

PUBLIC SALE TO BE HELD ON APRIL 9, 2013 AT 9:30 A.M. (DECATUR, ALABAMA TIME)

NEW ISSUE - BOOK-ENTRY ONLY

**Ratings: S&P: AA-
Moody's: Aa3
(See "RATINGS" herein)**

PRELIMINARY OFFICIAL STATEMENT

In the opinion of Bond Counsel, Jones Walker LLP and assuming compliance by the City with certain conditions imposed by the Internal Revenue Code of 1986, as amended, interest on the Series 2013 Warrants is, under law existing and in effect as of the date of original issuance of the Series 2013 Warrants, (1) excludible from gross income for Federal income tax purposes, subject to the applicable qualifications discussed under the caption "TAX EXEMPTION" herein, and (2) exempt from all present Alabama income taxation.

**\$10,645,000*
CITY OF DECATUR, ALABAMA
WATER REVENUE WARRANTS
SERIES 2013**

Dated: April 23, 2013

Due: May 1, as shown below

The Series 2013 Warrants, which are issuable only as fully registered warrants without coupons, in the denomination of \$5,000 or authorized integral multiples thereof, will constitute special or limited obligations of the City of Decatur, Alabama (the "City"), payable on a parity of lien with the City's outstanding Water Revenue Warrants, Series 2009, dated June 1, 2009 (the "Series 2009 Warrants"), by so much as may be necessary of, the net revenues to be derived by the City from the operation of its waterworks plant and distribution system. The Series 2013 Warrants will be subject to optional redemption and mandatory redemption prior to their respective maturities as set forth herein. Principal will be payable on May 1, as shown below, and interest from April 23, 2013, will be payable on May 1 and November 1, first interest payable on November 1, 2013. Regions Bank, Birmingham, Alabama, is the registrar, paying agent and depository bank with respect to the Series 2013 Warrants.

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2020	\$640,000			2027	\$760,000		
2021	655,000			2028	780,000		
2022	670,000			2029	805,000		
2023	685,000			2030	830,000		
2024	700,000			2031	860,000		
2025	720,000			2032	885,000		
2026	740,000			2033	915,000		

The Series 2013 Warrants are initially issuable as fully registered warrants without coupons in denominations of \$5,000 and any integral multiple thereof, pursuant to a book-entry only system to be administered by The Depository Trust Company, New York, New York, or any successor or assign thereof or substitute therefor as such securities depository (the "Securities Depository"), and, when issued, will be registered in the name of and held by Cede & Co., as nominee. During the period in which such book-entry only system is in effect, purchases and transfers of ownership of beneficial interests in the Series 2013 Warrants will be evidenced by book-entry only, and all payments of principal of and interest on the Series 2013 Warrants will be made by Regions Bank, Birmingham, Alabama, as paying agent, to the Securities Depository for disbursement by it to the Direct Participants and for subsequent disbursement by the Direct Participants (and, where appropriate, by the Indirect Participants) to the owners of beneficial interests in the Series 2013 Warrants, as more particularly provided in the Warrant Ordinance (referred to herein) and as described herein. In the event the said book-entry system is discontinued, Series 2013 Warrants in certificated form will be distributed to the owners of beneficial interests in the Series 2013 Warrants; the principal of the Series 2013 Warrants shall be payable only upon presentation and surrender of the Series 2013 Warrants at the designated corporate trust office of Regions Bank, in Birmingham, Alabama (the "Registrar"); and interest on the Series 2013 Warrants shall be remitted by the aforesaid Bank to the then registered owners of the Series 2013 Warrants at the addresses thereof shown on the registration books of such Bank pertaining to the Series 2013 Warrants.

The Series 2013 Warrants are offered for sale, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of the validity thereof by Jones Walker LLP, Bond Counsel, Birmingham, Alabama, and certain other conditions. Delivery is expected through Depository Trust Company on or about April 23, 2013.

* Preliminary and subject to change

CITY OF DECATUR, ALABAMA

Mayor

Don Kyle

City Council

Gary Hammon, Council President
Roger Anders, President Pro Tempore
Billy Jackson
Charles Kirby
Chuck Ard

City Clerk-Treasurer

Stacy A. Gilley, CMC

Finance Supervisor

Linda McKinney

MUNICIPAL UTILITIES BOARD OF DECATUR, ALABAMA

Chairman and Member

Neal A. Holland, Jr.

Secretary and Member

Richard Grace

Member

James R. "Skip" Thompson III

General Manager

Ray Hardin

Business Manager and Chief Financial Officer

Stephen A. Pirkle, CPA, CGMA

City Attorney

Herman H. Marks, Jr.

