which are the Board's principal ongoing operations. The Board also recognizes connection charges and capacity fees to connect to the system as operating revenues. Operating expenses include the costs to provide these services, administrative costs, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Taxes

The Board is not subject to federal and state income taxes. The Board collects utility taxes from its customers on behalf of the State of Alabama. Revenue is presented net of taxes collected in the statement of revenues and expenses.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Pension Plan

Substantially all of the Board's employees are participants in the Employees' Retirement System of Alabama. The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Deposits and Investments

Interest rate risk. The Board manages its exposure to fair value losses arising from increasing interest rates by limiting the investment period to five years or less for most accounts or having an average maturity life of five years or less, based on cash flow needs. The Board's policy is that investment securities shall mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such funds.

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Credit risk. As a general rule, the Board's investment policy is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. During the year, the Board's investments in bonds of U.S. Government Agencies were rated AA+ by Standard and Poor's, and Aaa by Moody's Investors Service.

Concentration of credit risk. The Board's investment policy places no limit on the amount the Board may invest in any one issuer.

Custodial credit risk – deposits. In the case of deposits, this is the risk that, in the event of a bank failure, the Board's deposits may not be returned to it. The Board requires each depository to be a bank or trust company having capital stock, surplus, and undivided earnings of \$50 million or more. All moneys held in deposit shall be insured or collateralized under the Security for Alabama Funds Enhancement ("SAFE") Program, a mandatory pooled custody account administered by the Alabama State Treasurer for all Alabama public deposits. Each of the banks holding the Board's deposits is a certified participant in the SAFE program through a collateral pool administered by the Alabama State Treasurer. The Board's policy allows the purchase of certificates of deposit from a bank that has a combined capital, surplus and undivided profits of not less than \$3 million and whose deposits are fully insured or collateralized under the SAFE Program.

Custodial credit risk – investments. In the case of investments this is the risk that, in the event of the failure of the counter party (e.g. broker – dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Board's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments.

Fair value disclosures. Investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is described as an exit price.

Recurring fair value measurements are those that the GASB requires or permits in the balance sheet at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value.

- Level 1 – Inputs based on quoted prices for identical assets
- Level 2 – Inputs are significant other observable inputs
- Level 3 – Inputs are significant unobservable inputs

The fair value measurements of the Board's investments at December 31, 2018 and 2017 are as follows:

2018	Level 1	Total
U.S. Treasury Notes	\$ 6,704,548	\$ 6,704,548
U.S. Government Agencies	12,985,964	12,985,964
Certificates of Deposit	3,428,803	3,428,803
Total	<u>\$ 23,119,315</u>	<u>\$ 23,119,315</u>

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2017	Level 1	Total
U.S. Treasury Notes	\$ 1,134,510	\$ 1,134,510
U.S. Government Agencies	12,283,684	12,283,684
Certificates of Deposit	5,471,230	5,471,230
Total	<u>\$ 18,889,424</u>	<u>\$ 18,889,424</u>

The fair value measurements of investments held by the Board's OPEB Trust at December 31, 2018 and 2017 are as follows:

2018	Level 1	Level 2	Total
Common Stock	4,193,607		4,193,607
Mutual Funds - Equity	2,198,412		2,198,412
U.S. Government Obligations	1,399,987		1,399,987
Mortgage Backed Securities		\$ 2,037,156	2,037,156
Corporate Bonds		2,991,279	2,991,279
Mutual Funds – Fixed Income	335,505		335,505
Foreign Stock	245,603		245,603
Mutual Funds – International	768,882		768,882
Total	<u>\$9,141,996</u>	<u>\$5,028,435</u>	<u>\$14,170,431</u>

2017	Level 1	Level 2	Total
Common Stock	4,322,539		4,322,539
Mutual Funds - Equity	1,785,076		1,785,076
U.S. Government Obligations	2,073,202		2,073,202
Mortgage Backed Securities		\$ 1,553,044	1,553,044
Corporate Bonds		2,514,129	2,514,129
Mutual Funds – Fixed Income	307,309		307,309
Foreign Stock	425,721		425,721
Mutual Funds – International	875,788		875,788
Total	<u>\$9,789,635</u>	<u>\$4,067,173</u>	<u>\$13,856,808</u>

3. Capital Assets and Accumulated Depreciation

Major outlays for capital assets and improvements are capitalized during project construction. As discussed in Note 1, the Board adopted the provisions of GASB Statement No. 89 during 2018, which allows the Board to expense interest during the construction phase of capital assets as incurred. During 2017, interest incurred during the construction phase of capital assets was capitalized as Construction in Progress based on the weighted-average amounts of accumulated construction expense multiplied by the Board's average borrowing rate for the year. Interest of \$2,208,721 was capitalized and classified as Construction in Progress during the year ended December 31, 2017.

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Capital asset activity for the year ended December 31, 2018 and 2017 is as follows:

<u>Capital Assets</u>	<u>1/1/2018</u>	<u>Additions</u>	<u>Transfers / Deletions</u>	<u>12/31/2018</u>
Capital assets not being depreciated:				
Land	\$8,842,146	\$605,042	-	\$9,447,188
Construction in progress	74,400,487	26,607,053	\$ 25,402,524	75,605,016
Total capital assets not being depreciated	83,242,633	27,212,095	25,402,524	85,052,204
Capital assets being depreciated:				
Buildings and improvements	27,954,530	465,836	-	28,420,366
Equipment and furniture	32,600,063	2,969,340	340,853	35,228,550
Vehicles	12,035,193	978,567	137,486	12,876,274
Water and sewer systems	785,009,796	24,976,211	-	809,986,007
Timber rights and other intangibles	3,510,543	679,968	-	4,190,511
Total capital assets being depreciated	861,110,125	30,069,922	478,339	890,701,708
Less accumulated depreciation:				
Buildings and improvements	7,604,284	729,282	-	8,333,566
Equipment and furniture	24,634,068	2,134,052	107,670	26,660,450
Vehicles	7,942,421	1,040,244	137,486	8,845,179
Water and sewer systems	348,550,155	18,363,913	-	366,914,068
Timber rights and other intangibles	2,772,885	183,111	-	2,955,996
Total accumulated depreciation	391,503,813	22,450,602	245,156	413,709,259
Total capital assets being depreciated, net	469,606,312	7,619,320	233,183	476,992,449
Capital assets, net	\$552,848,945	\$34,831,415	\$25,635,707	\$562,044,653

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<u>Capital Assets</u>	<u>1/1/2017</u>	<u>Additions</u>	<u>Transfers / Deletions</u>	<u>12/31/2017</u>
Capital assets not being depreciated:				
Land	\$8,800,646	\$41,500	-	\$8,842,146
Construction in progress	54,648,430	40,915,940	\$ 21,163,883	74,400,487
Total capital assets not being depreciated	63,449,076	40,957,440	21,163,883	83,242,633
Capital assets being depreciated:				
Buildings and improvements	27,681,585	272,945	-	27,954,530
Equipment and furniture	35,691,961	1,554,012	4,645,910	32,600,063
Vehicles	11,048,832	2,008,224	1,021,863	12,035,193
Water and sewer systems	761,110,652	23,899,144	-	785,009,796
Timber rights and other intangibles	1,549,232	2,164,054	202,743	3,510,543
Total capital assets being depreciated	837,082,262	29,898,379	5,870,516	861,110,125
Less accumulated depreciation:				
Buildings and improvements	6,843,797	760,487	-	7,604,284
Equipment and furniture	26,569,920	1,920,507	3,856,359	24,634,068
Vehicles	8,068,348	895,936	1,021,863	7,942,421
Water and sewer systems	330,658,357	17,891,798	-	348,550,155
Timber rights and other intangibles	1,167,094	1,808,534	202,743	2,772,885
Total accumulated depreciation	373,307,516	23,277,262	5,080,965	391,503,813
Total capital assets being depreciated, net	463,774,746	6,621,117	789,551	469,606,312
Capital assets, net	\$527,223,822	\$47,578,557	\$21,953,434	\$552,848,945

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4. Deferred Outflows and Inflows of Resources

Changes in deferred outflows and inflows (other than pension and OPEB related items discussed in Notes 5 and 6) for the year ended December 31, 2018 and 2017 were as follows (in thousands)

	1/1/2018	Additions	Amortization	12/31/2018
Deferred outflows of resources:				
Deferred charge on bond refunding	\$ 3,440	\$ -	\$ (404)	\$ 3,036

	1/1/2017	Additions	Amortization	12/31/2017
Deferred outflows of resources:				
Deferred charge on bond refunding	\$ 3,844	\$ -	\$ (404)	\$ 3,440

5. Pension Plan

General Information about the Pension Plan

Plan Description. The Employees' Retirement System of Alabama (ERS), an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and, on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

1. The Governor, ex-officio.
2. The State Treasurer, ex-officio.
3. The State Personnel Director, ex-officio
4. The State Director of Finance, ex-officio.
5. Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex-officio trustee is the head.
6. Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

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Benefits Provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

The ERS serves approximately 909 local participating employers. The ERS membership includes approximately 88,517 participants. As of September 30, 2017, membership consisted of:

	<u>ERS</u>	<u>Board</u>
Retirees and beneficiaries currently receiving benefits	23,853	229
Terminated employees entitled to but not yet receiving benefits	1,401	5
Terminated employees not entitled to a benefit	7,154	11
Active members	55,941	380
Post-DROP participants still in active service	<u>168</u>	<u>4</u>
Total	<u><u>88,517</u></u>	<u><u>629</u></u>

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Contributions. Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended December 31, 2018, the Board's active employee contribution rate was 7.0% of covered employee payroll, and the Board's average contribution rate to fund the normal and accrued liability costs was 10.1% of covered employee payroll.

The Board's contractually required contribution rate for the year ended September 30, 2018, was 10.45% of pensionable pay for Tier 1 employees, and 10.19% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$2,152,676 and \$2,057,430 for the years ended December 31, 2018 and 2017, respectively.

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Net Pension Liability

The Board's net pension liability study was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, rolled forward to September 30, 2017, using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual</u>
(a) TPL as of September 30, 2016	\$ 95,397,907	\$ 94,481,437
(b) Discount rate	7.75%	7.75%
(c) Entry Age Normal Cost for the period		
October 1, 2016 - September 30, 2017	1,549,963	1,549,963
(d) Transfers Among Employers:		275,897
(e) Actual Benefit Payments and Refunds for the period		
October 1, 2016 - September 30, 2017	<u>(5,161,202)</u>	<u>(5,161,202)</u>
(f) TPL as of September 30, 2017		
= [(a) x (1.0775)] + (c) + (d) - [(e) x (1.03875)]	<u>\$ 98,980,009</u>	<u>\$ 98,268,410</u>
 (g) Difference between Expected and Actual:		\$ (711,599)
(h) Less Liability Transferred for Immediate Recognition:		<u>275,897</u>
(i) Experience (Gain)/Loss = (g) - (h)		<u>\$ (987,496)</u>

Actuarial assumptions. The total pension liability as of September 30, 2017, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increases	3.25% - 5.00%
Investment rate of return *	7.75%

* Net of pension plan investment expense

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	<u>TARGET ALLOCATION</u>	<u>LONG-TERM EXPECTED RATE OF RETURN *</u>
Fixed income	17.00%	4.40%
U. S. large stocks	32.00%	8.00%
U. S. mid stocks	9.00%	10.00%
U. S. small stocks	4.00%	11.00%
International developed market stocks	12.00%	9.50%
International emerging market stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real estate	10.00%	7.50%
Cash equivalents	<u>3.00%</u>	1.50%
Total	<u><u>100.00%</u></u>	

* Includes assumed rate of inflation of 2.50%.

Discount rate. The discount rate used to measure the total pension liability was the long term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at September 30, 2015	\$ 89,452,501	\$ 58,463,914	\$ 30,988,587
Changes for the year:			
Service cost	1,583,878	-	1,583,878
Interest	6,968,312	-	6,968,312
Changes of assumptions	1,468,458	-	1,468,458
Difference between expected and actual experience	272,077	-	272,077
Contributions - employer	-	2,020,517	(2,020,517)
Contributions - employee	-	1,465,536	(1,465,536)
Net investment income	-	5,910,185	(5,910,185)
Benefit payments, including refunds of employee contributions	(4,697,197)	(4,697,197)	-
Transfers among employers	349,878	349,878	-
Net changes	<u>5,945,406</u>	<u>5,048,919</u>	<u>896,487</u>
Balances at September 30, 2016	95,397,907	63,512,833	31,885,074
Changes for the year:			
Service cost	1,549,963	-	1,549,963
Interest	7,193,341	-	7,193,341
Changes of assumptions	-	-	-
Difference between expected and actual experience	(987,496)	-	(987,496)
Contributions - employer	-	1,963,630	(1,963,630)
Contributions - employee	-	1,443,549	(1,443,549)
Net investment income	-	8,037,592	(8,037,592)
Benefit payments, including refunds of employee contributions	(5,161,202)	(5,161,202)	-
Transfers among employers	275,897	275,897	-
Net changes	<u>2,870,503</u>	<u>6,559,466</u>	<u>(3,688,963)</u>
Balances at September 30, 2017	<u>\$ 98,268,410</u>	<u>\$ 70,072,299</u>	<u>\$ 28,196,111</u>

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Sensitivity of the net pension liability to changes in the discount rate. The following table presents the Board's net pension liability calculated using the discount rate of 7.75%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1- percentage-point higher (8.75%) than the current rate.

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75%)
Plan's Net Pension Liability	\$ 39,407,253	\$ 28,196,111	\$ 18,703,308

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor's report dated August 31, 2018, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

For the year ended December 31, 2018 and 2017, the Board recognized pension expense of \$1,662,134 and 2,926,081, respectively.

At December 31, 2018, the Board reported deferred outflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 192,845	\$ 822,913
Changes in assumptions	978,972	-
Net difference between projected and actual earnings on plan investments	-	2,129,428
Total	<u>\$ 1,171,817</u>	<u>\$ 2,952,341</u>

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At December 31, 2017, the Board reported deferred outflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 242,435	-
Changes in assumptions	1,223,715	-
Net difference between projected and actual earnings on plan investments	<u>527,718</u>	<u>-</u>
Total	<u><u>\$ 1,993,868</u></u>	<u><u>-</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year ended December 31:

2019	\$ (385,728)
2020	38,353
2021	(759,550)
2022	(509,018)
2023	<u>(164,581)</u>
Total	<u><u>\$ (1,780,524)</u></u>

The Board has considered additional liability and contributions through December 31, 2018, the Board's measurement date. The Board has adjusted the net pension liability per the September 30, 2017 valuation to include additional liabilities and contributions made through December 31, 2018.

Net pension liability per study as of September 30, 2017	\$28,196,111
Roll-forward amounts:	
Additional liabilities	3,002,170
Employer contributions	<u>(2,454,538)</u>
	<u><u>\$28,743,743</u></u>

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6. Other Post-Employment Benefits

General Information about the OPEB Plan

Basis of Accounting. The 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 are recognized when due and the Board has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Plan assets have been segregated and restricted in an irrevocable trust fund with a local custodian bank. Plan assets are dedicated to providing retiree benefits and are protected from creditors. Investments are reported at fair value, which is determined by the trustee based on most recent bid and asked prices.

Plan description and benefits provided. The Board provides certain health care and life insurance benefits to its retired employees, as a part of a single-employer defined benefit plan. Benefits include healthcare and dental care for eligible retirees and for retiree spouses to age 65 through the Board's group health insurance plan, which covers both active and retired members. The Board self-funds its health and dental benefit plan. For retirees over age 65, the Board provides a supplemental Medicare policy. Life insurance is provided for retirees meeting eligibility requirements. No separate stand-alone OPEB plan financial statements are publicly available. However, information on funding progress, contributions, and other elements are included in these financial statements.

Employees covered by benefit terms. For health and dental benefits and for life insurance benefits, eligible employees must have been hired prior to January 1, 2002, and prior to September 1, 1994, respectively, and retire from the Board after meeting age and years of service conditions. At December 31, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently	
receiving benefit payments	257
Inactive plan members entitled to but not yet	
receiving benefit payments	0
Active plan members	381
Total	<u>638</u>

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Contributions. For employees hired prior to January 1, 2002, the Board pays 100% of life insurance for the retiree (up to \$15,000 coverage) and from 50% to 100% of the health and dental benefit for the retiree (up to age 65) and family (spouse up to age 65 and dependents through age 25), depending on both age and years of service at the time of retirement. Once the retiree reaches age 65, a portion of the cost of a Medicare supplement premium is paid by the Board for the retiree only. The required contribution is based on projected pay-as-you go financing requirements. For employees hired after January 1, 2002, the employee may continue health and dental coverage by paying 102% of the rate calculated for the plan, with coverage ceasing for the retired employee and/or the spouse when reaching age 65. Once a retiree is deceased, spouse and/or dependents are eligible for COBRA and are removed from the retiree health and dental insurance plan.

The Board of Directors also serves as the Board for the Fiduciary Fund. The Board contributed \$1,320,393 and \$2,332,470 to the Fiduciary Fund for future benefits for 2018 and 2017, respectively. Plan members receiving benefits contributed \$538,737 and \$271,815 of the cost in 2018 and 2017, respectively. The contribution requirements of retirees and the Board are established and may be modified, reduced, or amended by the Board.

The assumed asset allocation of Fiduciary Fund assets are 50% equities and 50% debt securities. The long-term expected rate of return on plan investments is 7% and was determined based on historical averages for the period 1926-2011.

Net OPEB Liability

The Board's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Board has adjusted the net OPEB liability per the December 31, 2017 valuation to include additional liabilities and contributions made through December 31, 2018.

Net OPEB liability per study as of December 31, 2017	\$ 14,758,954
Roll-forward amounts:	
Additional liabilities	1,884,347
Employer contributions	(1,859,437)
	<u>\$ 14,783,864</u>

Actuarial assumptions. The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	
Salary increases	3 percent annually
Investment rate of return	7 percent annually
Healthcare cost trend rates	8 percent through 2019, 6 percent through 2021, and 5 percent for 2022 and later years

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Mortality rates were based on the RP-2015 Mortality Fully Generational table using Projection Scale MP-2017. The mortality rates in the previous actuarial valuation were based on the RP-2014 Mortality Fully Generational table using Projection Scale MP-2014.

Discount rate. The discount rate used to measure the total OPEB liability was 3.76 percent. The projection of cash flows used to determine the discount rate assumed that the Board's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the OPEB liability.

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 12/31/2016	\$ 29,323,847	\$ 12,122,287	\$ 17,201,560
Changes for the year:			
Service cost	283,581		283,581
Interest	1,086,452		1,086,452
Differences between expected and actual experience	(26,787)		(26,787)
Contributions - employer		1,988,590	(1,988,590)
Net investment income		1,851,610	(1,851,610)
Benefit payments	(1,424,836)	(1,424,836)	-
Administrative expense	-	(54,348)	54,348
Net changes	(81,590)	2,361,016	(2,442,606)
Balances at 12/31/2017	29,242,257	14,483,303	14,758,954
Changes for the year:			
Service cost	303,067		303,067
Interest	1,095,006		1,095,006
Differences between expected and actual experience	(21,535)		(21,535)
Contributions - employer	-	1,859,437	(1,859,437)
Net investment loss	-	(417,342)	417,342
Benefit payments	(1,245,337)	(1,245,337)	-
Administrative expense	-	(90,467)	90,467
Net changes	131,201	106,291	24,910
Balances at 12/31/2018	\$ 29,373,458	\$ 14,589,594	\$ 14,783,864

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Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.76 percent) or 1-percentage-point higher (4.76 percent) than the current discount rate:

Discount Rate Sensitivity				
	1% Decrease (2.76%)	Discount Rate (3.76%)	1% Increase (4.76%)	
Net OPEB liability	\$ 20,104,879	\$ 14,783,864	\$ 10,550,647	

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current discount rate:

Healthcare Trend Rate Sensitivity				
	1% Decrease (7% for 2018 decreasing to 4%)	Healthcare Cost Trend Rates (8% for 2018 decreasing to 5%)	1% Increase (9% for 2018 decreasing to 6%)	
Net OPEB liability	\$ 11,453,844	\$ 14,783,864	\$ 18,921,683	

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018 and 2017, the Board recognized OPEB expense of \$1,340,070 and \$2,442,606, respectively. At December 31, 2018, the Board reported deferred outflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources and Deferred Inflows of Resources			
	Deferred Outflows of Resources	Deferred Inflows of Resources	
Differences between expected and actual experience	\$ -	\$ 21,535	
Changes of assumptions	-	-	
Net difference between projected and actual earnings on OPEB plan investments	-	-	
Total	\$ -	\$ 21,535	

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At December 31, 2017, the Board reported deferred outflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources and Deferred Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 26,767
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	-
Total	<u>\$ -</u>	<u>\$ 26,767</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	\$ -	\$ 5,232
2020	-	5,232
2021	-	5,232
2022	-	5,232
Thereafter	-	607

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 plan 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 funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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7. Contingent Insurance Liability

The Board self-funds its health and dental care benefit plan for its employees and retirees. The Board has an administrative service agreement with an insurance carrier to serve as claims administrator for its health and dental care benefits. In order to limit claims cost, the Board has an excess risk insurance policy which covers claims exceeding \$135,000 per year per covered person with an aggregating specific deductible of \$140,000 per year.

The policy has an unlimited specific maximum per covered person. The actuarial estimate for the Board's claims liability at December 31, 2018 and 2017 of \$416,800 and \$382,400, respectively was provided by the claims administrator, net of refunds due.

Changes in the balances of claims liabilities during the past year were as follows:

Self-Insured Health Insurance:	Year ended 12/31/18	Year ended 12/31/17	Year ended 12/31/16
Claims liability, beginning of year	\$ 382,400	\$ 357,200	\$ 328,000
Incurred claims and expenses	5,048,960	5,220,514	5,321,190
Claims payments	(4,926,865)	(4,964,862)	(4,946,490)
Claims settlements, excess policy	(87,695)	(230,452)	(345,500)
Claims liability, end of year	<u>\$ 416,800</u>	<u>\$ 382,400</u>	<u>\$ 357,200</u>

8. Bonds Payable

The Board issues water and sewer revenue bonds to provide funds for the acquisition and construction of major capital assets, including infrastructure. The water and sewer revenue bonds are on parity, while the State Revolving Fund bonds are subordinate. Total operating revenues are pledged as security on the bonds, regardless of the source of the revenue or the use of the proceeds.

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The following is a schedule of bonds payable:

	2018 <u>(In thousands)</u>	2017 <u>(In thousands)</u>
Series 1999 \$10,000,000 Water and Sewer Revenue Bond, issued September 14, 1999, interest at 4.58%, final maturity December 1, 2018	\$ -	\$ 1,170
Series 2001 \$10,000,000 Water and Sewer Revenue Bond, issued December 28, 2001, interest at 4.62% due monthly through December 1, 2021	3,000	4,000
Series 2010 \$55,000,000 Water and Sewer Revenue Refunding Bond, issued July 26, 2010, at 2.71%, due annually through January 1, 2022	18,700	23,887
Series 2013 \$21,380,000 Water and Sewer Revenue Refunding Bond, issued January 2, 2013, at 1.43%, final maturity October 1, 2018	-	3,378
Series 2014 \$102,375,000 Water and Sewer Revenue Bonds, issued November 1, 2014, at 4% to 5%, due annually through January 1, 2036	102,375	102,375
Series 2016 \$22,240,000 Water and Sewer Revenue Bonds, issued February 4, 2016, at 1.84%, due annually through August 15, 2025	19,985	20,735
SRF 2004 \$10,310,000 Subordinated Revenue Bond, issued November 1, 2004, at 3.05%, due annually through August 15, 2024	3,780	4,345
SRF 2010-A-CWSRF \$9,345,000 Subordinated Revenue Refunding Bond issued December 15, 2010, at 2.50%, due annually through August 15, 2020	2,170	3,195
SRF 2012-CWSRF-DL \$20,000,000 Subordinated Revenue Bond issued August 15, 2012, at 2.90%, due annually through February 15, 2032	15,165	16,030
SRF 2014-CWSRF-DL \$20,010,000 Subordinated Revenue Bond issued August 15, 2014, at 2.45%, due annually through August 15, 2034	16,750	17,595
SRF 2016-CWSRF-DL \$19,950,000 Subordinated Revenue Bond issued September 15, 2016, at 1.45% to 2.20%, due annually through August 15, 2036	18,325	19,145
SRF 2018-CWSRF \$31,510,000 Subordinated Revenue Bond issued November 1, 2018, at 2.20%, due annually through August 15, 2038	31,510	-
SRF 2018-DWSRF \$7,510,000 Subordinated Revenue Bond issued November 1, 2018, at 2.20%, due annually through August 15, 2038	7,510	-
Subtotal	<u>239,270</u>	<u>215,855</u>
Plus: bond premium	<u>7,066</u>	<u>7,586</u>
Total bonds payable	<u>\$ 246,336</u>	<u>\$ 223,441</u>

THE BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

The following is a schedule of maturities of bonds payable:

Years Ending December 31	Principal (In thousands)	Interest (In thousands)	Total (In thousands)
2019	13,748	7,857	21,605
2020	15,159	7,670	22,829
2021	15,450	7,276	22,726
2022	12,177	6,947	19,124
2023	11,115	6,701	17,816
2024 - 2028	53,945	28,913	82,858
2029 - 2033	70,220	17,127	87,347
2034 - 2038	47,456	4,125	51,581
Subtotals	239,270	86,616	325,886
Plus: bond premium	7,066	(7,066)	-
Total bonds payable	\$ 246,336	\$ 79,550	\$ 325,886

Subordinated Water and Sewer Revenue Bond Series 2018-CWSRF-DL

On November 1, 2018 the Board issued a \$31,510,000 Subordinated Water and Sewer Revenue Bond (Partial Principal Forgiveness Loan) at 2.20%. The sale price of the Bond was \$31,510,000 plus the principal forgiveness amount of \$500,000. The funds will be used for improvements to the sanitary sewer system and treatment facilities.

Subordinated Water and Sewer Revenue Bond Series 2018-DWSRF-DL

On November 1, 2018, the Board issued a \$7,510,000 Subordinated Revenue Bond at 2.20%. The funds will be used for the implementation of an Advanced Meter Infrastructure (AMI) and for improvements in the water supply system.

THE BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

9. Changes in noncurrent liabilities

Activity of noncurrent liabilities for the year ended December 31, 2018 and 2017 was as follows (in thousands):

	1/1/2018	Additions	Reductions	12/31/2018	Current
Bonds payable:					
Revenue bonds	\$ 155,545	-	\$ 11,485	\$ 144,060	\$ 7,933
SRF bonds	60,310	\$ 39,020	4,120	95,210	5,815
Plus: Bond premium	7,586	-	520	7,066	-
Total bonds payable	223,441	39,020	16,125	246,336	13,748
Compensated absences	3,603	1,339	-	4,942	2,585
Net pension liability	33,010	-	4,266	28,744	-
OPEB	14,759	25	-	14,784	-
Noncurrent liabilities	<u>\$ 274,813</u>	<u>\$ 40,384</u>	<u>\$ 20,391</u>	<u>\$ 294,806</u>	<u>\$ 16,333</u>
	1/1/2017	Additions	Reductions	12/31/2017	Current
Bonds payable:					
Revenue bonds	\$ 161,999	-	\$ 6,454	\$ 155,545	\$ 16,907
SRF bonds	64,315	-	4,005	60,310	4,120
Plus: Bond premium	8,100	-	514	7,586	-
Total bonds payable	234,414	-	10,973	223,441	21,027
Compensated absences	3,550	\$ 53		3,603	494
Net pension liability	31,885	1,125	-	33,010	-
OPEB	2,611	12,148	-	14,759	-
Noncurrent liabilities	<u>\$ 272,460</u>	<u>\$ 13,326</u>	<u>\$ 10,973</u>	<u>\$ 274,813</u>	<u>\$ 21,521</u>

10. Trusteed Funds and Other Restricted Funds

Under the terms of the new *Master Trust Indenture* dated November 1, 2014, it is required that certain funds of the Board be held in trust in the Bond Fund, the Reserve Fund, the Subordinated Debt Fund, and the Capital Improvement Fund. All money in the Revenue Fund is applied first as payment of operating expenses, the remainder applied as required in the Funds listed above, in that order. Once the \$15,000,000 reserve requirement for the Capital Improvement Fund has been met, all additional excess revenues are held in the Operating Fund as unrestricted funds. They are available for transfer to maintain the \$15,000,000 minimum at the end of each month.