Financial Advisor

Joe Jolly & Co., Inc.
Birmingham, Alabama

Auditors

Mercer & Associates, P.C.
Huntsville, Alabama

Bond Counsel

Jones Walker LLP
Birmingham, Alabama

No dealer, broker, salesman or other person has been authorized by the City of Decatur, Alabama, to give any information or to make any representations with respect to the City or its Water Revenue Warrants, Series 2013, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute either an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the aforesaid Series 2013 Warrants by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the financial advisor. The delivery of this Official Statement at any time does not imply that any information herein is correct as of any time subsequent to its date.

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Series 2013 Warrants.

All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2013 Warrants shall under any circumstances create any implication that there has been no change in the affairs of the City since the respective dates as of which information is given herein.

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PRELIMINARY OFFICIAL STATEMENT

relating to

\$10,645,000*

CITY OF DECATUR, ALABAMA WATER REVENUE WARRANTS SERIES 2013

Dated April 23, 2013

INTRODUCTORY STATEMENT

This Official Statement of the City of Decatur, Alabama (the "City"), which includes the cover page and appendices hereto, is being furnished to provide information concerning the City's \$10,645,000 principal amount of Water Revenue Warrants, Series 2013 (the "Series 2013 Warrants"). The Series 2013 Warrants are to be dated April 23, 2013, are being issued pursuant to the provisions of (i) Ordinance No. 95-3284 adopted by the City Council of the City on November 20, 1995 (the "Master Warrant Ordinance") and (ii) an ordinance adopted by the City Council of the City on April __, 2013 (the "2013 Warrant Ordinance"), and will be payable, on a parity of lien with the Series 2009 Warrants hereinafter described, as to both principal and interest, solely out of revenues to be derived by the City from the operation of its waterworks plant and distribution system (the "System") remaining after payment of the expenses of administering, operating, maintaining and repairing the System. The Master Warrant Ordinance and the 2013 Warrant Ordinance are herein collectively referred to as the "Warrant Ordinance."

Pursuant to the provisions of the Master Warrant Ordinance, the City in 1995 issued \$10,705,000 principal amount of Water Revenue Refunding Warrants, Series 1995, dated November 1, 1995 (the "Series 1995 Warrants") and pursuant to an ordinance adopted on May 13, 1999 issued \$23,240,000 principal amount of Water Revenue Warrants, Series 1999, dated May 1, 1999 (the "Series 1999 Warrants"). Pursuant to an ordinance adopted on June 1, 2009, the City issued \$17,915,000 principal amount of Water Revenue Warrants, Series 2009, dated June 1, 2009 (the "Series 2009 Warrants"). In the Master Warrant Ordinance, the City reserved the privilege of issuing additional securities, without express limit as to principal amount and on a parity with the Series 1995 Warrants for certain specified purposes. No such additional parity securities have heretofore been issued by the City other than the Series 1999 Warrants and the Series 2009 Warrants. The Series 1995 Warrants and the Series 1999 Warrants have been retired and are no longer outstanding. The City has also issued its Series 2009 SRF/ARRA Water Warrant and its Series 2012 DWSRF-DL Water Warrant (collectively the "Subordinated SRF Obligations") to the Alabama Drinking Water Finance Authority (the "Authority"). The Authority has agreed to subordinate the repayment of the Subordinated SRF Obligations to the prior payment of the Series 2013 Warrants and the Series 2009 Warrants. For certain special factors that should be taken into account in determining whether to purchase any of the Warrants, see "**SPECIAL FACTORS**."

* Preliminary and subject to change

DEFINITIONS

For purposes of this Official Statement the following terms have the following meanings:

Authorized Denomination means with respect to all Series 2013 Warrants the amount of \$5,000 and any integral multiple thereof for each maturity.

Beneficial Owners means the registered owners of beneficial interests in the Series 2013 Warrants.

Book-Entry System means a book-entry only system of evidence of purchase and transfer of beneficial ownership interests in the Series 2013 Warrants.

Business Day shall mean a day, other than a Saturday or a Sunday, on which commercial banking institutions are open for business in the state where the designated corporate office of the Registrar is located and a day on which the payment system of the Federal Reserve System is operational.

Direct Participant means securities brokers and dealers, banks, trust companies, clearing corporations and other financial institutions which have access to the Book-Entry System.

Indirect Participant means a broker, dealer, bank or other financial institution for which the Securities Depository holds Series 2013 Warrants as securities depository through a Direct Participant.