THE BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

11. Operating Leases - Lessor

The Board leases water tower space to third parties under cancelable operating leases. Total rentals received during 2018 and 2017 were equal to \$442,435 and \$432,324, respectively. The cost of the leased assets was \$1,242,393 as of December 31, 2018 and 2017. The accumulated depreciation was \$445,191 and \$420,343, while the carrying value was \$797,202 and \$822,050 at December 31, 2018 and 2017, respectively.

12. Construction Commitments

The Board had contractual commitments of approximately \$4,449,000 and \$12,985,000 for water and sewer plant construction at December 31, 2018 and 2017, respectively. These commitments are provided by the following bond restricted accounts: 2014 Bond Construction, State Revolving Loan Construction, and Capital Improvement.

13. General Usage of the System

The number of customers of the water system, the sewer system, and the total combined customers of these systems as of December 31, 2018, was 86,276, 83,696, and 90,154, respectively. The number of customers at December 31, 2017 was 86,271, 83,662, and 90,121, respectively.

14. Risk Management

The Board is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Effective April 15, 2002, the Board became self-insured for claims and judgments, general liability, and general automobile liability. As discussed in Note 7, the Board recorded an estimate of \$2,137,240 and \$1,557,861 in loss contingencies for net total outstanding loss and expense reserves for years ended December 31, 2018 and 2017, respectively. All amounts are considered due within one year. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount, as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses and attorney fees related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.

The Board is self-insured for claims and judgments, general liability, and general automobile liability. Based on an actuarial reserve and funding study performed by a third-party actuary, the Board recorded a liability for \$2,137,240 and \$1,557,861 for net cash reserves and possible unknown claims as of December 31, 2018 and 2017, respectively. All amounts are considered due within one year.

THE BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Changes in the balance of claims liabilities during the past year were as follows:

	Year Ended 12/31/2018	Year Ended 12/31/2017	Year Ended 12/31/2016
Claims liability, beginning of year	\$ 1,557,861	\$ 670,656	\$ 592,258
Estimated claims	-	800,000	-
Incurred claims (including IBNRs)	809,439	451,126	768,014
Claims and expenses paid	(230,060)	(363,921)	(689,616)
Claims liability, end of year	<u>\$ 2,137,240</u>	<u>\$ 1,557,861</u>	<u>\$ 670,656</u>

15. Contingencies

The Board is a defendant in legal proceedings involving a rate dispute and claiming property damage and personal injury. Such proceedings are not uncommon to a public water board. The Board is contesting these cases vigorously and believes the claims are without merit. The Board has reported a loss contingency (see Note 14) in the amount of \$2,137,240 which includes an amount for claims that have occurred but not been reported as well as a reserve for outstanding claims and estimated claims expense.

16. Trust Agreement Compliance

The Board adopted the new *Master Trust Indenture* dated November 1, 2014, and is not aware of default of any of the covenants, agreements or conditions on its part contained this document. This Indenture replaces the *Indenture of Trust* dated November 1, 1985.

The Board has calculated possible arbitrage rebate under the U. S. Treasury Department's regulations regarding the issuance of the 2001 Series bonds, the 2010 Series bonds, the 2013 Series bonds, the 2014 Series bonds, and the 2016 Series bonds. Accrued arbitrage liability as of December 31, 2018 and 2017 was \$-0-.

17. Subsequent Events

The Board has evaluated subsequent events through May 29, 2019 which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2018 have been incorporated into these financial statements.

18. New Accounting Standards

In 2018, the Board adopted the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This standard improves financial reporting by enhancing the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for certain interest costs. The effect of this change was to expense all interest incurred during the year ended December 31, 2018 and for all periods thereafter.

REQUIRED SUPPLEMENTARY INFORMATION

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THE BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
FISCAL YEAR ENDING SEPTEMBER 30,

	2017	2016	2015	2014
TOTAL PENSION LIABILITY:				
Service cost	\$ 1,549,963	\$ 1,583,878	\$ 1,556,455	\$ 1,582,611
Interest	7,193,341	6,968,312	6,683,650	6,387,141
Changes of assumptions		1,468,458		
Differences between expected and actual difference	(987,496)	272,077	24,192	
Benefit payments, including refunds of employee contributions	(5,161,202)	(4,697,197)	(4,714,834)	(3,811,964)
Transfers among employers	275,897	349,878		
Net change in total pension liability	2,870,503	5,945,406	3,549,463	4,157,788
Total pension liability - beginning	95,397,907	89,452,501	85,903,038	81,745,250
Total pension liability - end (a)	<u>\$ 98,268,410</u>	<u>\$ 95,397,907</u>	<u>\$ 89,452,501</u>	<u>\$ 85,903,038</u>
PLAN FIDUCIARY NET POSITION:				
Contributions - employer	\$ 1,963,630	\$ 2,020,517	\$ 1,929,674	\$ 1,930,322
Contributions - member	1,443,549	1,465,536	1,435,421	1,450,779
Net investment income	8,037,592	5,910,185	693,537	6,362,684
Benefit payments, including refunds of employee contributions	(5,161,202)	(4,697,197)	(4,714,834)	(3,811,964)
Transfers among employees	275,897	349,878	(26,853)	(57,694)
Net change in plan fiduciary net position	6,559,466	5,048,919	(683,055)	5,874,127
Plan net position - beginning	63,512,833	58,463,914	59,146,969	53,272,842
Plan net position - end (b)	<u>\$ 70,072,299</u>	<u>\$ 63,512,833</u>	<u>\$ 58,463,914</u>	<u>\$ 59,146,969</u>
Net pension liability - ending (a) - (b)	\$ 28,196,111	\$ 31,885,074	\$ 30,988,587	\$ 26,756,069
Plan fiduciary net position as a percentage of the total pension liability	71.31%	66.58%	65.36%	68.85%
Covered employee payroll	\$ 19,920,850	\$ 20,612,003	\$ 21,117,748	\$ 20,561,574
Net pension liability as a percentage of covered employee payroll	141.54%	154.69%	146.74%	130.13%

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDING DECEMBER 31,

	2018	2017	2016	2015
Actuarially determined contribution *	\$ 2,152,676	\$ 2,057,430	\$ 2,522,052	\$ 2,476,164
Contributions in relation to the actuarially determined contribution	<u>2,152,676</u>	<u>2,057,430</u>	<u>2,522,052</u>	<u>2,476,164</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll **	21,378,330	\$ 20,457,428	\$ 20,612,003	\$ 21,117,748
Contributions as a percentage of covered-employee payroll	10.07%	10.06%	12.24%	11.73%

* Amounts of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statement.

** Employer's covered payroll for 2018 is the total covered payroll for the 12 month period of the underlying financial statement.

Notes to schedule:

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported.

Contributions for fiscal year 2018 were based on the September 30, 2015 actuarial valuation.

Methods and assumptions used to determine the contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization method	27.7 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

THE BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA

SCHEDULE OF CHANGES IN THE BOARD'S NET OPEB LIABILITY AND RELATED RATIOS
YEAR ENDING DECEMBER 31,

	<u>2018</u>	<u>2017</u>
TOTAL OPEB LIABILITY:		
Service cost	\$ 303,067	\$ 283,579
Interest	1,095,006	1,086,452
Changes of benefit terms	-	-
Differences between expected and actual experience	(21,535)	(26,787)
Changes of assumptions	-	-
Benefit payments	<u>(1,245,337)</u>	<u>(1,424,834)</u>
Net change in total OPEB liability	131,201	(81,590)
Total OPEB liability - beginning	<u>29,242,257</u>	<u>29,323,847</u>
 Total OPEB liability - ending (a)	 <u><u>\$ 29,373,458</u></u>	 <u><u>\$ 29,242,257</u></u>
 PLAN FIDUCIARY NET POSITION:		
Contributions - employer	\$ 1,859,437	\$ 1,988,590
Net investment income	(417,342)	1,851,608
Benefit payment	(1,245,337)	(1,424,836)
Administrative expense	<u>(90,467)</u>	<u>(54,346)</u>
Net change in plan fiduciary net position	106,291	2,361,016
Plan fiduciary net position - beginning	<u>14,483,303</u>	<u>12,122,287</u>
 Plan fiduciary net position - ending (b)	 <u><u>14,589,594</u></u>	 <u><u>14,483,303</u></u>
 Board's net OPEB liability - ending (a)-(b)	 <u><u>\$ 14,783,864</u></u>	 <u><u>\$ 14,758,954</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 49.67%	 49.53%
 Covered-employee payroll	 \$ 22,130,972	 \$ 21,027,723
 Board's net OPEB liability as a percentage of covered employee payroll	 66.80%	 70.19%

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA

SCHEDULE OF BOARD CONTRIBUTIONS
FOR THE YEAR ENDING DECEMBER 31,

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 408,610	\$ (481,577)
Contributions in relation to the actuarially determined contribution	<u>1,859,437</u>	<u>1,424,836</u>
Contribution deficiency (excess)	<u>\$ (1,450,827)</u>	<u>\$ (1,906,413)</u>
Covered employee payroll	\$ 22,130,972	\$ 21,027,723
Contributions as a percentage of covered-employee payroll	8.40%	6.78%

Notes to schedule:

Valuation date: December 31, 2017

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine the contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization method	15 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Healthcare cost trend rates	8.00% initial, decreasing 1.00% per year to an ultimate rate of 5.00%
Salary increases	3.00%, including inflation
Investment rate of return	7.00%, net of OPEB plan investment expense, including inflation
Retirement age	In the 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	In the 2017 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2015 Mortality Fully Generational using Projection Scale MP-2017. In prior years, those assumptions were based on the RP-2014 Mortality Fully Generational using Projection Scale MP-2014.

SUPPLEMENTARY INFORMATION

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BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

SCHEDULE OF BOND RESTRICTED ACCOUNTS
DECEMBER 31, 2018
(with comparative totals as of December 31, 2017)

	Total	Capital Improvement Fund Accounts	Sinking Fund Bond Service Accounts	State Revolving Fund Bond Service Accounts	2017 Total
ASSETS					
Cash and cash equivalents	\$ 26,540,483	\$ 14,905,382	\$ 8,823,565	\$ 2,811,536	\$ 24,749,281
Interest receivable	111,218	94,618	12,279	4,321	44,943
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 26,651,701</u>	<u>\$ 15,000,000</u>	<u>\$ 8,835,844</u>	<u>\$ 2,815,857</u>	<u>\$ 24,794,224</u>
LIABILITIES					
Interest payable	3,546,906	-	2,827,342	719,564	716,647
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	3,546,906	-	2,827,342	719,564	716,647
NET POSITION					
Restricted	<u>23,104,795</u>	<u>15,000,000</u>	<u>6,008,502</u>	<u>2,096,293</u>	<u>24,077,577</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 26,651,701</u>	<u>\$ 15,000,000</u>	<u>\$ 8,835,844</u>	<u>\$ 2,815,857</u>	<u>\$ 24,794,224</u>

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

SCHEDULES OF REVENUE FUND ACCOUNTS TRANSACTIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Water revenue		
Potable water system	\$ 37,828,334	\$ 35,361,254
Water installation charges	327,916	293,635
Capacity fees	217,600	205,310
Miscellaneous charges and services	3,029,187	2,597,719
Industrial water accounts	<u>1,786,334</u>	<u>1,489,912</u>
Total water revenue	<u>43,189,371</u>	<u>39,947,830</u>
Sewer revenue		
Sewer services	61,810,368	57,924,969
Sewer connection charges	287,706	229,717
Capacity fees	531,364	578,600
Miscellaneous charges and services	1,270,151	1,304,365
Pretreatment fees	<u>799,538</u>	<u>632,361</u>
Total sewer revenue	<u>64,699,127</u>	<u>60,670,012</u>
Total operating revenues	107,888,498	100,617,842
OPERATING EXPENSES		
Water supply	1,874,955	1,659,151
Water treatment	6,365,605	6,423,373
Wastewater treatment	7,677,924	7,692,854
Transmission and collection	21,083,636	20,174,277
Support services	4,852,226	4,355,954
Supervision and general expense	<u>19,702,151</u>	<u>16,929,398</u>
Total operating expenses	<u>61,556,497</u>	<u>57,235,007</u>
OPERATING INCOME (revenue fund accounts)	46,332,001	43,382,835
NON-OPERATING REVENUES (EXPENSES)		
Interest income:		
Revenue and operating account investments	891,765	285,343
FEMA reimbursement	19,015	-
Miscellaneous rentals and sale of property	633,885	625,213
Miscellaneous expense	<u>(96)</u>	<u>(281)</u>
NET INCOME (revenue and operating accounts)	<u>47,876,570</u>	<u>44,293,110</u>
DEDUCTIONS FROM (ADDITIONS TO) NET INCOME		
Payments to (from) debt service funds:		
Sinking Fund Bond Service Account	22,786,903	18,500,531
State Revolving Fund Bond Service Account	5,614,517	5,872,937
Transfers to restricted accounts	<u>17,422,651</u>	<u>(5,900,365)</u>
Total deductions from net income	<u>45,824,071</u>	<u>18,473,103</u>
CHANGE IN NET POSITION		
REVENUE FUND ACCOUNTS	<u>\$ 2,052,499</u>	<u>\$ 25,820,007</u>

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

SCHEDULES OF COMPARISON OF RECEIPTS AND DISBURSEMENTS TO BUDGET -
REVENUE FUND ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2 0 1 8			2 0 1 7		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES						
Water revenue	\$ 42,823,004	\$ 43,189,371	\$ 366,367	\$ 40,981,000	\$ 39,947,830	\$ (1,033,170)
Sewer revenue	63,560,402	64,699,127	1,138,725	60,945,000	60,670,012	(274,988)
Total operating revenues	106,383,406	107,888,498	1,505,092	101,926,000	100,617,842	(1,308,158)
OPERATING EXPENSES	62,184,000	61,556,497	627,503	59,260,000	57,235,007	2,024,993
OPERATING INCOME	44,199,406	46,332,001	2,132,595	42,666,000	43,382,835	716,835
NON OPERATING REVENUES/(EXPENSES)						
Investment income	375,000	891,765	516,765	250,000	285,343	35,343
Other income	425,000	652,900	227,900	400,000	625,213	225,213
Miscellaneous expenses	-	(96)	(96)	-	(281)	(281)
Net income	44,999,406	47,876,570	2,877,164	43,316,000	44,293,110	977,110
OTHER REVENUE DEDUCTIONS (ADDITIONS)						
Sinking Fund Bond Service Account *	17,462,777	22,786,903	(5,324,126)	18,437,950	18,500,531	(62,581)
State Revolving Fund Bond Service Account **	6,414,082	5,614,517	799,565	5,406,588	5,872,937	(466,349)
Transfers to restricted accounts	21,122,547	17,422,651	3,699,896	19,471,462	(5,900,365)	25,371,827
Total other revenue deductions	44,999,406	45,824,071	(824,665)	43,316,000	18,473,103	24,842,897
CHANGE IN NET POSITION						
REVENUE FUND ACCOUNTS	\$ -	\$ 2,052,499	\$ 2,052,499	\$ -	\$ 25,820,007	\$ 25,820,007

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

SCHEDULES OF OPERATING EXPENSES - REVENUE FUND ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
WATER SUPPLY		
BIG CREEK SYSTEM		
Labor	\$ 274,045	\$ 256,273
Payroll-related taxes	15,369	19,164
Fringe benefits	103,836	81,665
Other postemployment benefits	14,398	26,815
Chemicals	10,395	10,296
Power	843,105	789,325
Supplies, parts, repairs, etc.	550,351	359,562
Telephone	2,755	2,329
Vehicle expense	11,526	11,831
MOBILE RIVER SYSTEM		
Power	37,757	38,686
Supplies, parts, repairs, etc.	11,418	62,575
Vehicle expense	0	630
	<u>\$ 1,874,955</u>	<u>\$ 1,659,151</u>
WATER TREATMENT		
Labor	\$ 1,731,005	\$ 1,581,400
Payroll-related taxes	130,418	119,277
Fringe benefits	624,182	544,673
Other postemployment benefits	94,205	183,036
Purification	2,154,828	2,470,862
Power	551,998	496,014
Supplies, parts, repairs, etc.	1,046,220	984,766
Vehicle expense	20,771	24,424
Telephone	10,978	10,299
Equipment rental	1,000	8,622
	<u>\$ 6,365,605</u>	<u>\$ 6,423,373</u>
WASTEWATER TREATMENT		
Labor	\$ 2,160,417	\$ 2,027,535
Payroll-related taxes	152,876	153,633
Fringe benefits	803,855	748,573
Other postemployment benefits	133,367	261,820
Purification	383,810	400,932
Power	1,393,913	1,572,068
Supplies, parts, repairs, etc.	1,848,133	1,867,410
Telephone	8,763	38,859
Vehicle expense	59,625	51,528
Sludge removal	565,193	557,515
Equipment rental	167,972	12,981
	<u>\$ 7,677,924</u>	<u>\$ 7,692,854</u>

	2018	2017
TRANSMISSION AND COLLECTION		
Labor	\$ 7,238,265	\$ 6,835,404
Payroll-related taxes	552,683	561,592
Fringe benefits	2,863,157	2,592,932
Other postemployment benefits	471,267	930,268
Purification	137,065	107,534
Power	1,640,532	1,486,145
Supplies, parts, repairs, etc.	7,378,061	6,978,946
Telephone	53,709	35,145
Vehicle expense	688,275	612,913
Equipment rental	60,622	33,398
	<u>\$ 21,083,636</u>	<u>\$ 20,174,277</u>
SUPPORT SERVICES		
Labor	\$ 2,135,380	\$ 2,076,272
Payroll-related taxes	159,360	163,092
Fringe benefits	876,102	803,567
Other postemployment benefits	149,188	299,802
Operating supplies, parts, repairs, etc.	1,461,888	914,970
Vehicle expense	70,308	98,251
	<u>\$ 4,852,226</u>	<u>\$ 4,355,954</u>
SUPERVISION, ENGINEERING, ACCOUNTING, COLLECTIONS AND GENERAL EXPENSE		
Salaries and wages	\$ 7,810,210	7,457,626
Payroll-related taxes	577,799	557,073
Fringe benefits	4,339,391	4,068,601
Other postemployment benefits	478,343	(1,506,400)
Cashiers' shortages	(291)	(50)
Consulting engineer fees	154,416	198,161
Dues and subscriptions	60,245	69,623
Guard and deposit service	222,981	196,025
Insurance	288,799	372,888
Uninsured damage claims	892,267	1,354,227
Legal and accounting	465,886	312,489
Miscellaneous	1,854,030	1,271,278
Office supplies and expense	1,256,597	1,303,352
Postage	840,628	668,410
Recording of contracts	756	616
Telephone	170,485	183,749
Travel, meetings, etc.	88,729	95,081
Trustee fees	19,954	21,404
Utilities	30,539	161,321
Vehicle expense	150,387	143,924
	<u>\$ 19,702,151</u>	<u>\$ 16,929,398</u>

BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE

SCHEDULES OF CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

		Unrestricted	
	2018	Operating	Self-Insurance
	Totals	Cash Reserve	Cash Reserve
		Fund	Fund
		Accounts	Accounts
CHANGES RESULTING FROM OPERATIONS - INCREASE (DECREASE)			
Operating income - revenue fund	\$ 46,332,001	\$ 46,562,061	\$ (230,060)
Operating expenses - capital improvement fund account	(1,465,627)	-	-
Depreciation	(22,446,265)	-	-
FEMA reimbursement	19,015	19,015	-
Investment earnings	1,006,525	891,765	-
Miscellaneous rentals and sale of property	998,698	633,885	-
Miscellaneous expense	(96)	(96)	-
Bond interest expense	(7,481,890)	-	-
Bond issuance costs	(20,000)	-	-
INCOME BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	16,942,361	48,106,630	(230,060)
CAPITAL GRANTS AND CONTRIBUTIONS			
Lines accepted by the Board without reimbursement	452,066	-	-
Contributions for extensions/repair and replacement	1,387,848	-	-
Capital grants	-	-	-
CHANGES FROM INTER-ACCOUNT TRANSFERS			
Cash transfers from revenue fund (net)	-	(47,558,295)	670,000
Additions to utility plant:			
Equipment, vehicles and building improvements	-	-	-
Construction in progress	-	-	-
Proceeds from bond sales	-	-	-
Debt retired	-	-	-
CHANGE IN NET POSITION	18,782,275	548,335	439,940
TOTAL NET POSITION - BEGINNING OF YEAR	362,619,181	(7,801,792)	2,593,802
TOTAL NET POSITION - END OF PERIOD	\$ 381,401,456	\$ (7,253,457)	\$ 3,033,742

Unrestricted			Restricted			2017 Totals
Customer Deposit Cash Reserve Fund Accounts	Unfunded Pension Liability Cash Reserve Fund Accounts	Capital Assets and Debt	Capital Improvement Fund Accounts	Construction Accounts	Debt Service and Reserve Accounts	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,382,835
-	-	-	(1,465,627)	-	-	(2,314,627)
-	-	(22,446,265)	-	-	-	(21,684,555)
-	-	-	-	-	-	-
-	-	-	-	1,810	112,950	540,985
-	-	(4,274)	369,087	-	-	981,699
-	-	-	-	-	-	(281)
-	-	116,253	-	-	(7,598,143)	(5,456,955)
-	-	-	-	(20,000)	-	-
-	-	(22,334,286)	(1,096,540)	(18,190)	(7,485,193)	15,449,101
-	-	452,066	-	-	-	1,494,115
-	-	500,000	887,848	-	-	-
-	-	-	-	-	-	-
64,224	1,000,000	-	23,787,230	(6,364,579)	28,401,420	-
-	-	5,179,911	(5,179,911)	-	-	-
-	-	28,491,372	(28,491,372)	-	-	-
-	-	(39,520,000)	-	39,520,000	-	-
-	-	15,296,106	-	-	(15,296,106)	-
64,224	1,000,000	(11,934,831)	(10,092,745)	33,137,231	5,620,121	16,943,216
3,030,434	4,242,000	333,909,736	9,424,081	9,005,660	8,215,260	345,675,965
\$ 3,094,658	\$ 5,242,000	\$ 321,974,905	\$ (668,664)	\$ 42,142,891	\$ 13,835,381	\$ 362,619,181

STATISTICAL SECTION

STATISTICAL SECTION

This part of the Board's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and supplementary information says about the Board's overall financial health.

Contents	Page
Financial Trends	
<i>These schedules contain trend information intended to assist users in understanding and assessing how the Board's financial position has changed over time.</i>	64
Revenue Capacity	
<i>These schedules contain information to assist users in understanding and assessing the factors affecting a government's ability to generate its own-source revenues.</i>	66
Debt Capacity	
<i>These schedules present information intended to assist users in understanding and assessing the Board's debt burden and its ability to issue additional debt.</i>	71
Demographic and Economic Information	
<i>These schedules offer demographic and economic information intended (1) to assist users in understanding the socioeconomic environment within which the Board operates and (2) to provide information that facilitates comparisons of financial statement information over time and among governments.</i>	75
Operating Information	
<i>These schedules contain information intended to provide contextual information about the Board's operations and resources to assist readers in using financial statement information to understand and assess the Board's economic condition.</i>	79

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**SCHEDULES OF CHANGES IN NET POSITION
Last Ten Years**

	2009	2010	2011	2012	2013	2014 (restated)	2015	2016 (restated)	2017	2018
Operating revenues										
Water sales	\$ 31,892,313	\$ 35,718,835	\$ 37,630,321	\$ 37,558,244	\$ 37,350,332	\$ 38,645,369	\$ 39,566,223	\$ 41,764,407	\$ 39,947,830	\$ 43,189,371
Sewer charges	50,270,442	50,782,045	50,963,736	52,825,864	53,940,407	56,975,397	58,917,122	61,686,576	60,670,012	64,699,127
Total operating revenues	82,162,755	86,500,880	88,594,057	90,384,108	91,290,739	95,620,766	98,483,345	103,450,983	100,617,842	107,888,498
Operating expenses										
Water supply	1,633,995	1,564,766	1,719,756	1,614,535	1,456,555	1,426,220	1,570,247	1,545,130	1,659,151	1,874,955
Water, sewer, treatment, and administration	47,560,447	48,047,068	49,982,030	52,227,106	52,773,316	54,624,738	53,786,657	55,624,133	55,575,856	59,681,542
Capital improvement fund accounts	1,085,250	1,058,020	1,161,607	2,141,229	587,987	566,230	1,369,583	2,227,136	2,314,627	1,465,627
Construction accounts	50,000	70,935	-	-	-	-	-	-	-	-
Depreciation	18,839,480	19,099,142	19,099,155	19,415,011	19,718,326	19,988,036	20,495,573	20,846,352	21,684,555	22,446,265
Total operating expenses	69,169,172	69,839,931	71,962,548	75,397,881	74,536,184	76,605,224	77,222,060	80,242,751	81,234,189	85,468,389
Net revenue from operations	12,993,583	16,660,949	16,631,509	14,986,227	16,754,555	19,015,542	21,261,285	23,208,232	19,383,653	22,420,109
Non operating revenues (expenses)										
Operating grants, net of expenses	227,318	7,062	-	-	-	-	-	-	-	-
FEMA reimbursement (uncollectible)	(384,965)	-	-	54,474	6,204	195,924	32,654	-	-	-
Investment earnings	737,089	430,387	384,391	207,788	89,744	496,608	319,843	331,392	540,985	1,006,525
Miscellaneous and sale of property	967,172	589,365	676,593	613,685	694,545	4,785,339	916,922	632,649	981,699	1,017,713
Miscellaneous expense	-	-	-	-	-	-	(15,511)	(11,617)	(281)	(96)
Bond interest expense	(11,041,942)	(9,976,402)	(9,614,173)	(9,486,792)	(8,579,573)	(8,087,920)	(7,266,160)	(6,257,210)	(5,456,955)	(7,481,890)
Bond issuance costs	(417,602)	(240,389)	(234,566)	-	(24,500)	(688,026)	-	(78,510)	-	(20,000)
Income (loss) before capital grants and contributions	3,080,653	7,470,972	7,843,754	6,375,382	8,940,975	15,717,467	15,249,033	17,824,936	15,449,101	16,942,361
Capital grants and contributions										
Lines accepted by the Board without reimbursement	4,133,611	1,501,657	1,603,316	1,820,758	813,555	971,388	1,492,169	710,929	1,494,115	-
Contributions for extensions / repair and replacement	340,496	289,542	94,910	62,842	77,506	466,161	262,097	371,440	-	1,839,914
Capital grants	3,362,557	1,487,813	-	101,531	304,186	12,639	100,916	-	-	-
Total capital grants and contributions	7,836,664	3,279,012	1,698,226	1,985,131	1,195,247	1,450,188	1,855,182	1,082,369	1,494,115	1,839,914
Prior year adjustment										
Debt issuance costs	-	-	(2,268,024)	-	-	-	-	(470,417)	-	-
OPEB	-	-	-	-	-	(26,042,086)	-	(14,590,382)	-	-
Pension	-	-	-	-	-	-	-	(753,184)	-	-
Change in net position	10,917,317	10,749,984	9,541,980	8,360,513	10,136,222	(8,874,431)	17,104,215	3,093,322	16,943,216	18,782,275
Total net position										
Beginning	286,914,867	297,832,184	308,582,168	315,856,124	324,216,637	334,352,859	325,478,428	342,582,643	345,675,965	362,619,181
Total net position Ending	\$ 297,832,184	\$ 308,582,168	\$ 315,856,124	\$ 324,216,637	\$ 334,352,859	\$ 325,478,428	\$ 342,582,643	\$ 345,675,965	\$ 362,619,181	\$ 381,401,456

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**NET POSITION BY COMPONENT
Last Ten Years**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u> <u>(restated)</u>	<u>2015</u>	<u>2016</u> <u>(restated)</u>	<u>2017</u>	<u>2018</u>
Net investment in capital assets	\$ 238,926,049	\$ 249,476,245	\$ 261,367,843	\$ 256,089,642	\$ 282,770,315	\$ 265,425,990	\$ 284,998,850	\$ 297,123,608	\$ 352,047,706	\$ 364,662,008
Restricted for debt service	1,600,291	1,417,994	1,458,797	2,157,854	2,176,881	2,102,209	2,269,520	2,374,525	9,077,577	8,104,795
Restricted for construction and other bond covenants	39,237,766	37,295,626	35,718,761	48,730,752	35,268,851	68,993,710	63,652,826	70,403,814	15,000,000	15,000,000
Unrestricted net position	<u>18,068,078</u>	<u>20,392,303</u>	<u>17,310,723</u>	<u>17,238,389</u>	<u>14,136,812</u>	<u>(11,043,481)</u>	<u>(8,338,553)</u>	<u>(24,225,982)</u>	<u>(13,506,102)</u>	<u>(6,365,347)</u>
Total net position	<u>\$ 297,832,184</u>	<u>\$ 308,582,168</u>	<u>\$ 315,856,124</u>	<u>\$ 324,216,637</u>	<u>\$ 334,352,859</u>	<u>\$ 325,478,428</u>	<u>\$ 342,582,643</u>	<u>\$ 345,675,965</u>	<u>\$ 362,619,181</u>	<u>\$ 381,401,456</u>