Letter of Representation shall mean and include (i) the Letter of Representation with respect to the Series 2013 Warrants by the City to the Securities Depository and (ii) any other or subsequent agreement by whatever name or identification with respect to the Series 2013 Warrants by said parties from time to time in effect.

Municipal Utilities Board means the Municipal Utilities Board of Decatur, Morgan County, Alabama, authorized by City Ordinance Number 302 (adopted April 1, 1938) and created by Local Act No. 89 of the 1939 Regular Session of the Alabama Legislature.

Record Date means, with respect to the Series 2013 Warrants, that date which is 15 calendar days before any date on which interest is due and payable on the Series 2013 Warrants.

Registrar means Regions Bank, Birmingham, Alabama, which is the paying agent, registrar and depository bank with respect to the Series 2013 Warrants.

Securities Depository means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York, and the successors and assigns thereof, and any substitute securities depository therefor that maintains a Book-Entry System for the Series 2013 Warrants.

Securities Depository Nominee means the Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the Warrant Register the Series 2013 Warrants to be delivered to such Securities Depository during the period in which the Series 2013 Warrants are held pursuant to the Book-Entry System.

System means the waterworks plant and distribution system owned by the City and managed by the Municipal Utilities Board.

PURPOSE OF THE SERIES 2013 WARRANTS

The Series 2013 Warrants are being issued for the purpose of providing funds for the (a) acquisition and construction of capital improvements to the System (the "Series 2013 Improvements"), (b) funding, in part, a reserve fund and (c) payment of all issuance expenses.

The estimated uses and sources of funds with respect to the Series 2013 Warrants are approximately as follows:

Sources of Funds

Principal amount of Series 2013 Warrants

Total Sources

Uses of Funds

Construction of Series 2013 Improvements
Underwriter's discount
Other financing expenses and contingency
Deposit of accrued interest to Warrant Fund
Deposit to Reserve Fund

Total Uses

DESCRIPTION OF THE SERIES 2013 WARRANTS

General

The Series 2013 Warrants are being issued, pursuant to the provisions of (1) Section 11-47-2 of the Code of Alabama 1975, as amended, and (2) the Master Warrant Ordinance and the 2013 Warrant Ordinance. The Warrants will be dated April 23, 2013, will be issued as fully registered warrants without coupons, in the denomination of \$5,000 each or any authorized integral multiple thereof, will be appropriately numbered, and will mature annually on May 1 in the years and principal amounts set forth on the cover page hereof.

Interest on the Warrants from April 23, 2013 until and at their respective maturities will be payable at the rates established by the public sale and set forth on the cover page hereof. Such interest shall be payable on November 1, 2013, and semiannually on each May 1 and November 1 thereafter. Overdue installments of principal of and interest on the Warrants will, to the extent permitted by law, bear interest from their respective due dates until paid at the rate of three percent per annum.

Payment

The principal of the Series 2013 Warrants will be payable at the designated corporate trust office of Regions Bank, Birmingham, Alabama, which bank is also the registrar and transfer agent for the Series 2013 Warrants and in such capacity is herein called "the Registrar." Interest on the Series 2013 Warrants will be payable as required by the Letter of Representation and the Book-Entry System. If such Book-Entry System is discontinued, interest on the Series 2013 Warrants will then be payable by check or draft

mailed or otherwise delivered by the Registrar to the persons who are on the respective due dates of such interest registered holders of the Series 2013 Warrants, at their respective addresses as they appear on the registry books of the Registrar pertaining to the Series 2013 Warrants, except that (1) the final payment of such interest will be made to such registered holders only upon surrender of the appropriate Series 2013 Warrant or Warrants to the Registrar, and (2) overdue or delinquent interest will be payable to the persons who are, on the date moneys become available to the Registrar for payment thereof, the registered holders of the Series 2013 Warrants. Payments of interest with respect to the Series 2013 Warrants will be deemed timely made if made by check or draft mailed by the Registrar no later than the respective due dates of such interest.

Optional Redemption

The Series 2013 Warrants with stated maturities on May 1, 2023 and thereafter will be subject to prior redemption, in whole or in part, at the option of the City on May 1, 2022 or any date thereafter at an applicable redemption price equal to the principal amount thereof to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium or penalty.