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**REVENUES BY TYPE
Last Ten Years**

Year Ended December 31	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating revenues										
Water revenue										
Potable water system sales	\$ 28,249,358	\$ 31,106,291	\$ 32,594,201	\$ 32,491,498	\$ 32,757,295	\$ 34,208,940	\$ 34,929,662	\$ 36,915,832	\$ 35,361,254	\$ 37,828,334
Water connection (service line) fees	606,505	281,933	291,453	331,080	224,897	311,792	312,755	333,177	293,635	327,916
Water connection (capacity) fees	309,859	205,781	181,506	208,742	204,440	165,865	198,070	194,590	205,310	217,600
Miscellaneous water income	1,217,226	2,448,267	2,847,939	2,697,020	2,807,156	2,833,570	2,652,869	2,602,105	2,597,719	3,029,187
Water supply system sales (industrial)	1,509,365	1,676,563	1,715,222	1,829,904	1,356,544	1,125,202	1,472,867	1,718,703	1,489,912	1,786,334
Total water revenue	31,892,313	35,718,835	37,630,321	37,558,244	37,350,332	38,645,369	39,566,223	41,764,407	39,947,830	43,189,371
Sewer revenue										
Sewer system charges	46,367,475	47,779,041	48,340,581	50,090,610	51,272,411	54,281,829	56,240,161	59,015,216	57,924,969	61,810,368
Sewer connection (service line) fees	500,654	309,036	217,818	206,487	201,311	236,645	215,271	261,122	229,717	287,706
Sewer connection (capacity) fees	841,468	547,722	519,792	549,144	500,406	440,571	501,400	481,036	578,600	531,364
Miscellaneous sewer income	2,043,798	1,521,543	1,292,050	1,277,900	1,308,323	1,307,779	1,295,437	1,303,735	1,304,365	1,270,151
Pre-treatment fees	517,047	624,703	593,495	701,723	657,956	708,573	664,853	625,467	632,361	799,538
Total sewer revenue	50,270,442	50,782,045	50,963,736	52,825,864	53,940,407	56,975,397	58,917,122	61,686,576	60,670,012	64,699,127
Total operating revenues	82,162,755	86,500,880	88,594,057	90,384,108	91,290,739	95,620,766	98,483,345	103,450,983	100,617,842	107,888,498
Non-operating revenues										
Investment earnings	737,089	430,387	384,391	207,788	89,744	496,608	319,843	331,392	540,985	1,006,525
Grant proceeds	227,318	7,062	-	-	-	-	-	-	-	-
FEMA reimbursements (uncollectible)	(384,965)	-	-	54,474	6,204	195,924	32,654	-	-	19,015
Miscellaneous rentals and sale of property	967,172	589,365	676,593	613,685	694,545	4,785,339	916,922	632,649	981,699	998,698
Total non-operating revenues	1,546,614	1,026,814	1,060,984	875,947	790,493	5,477,871	1,269,419	964,041	1,522,684	2,024,238
Total revenues	\$ 83,709,369	\$ 87,527,694	\$ 89,655,041	\$ 91,260,055	\$ 92,081,232	\$ 101,098,637	\$ 99,752,764	\$ 104,415,024	\$ 102,140,526	\$ 109,912,736

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**WATER AND SEWER BILLINGS BY METER SIZE
(In Thousands)
Last Ten Years**

Meter size	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
5/8"	\$ 42,990	\$ 44,330	\$ 45,239	\$ 45,872	\$ 47,411	\$ 48,320	\$ 50,782	\$ 54,330	\$ 52,553	\$ 53,319
1"	2,695	3,164	3,375	3,330	3,379	3,273	3,610	3,724	3,366	3,581
1 1/2 "	461	600	688	742	774	818	962	1,023	932	1,045
2"	6,316	6,334	6,631	6,821	6,804	7,722	7,344	7,648	7,426	7,124
3"	2,412	1,688	2,304	2,375	2,350	2,755	2,544	2,514	2,582	3,010
4"	6,916	7,278	7,658	7,747	7,581	8,647	8,116	8,283	8,113	8,393
6"	5,281	5,591	5,605	5,596	6,943	6,879	7,812	7,983	8,425	12,203
8"	4,365	4,773	5,302	5,396	5,094	5,891	6,060	5,913	5,248	6,452
10" - 12"	3,181	5,127	4,133	4,703	3,694	4,186	3,940	4,513	4,641	4,512
	<u>\$ 74,617</u>	<u>\$ 78,885</u>	<u>\$ 80,935</u>	<u>\$ 82,582</u>	<u>\$ 84,030</u>	<u>\$ 88,491</u>	<u>\$ 91,170</u>	<u>\$ 95,931</u>	<u>\$ 93,286</u>	<u>\$ 99,639</u>
Untreated water	<u>1,509</u>	<u>1,677</u>	<u>1,715</u>	<u>1,830</u>	<u>1,357</u>	<u>1,125</u>	<u>1,473</u>	<u>1,719</u>	<u>1,490</u>	<u>1,786</u>
Total	<u><u>\$ 76,126</u></u>	<u><u>\$ 80,562</u></u>	<u><u>\$ 82,650</u></u>	<u><u>\$ 84,412</u></u>	<u><u>\$ 85,387</u></u>	<u><u>\$ 89,616</u></u>	<u><u>\$ 92,643</u></u>	<u><u>\$ 97,650</u></u>	<u><u>\$ 94,776</u></u>	<u><u>\$ 101,425</u></u>

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**WATER AND SEWER RATES
Last Ten Years**

Year	Rate Increase Effective Date	Water		Sewer	
		Rate per 1,000 Gallons	Minimum Charge	Rate per 1,000 Gallons	Minimum Charge
2009	2/1/2009	\$ 2.29	\$ 6.58	\$ 5.36	\$ 12.72
2010	2/1/2010	\$ 2.36	\$ 7.90	\$ 5.52	\$ 15.80
2011	1/1/2011	\$ 2.43	\$ 8.08	\$ 5.69	\$ 16.23
2012	2/1/2012	\$ 2.55	\$ 8.38	\$ 5.97	\$ 16.93
2013	1/1/2013	\$ 2.68	\$ 8.70	\$ 6.27	\$ 17.68
2014	1/1/2014	\$ 2.81	\$ 9.03	\$ 6.58	\$ 18.45
2015	1/1/2015	\$ 2.95	\$ 9.38	\$ 6.91	\$ 19.28
2016	1/1/2016	\$ 3.10	\$ 9.75	\$ 7.26	\$ 20.15
2017		\$ 3.10	\$ 9.75	\$ 7.26	\$ 20.15
2018	1/1/2018	\$ 3.12	\$ 10.10	\$ 7.57	\$ 21.23

Notes: Rates are based on a standard 5/8" household meter.
Beginning in 2018, the service charges for water and sewer both increased from \$2.00 to \$2.30.
Minimum charges increase according to meter size; 5/8" minimum includes 2,500 gallons.
Rates are based on a declining block schedule and begin decreasing after 500,000 gallons.
There was no rate increase in 2017.
Details on the rate increase effective January 1, 2019, for all customers can be found on our website at
www.mawss.com.

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**SCHEDULES OF OPERATING REVENUES -
INDUSTRIAL WATER ACCOUNTS
Last Ten Years**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Big Creek System										
Mobile Water Service	\$ 2,319,504	\$ 2,831,821	\$ 2,746,820	\$ 2,666,138	\$ 2,597,563	\$ 3,014,386	\$ 3,143,078	\$ 3,244,971	\$ 3,039,470	\$ 3,373,112
Less: Intra-fund eliminations	(2,319,504)	(2,831,821)	(2,746,820)	(2,666,138)	(2,597,563)	(3,014,386)	(3,143,078)	(3,244,971)	(3,039,470)	(3,373,112)
Kimberly-Clark Corp.	1,116,918	1,332,645	1,388,906	1,504,139	1,095,070	1,086,721	1,076,861	1,322,037	1,194,848	1,412,126
Kemira Water Solutions	4,566	7,616	6,259	4,429	5,007	7,477	6,225	5,525	5,741	7,194
Occidental Chemical	22,914	7,326	4,375	3,932	3,765	4,336	4,724	10,302	10,888	6,481
UOP	89,559	112,535	126,320	145,966	157,017	176,695	191,924	207,395	188,971	220,949
Merchants Transfer (formerly Multisorb Technologies and Eagle Chemical Company)	3,178	3,633	3,624	3,681	3,765	4,301	4,494	4,668	4,719	4,724
Mobile Paper Board Corp.	13,879	20,280	21,402	23,598	25,689	31,081	26,637	31,249	32,721	38,043
Mobile Energy	13,643	39,858	46,954	74,821	54,753	40,914	143,844	135,719	52,024	96,816
Total Big Creek System	1,264,657	1,523,893	1,597,840	1,760,566	1,345,066	1,351,525	1,454,709	1,716,895	1,489,912	1,786,333
Mobile River System										
SSAB Steel	142,630	142,240	117,382	69,338	45,234	29,720	18,158	1,808	-	-
SSAB Steel prior year adjustment	-	-	-	-	(33,756)	(256,043)	-	-	-	-
Kimberly-Clark Corp.	102,078	10,430	-	-	-	-	-	-	-	-
Total Mobile River System	244,708	152,670	117,382	69,338	11,478	(226,323)	18,158	1,808	-	-
Total Operating Revenues - Industrial Water Accounts	\$ 1,509,365	\$ 1,676,563	\$ 1,715,222	\$ 1,829,904	\$ 1,356,544	\$ 1,125,202	\$ 1,472,867	\$ 1,718,703	\$ 1,489,912	\$ 1,786,333

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**SCHEDULE OF TEN LARGEST USERS
Last Ten Years**

User	2009		2010		2011		2012		2013	
	Total Consumption	% of Total Treated Water Sold	Total Consumption	% of Total Treated Water Sold	Total Consumption	% of Total Treated Water Sold	Total Consumption	% of Total Treated Water Sold	Total Consumption	% of Total Treated Water Sold
Prichard Water and Sewer	1,053,463,500	7.52%	1,218,301,300	8.84%	1,170,582,200	8.67%	1,082,743,900	8.49%	1,050,426,500	8.84%
Huls America/Degussa	477,547,100	3.41%	684,443,000	4.97%	649,744,000	4.81%	640,333,000	5.02%	582,181,500	4.90%
Alabama State Docks	286,195,800	2.04%	280,931,755	2.04%	308,346,700	2.28%	253,886,400	1.99%	247,167,300	2.08%
Spanish Fort Water	222,482,500	1.59%	223,941,000	1.62%	200,784,500	1.49%	223,285,000	1.75%	181,012,500	1.52%
Mitsubishi Polysilicon	208,514,000	1.49%	228,591,200	1.66%	210,794,500	1.56%	285,309,700	2.24%	201,746,000	1.70%
Alabama Power	295,073,600	2.11%	285,383,261	2.07%	284,055,300	2.10%	273,537,700	2.14%	326,877,700	2.75%
Phenolchemie Inc.	166,619,600	1.19%	210,324,800	1.53%	369,087,700	2.74%	529,890,100	4.15%	158,440,000	1.33%
University of South Alabama	186,897,519	1.34%	227,593,440	1.65%	184,646,200	1.37%	194,266,400	1.52%	174,046,600	1.46%
Kimberly Clark Corp.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	127,722,800	1.07%
Mobile Infirmary	n/a	n/a	n/a	n/a	n/a	n/a	115,655,900	0.91%	n/a	n/a
Mobile Housing Board	n/a	n/a	135,553,270	0.98%	117,839,300	0.87%	n/a	n/a	108,775,700	0.92%
Mobile Public Schools	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Holcim (US) Inc.	151,509,100	1.08%	133,819,500	0.97%	137,765,000	1.02%	153,976,500	1.21%	n/a	n/a
Atlantic Marine	109,947,200	0.79%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

User	2014		2015		2016		2017		2018	
	Total Consumption	% of Total Treated Water Sold	Total Consumption	% of Total Treated Water Sold	Total Consumption	% of Total Treated Water Sold	Total Consumption	% of Total Treated Water Sold	Total Consumption	% of Total Treated Water Sold
Prichard Water and Sewer	1,061,450,700	8.58%	964,938,500	8.02%	970,807,800	7.92%	1,054,229,000	9.70%	1,167,902,100	10.28%
Huls America/Degussa	495,438,300	4.01%	457,294,900	3.80%	463,246,000	3.78%	523,476,000	4.82%	331,116,200	2.91%
Alabama State Docks	384,062,800	3.10%	280,572,000	2.33%	445,407,800	3.63%	338,406,400	3.11%	295,343,800	2.60%
Spanish Fort Water	222,343,500	1.80%	228,835,000	1.90%	220,642,700	1.80%	196,991,300	1.81%	261,017,700	2.30%
Mitsubishi Polysilicon	199,026,100	1.61%	197,112,700	1.64%	207,072,100	1.69%	304,431,200	2.80%	224,077,700	1.97%
Alabama Power	288,794,900	2.33%	271,218,800	2.26%	169,264,400	1.38%	176,664,100	1.63%	215,062,900	1.89%
Phenolchemie Inc.	139,800,000	1.13%	174,600,000	1.45%	184,500,000	1.50%	182,050,000	1.68%	187,900,000	1.65%
University of South Alabama	152,984,900	1.24%	167,222,000	1.39%	149,368,100	1.22%	199,699,100	1.84%	173,291,300	1.53%
Kimberly Clark Corp.	134,103,100	1.08%	116,993,100	0.97%	111,907,400	0.91%	138,080,400	1.27%	116,501,700	1.03%
Mobile Infirmary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	80,641,800	0.71%
Mobile Housing Board	n/a	n/a	112,264,600	0.93%	126,284,700	1.03%	99,697,200	0.92%	n/a	n/a
Mobile Public Schools	100,368,500	0.81%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Holcim (US) Inc.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Atlantic Marine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note: Information on all ten top users for 2018 was not recorded in all cases for each year from 2009 through 2018.

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

SCHEDULE OF FUTURE DEBT PAYMENTS - REVENUE BONDS

(In Thousands)

December 31, 2018

		Water and Sewer Revenue Bonds						SRF Subordinate Revenue Bonds								Total	
		Series 2001	Series 2010	Series 2012	Series 2014	Series 2016	Total	Series 2004	Series 2010	Series 2012	Series 2014	Series 2016	Series 2018 CWSRF	Series 2018 DWSRF	Total		
2019	Prin	1,000	5,338	-	-	1,595	7,933	580	1,065	890	865	840	1,270	305	5,815	13,748	
	Int	119	435	-	4,848	368	5,770	115	54	427	411	403	547	130	2,087	7,857	
2020	Prin	1,000	5,489	-	-	2,695	9,184	600	1,105	920	885	860	1,295	310	5,975	15,159	
	Int	72	288	-	4,848	338	5,546	98	28	400	389	385	665	159	2,124	7,670	
2021	Prin	1,000	5,640	-	-	3,820	10,460	620	-	945	910	875	1,325	315	4,990	15,450	
	Int	25	137	-	4,848	289	5,299	80	-	374	368	366	637	152	1,977	7,276	
2022	Prin	-	2,232	-	-	4,825	7,057	640	-	975	930	895	1,355	325	5,120	12,177	
	Int	-	30	-	4,848	218	5,096	60	-	346	345	347	608	145	1,851	6,947	
2023	Prin	-	-	-	950	4,920	5,870	660	-	1,000	955	915	1,385	330	5,245	11,115	
	Int	-	-	-	4,848	130	4,978	41	-	317	322	327	578	138	1,723	6,701	
2024	Prin	-	-	-	1,005	1,230	2,235	680	-	1,030	980	935	1,415	335	5,375	7,610	
	Int	-	-	-	4,801	40	4,841	21	-	288	299	307	547	130	1,592	6,433	
2025	Prin	-	-	-	4,695	900	5,595	-	-	1,060	1,005	955	1,445	345	4,810	10,405	
	Int	-	-	-	4,751	17	4,768	-	-	257	275	286	516	123	1,457	6,225	
2026	Prin	-	-	-	5,940	-	5,940	-	-	1,090	1,025	980	1,480	350	4,925	10,865	
	Int	-	-	-	4,516	-	4,516	-	-	226	250	265	484	115	1,340	5,856	
2027	Prin	-	-	-	7,240	-	7,240	-	-	1,125	1,055	1,000	1,510	360	5,050	12,290	
	Int	-	-	-	4,219	-	4,219	-	-	194	225	243	452	108	1,222	5,441	
2028	Prin	-	-	-	7,600	-	7,600	-	-	1,155	1,080	1,025	1,545	370	5,175	12,775	
	Int	-	-	-	3,857	-	3,857	-	-	161	200	222	418	100	1,101	4,958	
2029	Prin	-	-	-	7,980	-	7,980	-	-	1,190	1,105	1,045	1,580	375	5,295	13,275	
	Int	-	-	-	3,477	-	3,477	-	-	127	173	199	385	92	976	4,453	
2030	Prin	-	-	-	8,380	-	8,380	-	-	1,225	1,135	1,070	1,615	385	5,430	13,810	
	Int	-	-	-	3,078	-	3,078	-	-	92	145	176	350	83	846	3,924	
2031	Prin	-	-	-	8,715	-	8,715	-	-	1,260	1,160	1,095	1,650	395	5,560	14,275	
	Int	-	-	-	2,743	-	2,743	-	-	56	118	152	315	75	716	3,459	

(Continued)

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

SCHEDULE OF FUTURE DEBT PAYMENTS - REVENUE BONDS (CONTINUED)

(In Thousands)

December 31, 2017

Water and Sewer Revenue Bonds							SRF Subordinate Revenue Bonds								Total
	Series 2001	Series 2010	Series 2012	Series 2014	Series 2016	Total	Series 2004	Series 2010	Series 2012	Series 2014	Series 2016	Series 2018 CWSRF	Series 2018 DWSRF	Total	
2032 Prin	-	-	-	9,150	-	9,150	-	-	1,300	1,190	1,115	1,690	400	5,695	14,845
Int	-	-	-	2,307	-	2,307	-	-	19	89	128	278	66	580	2,887
2033 Prin	-	-	-	9,520	-	9,520	-	-	-	1,220	1,140	1,725	410	4,495	14,015
Int	-	-	-	1,941	-	1,941	-	-	-	61	104	241	57	463	2,404
2034 Prin	-	-	-	9,900	-	9,900	-	-	-	1,250	1,165	1,765	420	4,600	14,500
Int	-	-	-	1,560	-	1,560	-	-	-	31	79	203	48	361	1,921
2035 Prin	-	-	-	10,390	-	10,390	-	-	-	-	1,195	1,805	430	3,430	13,820
Int	-	-	-	1,065	-	1,065	-	-	-	-	53	164	39	256	1,321
2036 Prin	-	-	-	10,910	-	10,910	-	-	-	-	1,220	1,845	440	3,505	14,415
Int	-	-	-	544	-	544	-	-	-	-	27	125	30	182	726
2037 Prin	-	-	-	-	-	-	-	-	-	-	-	1,885	450	2,335	2,335
Int	-	-	-	-	-	-	-	-	-	-	-	84	20	104	104
2038 Prin	-	-	-	-	-	-	-	-	-	-	-	1,926	460	2,386	2,386
Int	-	-	-	-	-	-	-	-	-	-	-	43	10	53	53
Prin	3,000	18,699	-	102,375	19,985	144,059	3,780	2,170	15,165	16,750	18,325	31,511	7,510	95,211	239,270
Premium	-	(39)	-	7,105	-	7,066	-	-	-	-	-	-	-	-	7,066
Total Prin	3,000	18,660	-	109,480	19,985	151,125	3,780	2,170	15,165	16,750	18,325	31,511	7,510	95,211	246,336
Interest	216	890	-	63,099	1,400	65,605	415	82	3,284	3,701	4,069	7,640	1,820	21,011	86,616
Premium	-	39	-	(7,105)	-	(7,066)	-	-	-	-	-	-	-	-	(7,066)
Total Int	216	929	-	55,994	1,400	58,539	415	82	3,284	3,701	4,069	7,640	1,820	21,011	79,550
	<u>\$ 3,216</u>	<u>\$ 19,589</u>	<u>\$ -</u>	<u>\$ 165,474</u>	<u>\$ 21,385</u>	<u>\$ 209,664</u>	<u>\$ 4,195</u>	<u>\$ 2,252</u>	<u>\$ 18,449</u>	<u>\$ 20,451</u>	<u>\$ 22,394</u>	<u>\$ 39,151</u>	<u>\$ 9,330</u>	<u>\$ 116,222</u>	<u>\$ 325,886</u>

NOTE: Both water and sewer revenues are pledged on the above bonds.

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**RATIO OF ANNUAL NET REVENUES
TO ANNUAL DEBT SERVICE
Last Ten Years**

REVENUE BONDS--ON PARITY AND SUBORDINATED

Year	System Revenues *	Operating Expenses **	Annual Net Income ***	Water and Sewer Revenue Bonds					State Revolving Fund Revenue Bonds				Total Principal and Interest Requirements - Parity and Subordinated ****	Debt Coverage - Parity and Subordinated *****
				Debt Service Principal	Debt Service Interest	Principal and Interest Requirements	Debt Coverage - Parity Debt Only		Subordinated Debt Service Principal	Subordinated Debt Service Interest	Subordinated Debt Principal and Interest Requirements			
2009	\$ 83,758,999	\$ 48,354,497	\$ 35,404,502	\$ 5,180,000	\$ 10,249,913	\$ 15,429,913	2.29	\$	3,540,000	\$ 1,833,363	\$ 5,373,363	\$	20,803,276	1.70
2010	\$ 87,394,438	\$ 47,777,660	\$ 39,616,778	\$ 5,397,647	\$ 9,367,372	\$ 14,765,019	2.68	\$	3,660,000	\$ 1,708,524	\$ 5,368,524	\$	20,133,543	1.97
2011	\$ 89,426,024	\$ 49,986,627	\$ 39,439,397	\$ 7,637,451	\$ 8,700,337	\$ 16,337,788	2.41	\$	3,240,000	\$ 1,482,963	\$ 4,722,963	\$	21,060,751	1.87
2012	\$ 91,033,789	\$ 51,664,967	\$ 39,368,822	\$ 8,925,682	\$ 8,403,440	\$ 17,329,122	2.27	\$	3,360,000	\$ 1,589,203	\$ 4,949,203	\$	22,278,325	1.77
2013	\$ 91,866,803	\$ 54,229,871	\$ 37,636,932	\$ 9,446,750	\$ 7,405,079	\$ 16,851,829	2.23	\$	4,230,000	\$ 1,833,709	\$ 6,063,709	\$	22,915,538	1.64
2014	\$ 96,397,005	\$ 56,617,188	\$ 39,779,817	\$ 11,169,981	\$ 6,153,194	\$ 17,323,175	2.30	\$	4,320,000	\$ 2,000,411	\$ 6,320,411	\$	23,643,586	1.68
2015	\$ 99,109,305	\$ 55,356,904	\$ 43,752,401	\$ 11,449,401	\$ 5,858,501	\$ 17,307,902	2.53	\$	3,850,000	\$ 1,877,638	\$ 5,727,638	\$	23,035,540	1.90
2016	\$ 103,450,983	\$ 57,169,263	\$ 46,281,720	\$ 12,184,401	\$ 6,253,549	\$ 18,437,950	2.51	\$	4,005,000	\$ 1,401,588	\$ 5,406,588	\$	23,844,538	1.94
2017	\$ 100,617,842	\$ 57,235,007	\$ 43,382,835	\$ 11,176,106	\$ 5,940,337	\$ 17,116,443	2.53	\$	4,120,000	\$ 1,516,993	\$ 5,636,993	\$	22,753,436	1.91
2018	\$ 107,888,498	\$ 61,556,497	\$ 46,332,001	\$ 9,184,212	\$ 5,546,775	\$ 14,730,987	3.15	\$	5,975,000	\$ 2,123,503	\$ 8,098,503	\$	22,829,490	2.03

Per *Master Trust Indenture* dated November 1, 2014:

* System Revenues include all revenues and income of whatever nature derived by the Board from the operation of the System. Borrowed funds and customer deposits are not considered revenues.

** Operating Expenses include the reasonable and necessary expenses of efficiently and economically administering and operating the System and maintaining it in good repair and operating condition. Depreciation, amortization and interest on debt are not included.

*** Annual Net Income is defined as Net System Revenues. Any gain or loss resulting from the disposition of assets and any other extraordinary items of income or loss are excluded.

**** Principal and interest requirements for the years 2009 - 2013 consist of debt service for that year. Beginning in 2014, principal and interest requirements are equal to the maximum annual debt service.

***** The Board's *Master Trust Indenture* requires a minimum Debt Service Coverage Ratio of 1.25x. The Board has adopted an internal goal of 2.0.

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE
OUTSTANDING DEBT BY TYPE AND DEBT PER CUSTOMER
Business Type Activities
Last Ten Years**

Year	Number of Customers	Water And Sewer Revenue Bonds (000s)	State Revolving Fund Revenue Bonds - Subordinated Debt (000s)	Total Revenue Bonds (000s)	Debt per Customer
2009	87,881	\$205,291	\$53,130	\$258,421	\$2,941
2010	87,675	\$201,709	\$49,470	\$251,179	\$2,865
2011	88,306	\$194,032	\$46,230	\$240,262	\$2,721
2012	88,606	\$185,067	\$62,870	\$247,937	\$2,798
2013	88,906	\$175,712	\$58,640	\$234,352	\$2,636
2014	88,911	\$163,326	\$74,275	\$237,601	\$2,672
2015	89,447	\$152,436	\$70,085	\$222,521	\$2,488
2016	90,007	\$162,613	\$64,315	\$226,928	\$2,521
2017	90,121	\$155,545	\$60,310	\$215,855	\$2,395
2018	90,154	\$144,060	\$95,210	\$239,270	\$2,654

**BOARD OF WATER & SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

MISCELLANEOUS STATISTICAL DATA

Population (per census):

<u>Year</u>	<u>City of Mobile</u>	<u>Mobile County</u>
1900	38,469	62,740
1910	51,521	80,854
1920	60,777	110,117
1930	68,202	118,363
1940	78,720	141,974
1950	129,009	231,105
1960	202,779	314,301
1970	190,026	317,308
1980	200,452	364,379
1990	196,278	378,643
2000	198,915	399,843
2010	195,111	412,992

Assessed Valuation (Real and Personal Property):

<u>Tax Year</u>	<u>City of Mobile</u>	<u>Mobile County</u>
2009	\$1,943,479,940	\$4,044,312,420
2010	\$1,882,546,220	\$4,043,183,560
2011	\$1,859,394,800	\$4,119,936,420
2012	\$1,857,069,520	\$4,124,549,140
2013	\$1,841,670,160	\$4,064,514,140
2014	\$1,995,058,000	\$4,120,812,140
2015	\$2,034,454,720	\$4,206,832,820
2016	\$2,181,411,020	\$4,544,381,160
2017	\$2,171,648,160	\$4,539,702,700
2018	\$2,260,610,540	\$4,593,639,640

Source: 2009 through 2017 - Revenue Commissioner's Office

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**MOBILE COUNTY DEMOGRAPHIC STATISTICS
Last Ten Years**

Year	Population	Retail Sales* (Thousands)	School Enrollment	Median Income Per Household	Labor Force	Unemployment Rate Percent	Employment
2009	406,800	\$ 4,622,571	65,914	\$ 39,824	186,127	12.2	163,424
2010	412,992	\$ 5,559,900	66,254	\$ 40,621	193,860	10.8	172,952
2011	413,462	\$ 5,923,235	60,946	\$ 44,119	190,570	9.0	173,512
2012	413,936	\$ 6,002,125	59,706	\$ 43,252	187,925	8.3	172,410
2013	414,560	\$ 6,175,210	59,582	\$ 41,800	186,004	8.0	171,163
2014	415,123	\$ 6,471,760	59,746	\$ 44,264	183,668	6.7	171,415
2015	415,395	\$ 6,874,886	58,537	\$ 43,844	187,902	6.6	175,493
2016	415,635	\$ 7,221,089	57,694	\$ 45,821	187,465	6.5	175,320
2017	413,955	n/a	56,572	\$ 45,233	185,118	4.1	177,529
2018	414,270	n/a	62,089	\$ 45,802	187,172	4.6	186,017

Sources: The US Census Bureau, Bureau of Labor Statistics, Mobile Area Chamber of Commerce, and Mobile County Public School System

* Retail sales for 2017 and 2018 is not available at this time.

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**MOBILE COUNTY
SINGLE-FAMILY RESIDENCES
Last Ten Years**

<u>Year</u>	<u>Number of Homes Sold</u>	<u>Average Sales Price</u>	<u>Median Sales Price</u>	<u>Months of Inventory</u>
2009	3,481	\$143,092	\$127,100	12.32
2010	3,323	\$136,609	\$120,000	14.28
2011	3,397	\$121,901	\$104,450	12.37
2012	3,474	\$126,232	\$105,000	10.69
2013	3,882	\$137,462	\$106,750	9.96
2014	3,878	\$133,414	\$116,250	8.94
2015	4,394	\$142,061	\$123,425	7.22
2016	4,533	\$158,349	\$137,000	6.72
2017	4,491	\$160,132	\$138,038	5.03
2018	4,613	\$169,095	\$146,496	4.15

Source: Alabama Center for Real Estate

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**MOBILE COUNTY TOP TEN EMPLOYERS
2018 AND NINE YEARS AGO**

Employer	2018			2009		
	Full-Time Employees	Rank	Percentage of Total Employment	Full-Time Employees	Rank	Percentage of Total Employment
Mobile County Public School System	7,500	1	4.03%	8,134	1	4.67%
Univ of South Alabama & USA Medical Facilities	6,000	2	3.23%	5,000	3	2.87%
Infirmiry Health Systems (Mobile Infirmiry)	5,750	3	3.09%	5,500	2	3.16%
Austal USA	4,500	4	2.42%	1,000	10	0.57%
City of Mobile	2,100	5	1.13%	2,200	5	1.26%
CPSI	1,950	6	1.05%			
Mobile County	1,670	7	0.90%	1,700	7	0.98%
AM/NS Calvert	1,600	8	0.86%			
Providence Hospital	1,480	9	0.80%	2,100	6	1.20%
Springhill Medical Center	1,100	10	0.59%	1,225	9	0.70%
Wal-Mart				2,900	4	1.66%
ST Aerospace (Mobile Aerospace Engineering)				1,300	8	0.75%
Totals	33,650		18.09%	31,059		17.82%
Total Number of Employees - All Mobile County Employers	186,017			174,370		

Source: Mobile Area Chamber of Commerce

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**WATER SUPPLY CHARACTERISTICS
CONVERSE RESERVOIR ANNUAL DATA**

Year	(1) Annual Rainfall (inches)	(2) Annual Rainfall (inches)	Low Level Elevation (Date)		(3) Level Elevation	High (Date)	Spillway Release (Billion Gallons)	(4) Average Pumping Rate (MGD)
2008-2009	69.47	63.97	107.90	(07/09)	111.90	(03/09)	24.70	64.93
2009-2010	81.36	83.37	109.40	(07/10)	110.33	(07/10)	48.53	64.60
2010-2011	45.05	53.26	107.20	(07/11)	110.70	(03/11)	8.37	65.90
2011-2012	67.15	58.26	109.70	(07/09)	110.60	(07/30)	8.70	63.69
2012-2013	66.65	68.90	107.80	(02/19)	111.70	(05/02)	29.54	61.74
2013-2014	77.44	77.45	108.60	(10/07)	111.30	(04/30)	53.52	52.74
2014-2015	55.72	63.47	108.90	(03/13)	110.70	(09/17)	25.88	52.61
2015-2016	75.01	71.12	108.80	(10/25)	111.40	(07/23)	35.35	52.91
2016-2017	65.42	72.13	108.30	(11/28)	111.50	(08/13)	54.11	52.71
2017-2018	56.77	61.26	108.10	(09/11)	110.40	(10/10)	52.24	53.40
10 Year Average	65.93	67.03	108.16		111.07		32.67	58.85

(1) Based on rain gauge at Gaillard Pumping Station

(2) Based on rain gauge at Saraland Pumping Station

(3) Top of Tainter Gates is Elevation 111

(4) Average pumping rate is measured in millions of gallons per day (mgd)

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**WATER FLOW TO SYSTEM
(In Millions of Gallons)**

For the Year Ended December 31, 2018

		<u>E. M. STICKNEY WATER FILTRATION FACILITY</u>	<u>H. E. MYERS WATER FILTRATION FACILITY</u>	<u>COMBINED WATER FILTRATION FACILITIES</u>
January	Total Million Gallons:	1,004.16	308.13	1,312.29
	Daily Average:	32.39	9.94	42.33
	Daily Maximum:	46.06	14.81	60.87
	Daily Minimum:	23.80	8.52	32.32
February	Total Million Gallons:	716.46	275.95	992.41
	Daily Average:	25.59	9.86	35.45
	Daily Maximum:	28.54	10.40	38.94
	Daily Minimum:	22.31	9.38	31.69
March	Total Million Gallons:	826.60	256.94	1,083.54
	Daily Average:	26.66	8.29	34.95
	Daily Maximum:	37.25	11.61	48.86
	Daily Minimum:	21.80	2.64	24.44
April	Total Million Gallons:	771.15	304.75	1,075.90
	Daily Average:	25.70	10.16	35.86
	Daily Maximum:	32.82	10.67	43.49
	Daily Minimum:	20.28	9.63	29.91
May	Total Million Gallons:	875.47	318.51	1,193.98
	Daily Average:	28.24	10.27	38.51
	Daily Maximum:	37.03	10.97	48.00
	Daily Minimum:	22.18	9.64	31.82
June	Total Million Gallons:	828.94	304.53	1,133.47
	Daily Average:	27.63	10.15	37.78
	Daily Maximum:	34.01	1.95	35.96
	Daily Minimum:	20.35	7.08	27.43
July	Total Million Gallons:	850.92	347.37	1,198.29
	Daily Average:	27.45	11.21	38.66
	Daily Maximum:	38.07	15.94	54.01
	Daily Minimum:	22.23	9.53	31.76
August	Total Million Gallons:	863.81	319.72	1,183.53
	Daily Average:	27.86	10.31	38.17
	Daily Maximum:	34.52	11.26	45.78
	Daily Minimum:	22.70	9.86	32.56
September	Total Million Gallons:	819.71	310.72	1,130.43
	Daily Average:	27.32	10.36	37.68
	Daily Maximum:	33.00	10.85	43.85
	Daily Minimum:	20.00	9.84	29.84
October	Total Million Gallons:	847.89	319.55	1,167.44
	Daily Average:	27.35	10.31	37.66
	Daily Maximum:	33.74	10.78	44.52
	Daily Minimum:	22.83	9.75	32.58
November	Total Million Gallons:	763.76	274.93	1,038.69
	Daily Average:	25.46	9.16	34.62
	Daily Maximum:	32.19	10.31	42.50
	Daily Minimum:	22.28	8.00	30.28
December	Total Million Gallons:	736.39	298.52	1,034.91
	Daily Average:	23.75	9.63	33.38
	Daily Maximum:	26.69	10.44	37.13
	Daily Minimum:	19.93	7.56	27.49
<hr/>		<hr/>		
Annual	Total Million Gallons:	9,905.26	3,639.62	13,544.88
	Daily Average:	27.12	9.97	37.09
	Daily Maximum:	46.06	15.94	60.87
	Daily Minimum:	19.93	2.64	24.44

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**ANNUAL WATER FLOWS TO SYSTEM
Last Ten Years**

YEAR	E. M. STICKNEY WFF			H. E. MYERS WFF			TOTAL			
	AVERAGE (MGD)	TOTAL MILLION GALLONS	% Capacity	AVERAGE (MGD)	TOTAL MILLION GALLONS	% Capacity	AVERAGE (MGD)	TOTAL MILLION GALLONS	% Capacity	Billion Gallons (Yr.)
2009	28.90	10,551.80	48.2%	9.41	3,423.60	31.3%	38.31	13,975.40	42.5%	13.98
2010	31.07	11,339.23	51.8%	9.50	3,468.55	31.7%	40.57	14,807.78	45.1%	14.81
2011	28.58	10,431.08	47.6%	11.71	4,272.70	39.0%	40.28	14,703.78	44.8%	14.70
2012	26.29	9,621.41	43.8%	11.49	4,205.03	38.4%	37.78	13,826.44	42.1%	13.83
2013	24.18	8,824.39	40.3%	11.77	4,294.37	39.2%	35.94	13,118.76	39.9%	13.12
2014	24.50	8,941.72	40.8%	11.75	4,369.65	39.9%	36.47	13,311.37	40.5%	13.31
2015	24.66	9,002.59	41.1%	11.80	4,305.36	39.3%	36.46	13,307.72	40.5%	13.31
2016	24.67	9,030.65	41.1%	11.78	4,310.52	39.4%	36.45	13,341.17	40.6%	13.34
2017	25.19	9,192.94	41.9%	11.60	4,235.36	38.7%	36.79	13,428.30	40.9%	13.43
2018	28.88	10,542.41	48.0%	10.74	3,918.34	35.8%	39.62	14,460.75	44.0%	14.46
10 Year Average	26.69	9,747.82	44.5%	11.15	4,080.35	37.3%	37.87	13,828.15	42.1%	13.83

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

WASTEWATER TREATMENT FACILITY VOLUMES

Year	C. C. WILLIAMS WWTF			WRIGHT SMITH, JR. WWTF		
	Permit Daily Capacity (MGD)	Avg. Daily Flow (MGD)	Peak Daily Flow (MGD)	Permit Daily Capacity (MGD)	Avg. Daily Flow (MGD)	Peak Daily Flow (MGD)
2009	28.0	23.14	77.92	12.8	9.83	29.98
2010	28.0	24.58	65.19	12.8	10.14	28.95
2011	28.0	20.59	58.91	12.8	8.37	25.23
2012	28.0	22.79	71.99	12.8	9.49	29.11
2013	28.0	25.61	79.04	12.8	9.46	28.26
2014	28.0	26.41	65.99	12.8	9.61	29.90
2015	28.0	25.81	69.72	12.8	10.48	29.83
2016	28.0	25.82	62.90	12.8	12.16	24.74
2017	28.0	26.44	74.10	12.8	9.63	28.89
2018	28.0	23.25	65.44	12.8	8.84	32.61
10 Year Average	28.0	24.29	68.39	12.8	9.78	28.64

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

DECENTRALIZED WASTEWATER TREATMENT FACILITY FLOWS

Year	HUTCHENS DWWTF			COPELAND DWWTF			SNOW ROAD DWWTF		
	Constructed Daily Capacity (MGD)	Avg. Daily Flow (MGD)	Peak Daily Flow (MGD)	Constructed Daily Capacity (MGD)	Avg. Daily Flow (MGD)	Peak Daily Flow (MGD)	Construct ed Daily Capacity (MGD)	Avg. Daily Flow (MGD)	Peak Daily Flow (MGD)
2009	0.060	0.0306	0.0664	0.056	0.0748	0.0367	0.020	0.0072	0.0052
2010	0.060	0.0193	0.0526	0.056	0.0392	0.0538	0.020	0.0054	0.0229
2011	0.060	0.0276	0.0704	0.056	0.0419	0.0692	0.020	0.0050	0.0170
2012	0.060	0.0166	0.0367	0.056	0.0375	0.0833	0.020	0.0049	0.0166
2013	0.060	0.0148	0.0290	0.056	0.0451	0.0794	0.020	0.0046	0.0109
2014	0.060	0.0150	0.1036	0.056	0.0492	0.0883	0.020	0.0036	0.0094
2015	0.060	0.0132	0.0730	0.056	0.0420	0.0740	0.020	0.0051	0.0099
2016	0.060	0.0168	0.0279	0.056	0.0461	0.0698	0.020	0.0056	0.0097
2017	0.060	0.0158	0.0223	0.056	0.0517	0.0741	0.020	0.0039	0.0090
2018	0.060	0.0161	0.0243	0.056	0.0496	0.0635	0.020	0.0034	0.0077
10 Year Average	0.060	0.0219	0.0531	0.054	0.0464	0.0664	0.020	0.0048	0.0116

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**C. C. WILLIAMS WWTF
2018 STATISTICS**

Month		Flow mgd	Raw Flow gd	Dig Flow gd	Waste Flow gd	Rain inches	CL2 lbs	SO2 lbs	Air Temp f	Grit ft3	Nat Gas ft3	Dig Gas ft3
January	Max	44.23	58,248	141,164	218,006	1.35	1,880	54	69	295	89,000	15,000
	Min	18.19	44	-	181	-	680	280	31	-	-	-
	Avg	22.82	39,690	71,219	114,336	0.10	1,166	422	53	13	34,820	3,549
February	Max	65.44	127,753	149,472	260,636	3.30	1,960	700	76	48	80,000	20,000
	Min	17.58	65	38	-	-	480	150	51	-	1	6
	Avg	29.23	98,908	82,738	164,334	0.33	1,127	489	66	4	28,473	5,363
March	Max	26.10	78,725	191,294	304,279	0.86	1,230	700	78	60	58,000	118,000
	Min	17.66	18	-	-	-	580	360	42	-	22	10
	Avg	22.12	41,332	89,031	167,660	0.11	889	496	64	5	33,423	43,034
April	Max	34.55	62,366	199,179	281,982	1.55	1,400	600	84	48	53,000	102,000
	Min	15.89	31,817	-	16,414	-	540	300	59	-	11	42
	Avg	20.97	45,658	108,538	145,589	0.14	945	432	69	5	26,943	55,353
May	Max	36.45	374,185	169,158	255,922	2.15	1,320	550	87	4	73,000	140,000
	Min	13.64	24,117	-	-	-	700	300	72	-	-	42
	Avg	19.50	53,662	84,576	97,993	0.25	960	431	79	6	18,131	53,706
June	Max	36.75	64,117	159,031	191,970	1.35	1,350	3,800	95	72	78,000	107,000
	Min	17.90	26,583	-	-	-	580	200	75	-	-	-
	Avg	23.65	48,123	54,827	89,458	0.15	994	549	84	11	14,501	61,147
July	Max	32.33	119,829	264,049	355,667	0.95	1,400	580	94	70	78,000	176,000
	Min	18.74	8,860	23,560	4,872	-	520	220	76	-	4	81
	Avg	21.72	60,314	107,389	162,878	0.18	879	413	85	11	18,711	88,079
August	Max	39.86	124,210	222,780	273,144	2.90	1,380	600	90	144	96,000	154,000
	Min	17.11	10,986	8,633	100	-	110	250	76	-	-	17
	Avg	22.47	63,459	94,674	86,758	0.27	948	428	83	10	18,618	57,016
September	Max	51.58	97,425	186,608	165,479	3.00	1,815	530	97	48	108,000	97,000
	Min	15.39	1,042	18,758	-	-	660	320	74	-	3	19
	Avg	23.48	56,506	84,994	58,287	0.32	1,123	425	86	6	10,548	26,620
October	Max	26.67	353,145	174,189	213,647	1.00	1,880	590	87	150	77,000	90,000
	Min	14.06	5,422	-	-	-	510	220	61	-	3	-
	Avg	18.94	53,988	63,529	65,848	0.05	1,003	442	76	10	13,040	13,072
November	Max	51.13	153,186	166,793	155,291	3.20	1,810	600	75	270	100,000	64,000
	Min	17.39	-	-	-	-	850	300	43	-	-	-
	Avg	24.00	45,255	54,976	22,392	0.25	1,328	442	60	9	67,530	10,105
December	Max	65.44	130,722	154,946	234,306	4.30	2,220	620	70	270	114,000	54,000
	Min	13.64	-	-	-	-	880	300	45	-	-	-
	Avg	23.25	34,428	45,295	49,657	0.59	1,478	446	57	17	37,848	7,839
Annual	Max	65.44	374,185	264,049	355,667	4.30	2,220	3,800	97	295	114,000	176,000
	Min	13.64	-	-	-	-	110	150	31	-	-	-
	Avg	22.68	53,444	78,482	102,099	0.23	1,070	451	72	9	26,882	35,407

Note: Permit daily capacity (mgd) is 28.0.

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**WRIGHT SMITH, JR. WWTF
2018 STATISTICS**

Month		Eff Flow mgd	Rain inches	CL2 lbs	SO2 lbs	Grit ft3
January	Max	14.02	1.70	220	166	298
	Min	6.10	-	-	-	-
	Avg	7.89	0.10	171	102	20
February	Max	24.52	1.40	397	305	185
	Min	7.01	-	155	84	-
	Avg	10.89	0.44	234	135	19
March	Max	11.09	1.10	278	148	164
	Min	5.84	-	153	63	-
	Avg	8.07	0.11	219	104	24
April	Max	14.90	1.49	341	173	121
	Min	6.11	-	123	78	-
	Avg	7.92	0.12	216	103	15
May	Max	12.22	1.40	485	125	153
	Min	6.65	-	134	80	-
	Avg	7.77	0.16	200	94	21
June	Max	16.41	2.15	398	314	120
	Min	6.99	-	129	42	-
	Avg	10.04	0.18	217	108	16
July	Max	13.92	2.19	362	117	175
	Min	7.00	-	157	68	-
	Avg	8.32	0.19	201	84	18
August	Max	12.89	3.10	254	119	180
	Min	7.31	-	136	60	-
	Avg	8.62	0.28	198	87	23
September	Max	20.13	2.60	306	274	199
	Min	6.12	-	86	71	-
	Avg	9.39	0.29	205	102	17
October	Max	10.04	1.58	240	102	93
	Min	6.02	-	128	68	-
	Avg	7.56	0.06	186	83	9
November	Max	18.99	3.40	372	209	263
	Min	5.73	-	143	68	-
	Avg	8.64	0.25	211	103	21
December	Max	32.61	3.20	469	193	212
	Min	7.05	-	130	74	-
	Avg	11.02	0.23	228	106	23
Annual	Max	32.61	3.40	485	314	298
	Min	5.73	-	-	-	-
	Avg	8.84	0.20	207	101	19

Note: Permit daily capacity (mgd) is 12.8.

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**TOTAL NUMBER OF CUSTOMERS
Last Ten Years**

YEAR	WATER	SEWER	TOTAL
2009	84,463	81,386	87,881
2010	84,147	81,306	87,675
2011	84,747	81,889	88,306
2012	84,989	82,203	88,606
2013	85,266	82,482	88,906
2014	85,219	82,412	88,911
2015	85,678	82,923	89,447
2016	86,166	83,497	90,007
2017	86,271	83,662	90,121
2018	86,276	83,696	90,154

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE**

**TOTAL NUMBER OF EMPLOYEES
Last Ten Years**

**Full time equivalent employees
by function**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Water Supply	3	3	3	3	3	3	3	3	5	5
Water Treatment	25	26	26	26	26	23	25	25	27	30
Wastewater Treatment	35	36	36	36	36	37	35	36	40	43
Transmission and Collection	133	136	136	135	137	141	139	147	146	159
Support Services	46	47	47	46	47	44	46	46	44	48
Supervision, Engineering, Accounting, Collections, and General Expense	138	141	141	140	142	139	137	139	134	145
	<u>380</u>	<u>389</u>	<u>389</u>	<u>386</u>	<u>391</u>	<u>387</u>	<u>385</u>	<u>396</u>	<u>396</u>	<u>430</u>

* Note: 2009 through 2012 FTE have been restated from original breakdown by Water, Wastewater, Support Services, and Administration

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE
SCHEDULE OF 2018 CAPITAL PROJECT EXPENDITURES**

<u>PROJECT NUMBER</u>	<u>WATER PROJECTS</u>	<u>AMOUNT</u>
4110.ALU	MEDAL OF HONOR TANK PAINTING	\$ 1,342,605
4114 TASK 3	DWSRF WATER METER REPL INSTALL	2,000,277
4114/IFB 17-044	DWSRF CONTRACT-WATER METERS	729,539
4417.10	WTR MN IMPR-CRAFT HWY/SPHILL	8,018
4417.10-2	WTR MN IMPR-CRAFT HWY/SPHILL	48,275
378692	GAILLARD PS EMER GENERATOR	604,783
476285	COTTAGE HILL M400 AND INSTALL	41,175
640478	L & S INSTALL OF ANTENNA	11,010
641722	ADOBE RIDGE WT-M400 INSTAL	41,175
17-1101-0149	BROOKLEY AEROPLEX 12" CI WTRMN	238,492
AL17024	48 INCH BUTTERFLY VALVE REPLAC	6,577
M0042-4784	PERCH CREEK EMER WTRLN REPLACE	23,701
M5712-2602	MOBILE TO SPANISH FT WTRLN REP	1,982,758
		<u>\$ 7,078,385</u>
	<u>WASTEWATER PROJECTS</u>	
4409.10	SMITH WWTF FORCE MAIN TO MOBIL	\$ 15,346
5323.06	FM SURGE PROTECTION TANKS	502,797
18028	GULF FIELD SEWER REHAB	42,715
18037	BIZZELL AVE MANHOLE INSTALLTN	221,102
18062	GOVERNMENT ST POINT REPAIRS	455
50175	HALLS MILL TRUNK SEWER EXT	85,990
100316.22	SMALL DIA CIPP SEWER LINING	182,385
100316.24	2018 SMALL DIAMETER LINING &	8,570
111503.01	CCW WWTP HEADWORKS CLARIFIER	3,154,047
111503.05	CC WMS HEADWORKS CEI	395,402
395044	MEADOWLAKE/DOG RIVER LS RELOC	696,839
398476	ESLAVA LIFT STATION MULTI-RAKE	28,980
674299	THREE MILE CREEK SWAB	953,331
677611	ESLAVA CREEK SWAB INVESTIGATIO	5,313
708488	CC WMS WWTP BELT FILTER PRESS	21,881
709260	COPELAND ISL DISPOSAL FLD IMPR	3,089
2017-201	NESHOTA LANE LS079 BACKUP PUMP	41,932
4117.ALU	FOWL RIVER SEWER (LPFM)	209,231
4118.ALU	BROAD STREET UTILITY RELOC	21,358
662616 A1	HALLS MILL SWAB	3,814,043
AL17028	HILLCREST SHOP CTR SWR LN REPL	620
AL17052	GULFWOOD DRIVE SEWER LN REPL	1,263
AL17072	LANSLOWNE CIR EMRG SWR REPAIRS	509
AL18017	ANSLEY CHELSEA & BROCKTON SWR	201,073
BIZZELL LS	BIZZELL LIFT STATION	2,728
CMOB160039	THREE MILE CREEK SEWER UPGRADE	482,848
CMOB170053	PERCH CREEK FM ARV REPLACEMENT	230,165
CMOB180003	WS DIGESTER STRUCT EVAL	7,200
CMOB180014	WS PRIMARY DIGESTER COVER REPL	9,200
CMOB180015	WS TRICKLING FILTER BEARING	234,966
M0042\3806	CHILDERS STREET SEWER REPAIR	24,840
M5712-2546	INSTALL MANHOLE 003A-0013A-224	36,758
M5712-2557	JAPONICA LANE SEWER	611,103

(continued)

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE
SCHEDULE OF 2018 CAPITAL PROJECT EXPENDITURES**

<u>PROJECT NUMBER</u>	<u>WASTEWATER PROJECTS</u>	<u>AMOUNT</u>
M5712-2575-3	2016 ANNUAL CONTR-CIPP REHAB	499,972
M5712-2577	ESLAVA LIFT STATION BYPASS FAC	377,809
M5712-2590	VILLAGE GREEN DRIVE SEWER REPL	298,194
M5712-2598	ESLAVA CRK WETLAND DELINEATION	3,615
M5712-2609	2018 ANNUAL CONTR-MNHOLE REHAB	405,552
M5712-2610	2018 ANNL CONTR-MNHOLE FRAME &	67,319
M5712-2611	2018 ANNUAL CONTR-CIPP REHAB-L	1,599,900
M5712-2613	2018 ANNL CONTR CIPP-PUB LATLS	333,600
M5712-2614	ACCESS RD ANNL CONTR 2018	1,211,113
M5712-2618	LEVENE AND MACKIE GRINDER LS	19,423
M5712-2625	ANNL INSTALL/REPL SWR LATLS	149,427
M5712-2632	SPANISH TRAIL CT FM RELOCATION	9,293
M5712-2637	AUDUBON PLACE SEWER IMPROV	47,064
M5712-2643	2019 ANNUAL CONTR-CIPP REHAB	9,196
M5712-2648	2019 ANNL LPFM CHK VLV ASSEMBY	3,077
M5712-2650	ESLAVA CREEK FM REPLACEMENT	59,531
M5712-2651	CHEROKEE EMERGENCY SWR REPL	345,310
		<u>\$ 17,687,474</u>
	<u>OTHER PROJECTS</u>	
17049	ROBERT E LEE W & S REPLACEMENT	\$ 372,661
704394	VEHICLE CAMERA SYSTEM EVAL	28,458
2016-202-02	2016 DRAIN IMPRV FLORIDA ST	420,390
4111.ALU	BROAD ST UTILITY RELOC-PH 1	38,532
4118.ALU	4118.ALU	3,490
50153-3	SCHILLINGER ROAD WIDENING PH 3	395,265
5326.AU	DAWES RD WIDENING W/S RELOC	1,333
M5712-2353	SCHILLINGER RD W/S	9,345
M5712-2558	UTILITY RELOC @ DAWES/JEFF HAM	731
M5712-2599	SHLTN BCH RD PIPE STORAGE YARD	87,739
M5712-2622	INSTALL MODULAR CAREHERE BLDG	150,323
M5712-2633	ELECTRONIC MESSAGE CENTER-PF	75,263
M5712-2639	BRIDGE REPLACEMENT SR-16	13,283
NS.13996.000	DEL BARCO DRIVE W/S REPL	27,631
NS.14622.000	WIDENING ZIEGLER BLVD W/S REL	35,511
		<u>\$ 1,659,955</u>
	<u>TOTAL CAPITAL PROJECT EXPENDITURES - 2018</u>	<u>\$ 26,425,814</u>

SINGLE AUDIT SECTION

**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***

The Board of Commissioners
The Board of Water and Sewer Commissioners
of the City of Mobile, Alabama

We have audited, in accordance with the 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 financial statements of the business-type and fiduciary activities of The Board of Water and Sewer Commissioners of the City of Mobile, Alabama (the Board), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated May 29, 2019.

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 from 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 Board'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jackson Thornton & Co. PC

Montgomery, Alabama
May 29, 2019

**Independent Auditor's Report on Compliance For Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance**

The Board of Commissioners
The Board of Water and Sewer Commissioners
of the City of Mobile, Alabama

Report on Compliance for Each Major Federal Program

We have audited The Board of Water and Sewer Commissioners of the City of Mobile, Alabama's (the Board) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended December 31, 2018. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jackson Thornton & Co. PC

Montgomery, Alabama
May 29, 2019

**BOARD OF WATER AND SEWER COMMISSIONERS
OF THE CITY OF MOBILE, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY	IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u>				
Capitalization Grants for Clean Water State Revolving Fund	66.458	ADEM	2014-CWSRF-DL	\$ 1,417,527
Capitalization Grants for Clean Water State Revolving Fund	66.458	ADEM	2016-CWSRF-DL	2,223,882
Capitalization Grants for Clean Water State Revolving Fund	66.458	ADEM	2017-CWSRF-DL	820,123
Capitalization Grants for Drinking Water State Revolving Fund	66.468	ADEM	2018-DWSRF-DL	4,093,721
Total expenditures of federal awards				<u>\$ 8,555,253</u>

Board of Water and Sewer Commissioners of the City of Mobile, Alabama
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal loan activity of the Board of Water and Sewer Commissioners of the City of Mobile, Alabama (the Board) under programs of the federal government for the year ended December 31, 2018. Expenditures reported on the schedule are reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some of the amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Reporting Entity

The Board's reporting entity is fully described in Note 1 to the financial statements.

Note 3 - Indirect Cost Rate

The Board has elected not to use the 10 percent *de minimis* indirect cost rate allowed under Uniform Guidance.

Board of Water and Sewer Commissioners of the City of Mobile, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X No
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X No

Type of auditor's report issued on compliance for major programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<i>CFDA</i> <i>Number(s)</i>	<u>Name of Federal Program</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

Board of Water and Sewer Commissioners of the City of Mobile, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

Section II - Financial Statement Findings:

No matters to be reported.

Section III - Findings and Questioned Costs for Federal Awards:

No matters to be reported.

Board of Water and Sewer Commissioners of the City of Mobile, Alabama
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2018

Financial Statement Findings:

2017-001 - Corrective action was taken.

2017-002 - Corrective action was taken.