If the Book-Entry System is in effect, then redemption shall be made as herein described under the Book-Entry System and in accordance with the provisions of the Letter of Representation and the Warrant Ordinance. If less than all of the Series 2013 Warrants at the time outstanding are redeemed at the time the Book-Entry System is not in effect, then any redemption shall be in such amount and order of maturities as the City shall determine in its sole discretion. In the event that less than all of the principal of the Series 2013 Warrants of a maturity is to be redeemed, the Registrar shall assign a number to each \$5,000 principal portion of all of the Series 2013 Warrants of such maturity and shall, by process of random selection based upon such numbers, select the principal portion of Series 2013 Warrants of such maturity to be redeemed. Notice of any intended redemption shall be given by United States registered or certified mail not less than 30 days prior to the proposed redemption date to the registered owner of each Series 2013 Warrant, all or a portion of the principal of which is to be redeemed, at the address thereof as it last appears on the registration books of the Registrar pertaining to the Series 2013 Warrants. Notice having been so given and payment of the redemption price duly made or provided, Series 2013 Warrants (or portions thereof) so called for redemption shall cease to bear interest from and after the redemption date unless default is made in the payment of the redemption price.

Security

The Series 2013 Warrants will be payable on a parity of lien with the Series 2009 Warrants and on a superiority of lien to the Subordinated SRF Obligations as to both principal and interest solely out of the revenues derived from the operation of the System remaining after payment of the expenses of administering, operating, maintaining and repairing it, and will be secured, on a parity of lien with the Series 2009 Warrants, by a pledge of so much as may be necessary of the aforesaid revenues, pro rata and on a parity with that made for the benefit of any other such pledge that may be made for the benefit of any further Additional Parity Securities. For a description of the conditions that are required for the issuance of any Additional Parity Securities that may hereafter be issued, see "**SUMMARY OF THE WARRANT ORDINANCE - Additional Parity Securities.**" The full faith and credit of the City are not pledged for payment of the principal of or the interest on the Series 2013 Warrants, and the obligation of the City to make such payments does not constitute a charge on the City's general credit or taxing power or a general obligation of the City.

As hereinafter more particularly described, the City has in the Master Warrant Ordinance established the Reserve Fund, in an amount equal to the then applicable "Current Maximum Required Reserve Fund Balance" (as that term is defined in the Master Warrant Ordinance). For that definition and for more particulars concerning the Reserve Fund, see the headings "**Definitions**" and "**Flow of Funds - Reserve Fund**" under the caption "**SUMMARY OF THE WARRANT ORDINANCE.**"

Remedies

The Series 2013 Warrants constitute orders on the City Treasurer to pay the principal thereof and the interest thereon at their stated maturities, but solely out of revenues derived from the operation of the System, and they (as distinguished from either the Master Warrant Ordinance or the 2013 Warrant Ordinance) do not contain a contractual promise on the part of the City to pay such principal or interest to the holders of the Series 2013 Warrants. The City itself is therefore not subject to suit on the Series 2013 Warrants in the event that it defaults in payment of such principal or interest. However, the Master Warrant Ordinance and the 2013 Warrant Ordinance (as distinguished from the Series 2013 Warrants) expressly obligate the City to make such payments into the Debt Service Fund as are necessary to assure timely payment of debt service on the Series 2013 Warrants, but solely out of revenues derived from the operation of the System, and they further effectively specify that their provisions constitute a contract between the City and the holders of the Series 2013 Warrants. The City may thus be subject to suit on the contract evidenced by the Master Warrant Ordinance and the 2013 Warrant Ordinance if it does not comply with its agreement to pay into the Debt Service Fund the moneys required by the Master Warrant Ordinance and the 2013 Warrant Ordinance to be paid therein. Further, the City Treasurer is, under existing law, subject to mandamus in the event that she has revenues from the System available for payment of debt service on the Series 2013 Warrants and does not apply them therefor as and to the extent provided in the Master Warrant Ordinance and the 2013 Warrant Ordinance.

The extent of the remedies afforded to the holders of the Series 2013 Warrants by any such mandamus proceeding, and any other remedies available to such holders, are subject to those limitations inherent in the fact that the Series 2013 Warrants are special or limited obligation revenue warrants and to the provisions of existing Alabama law exempting from levy and sale under any process, judgment or decree all property (real or personal) belonging to cities in Alabama and used for municipal purposes, and may be subject to, among other things,

- (1) the provisions of the United States Bankruptcy Code (referred to below), and
- (2) the provisions of other statutes that may hereafter be enacted by the Congress of the United States or the Legislature of Alabama extending the time for payment of municipal indebtedness or imposing other constraints upon the enforcement of rights of holders of municipal securities.

The United States Bankruptcy Code

Provisions of the United States Bankruptcy Code permit political subdivisions of a state and certain state and local public agencies or instrumentalities that are insolvent or unable to meet their debts to file petitions for relief in the Federal Bankruptcy Court if specifically authorized by state law. Prospective purchasers of the Series 2013 Warrants should assume that existing Alabama statutes presently authorize the City and other incorporated municipalities in Alabama to file petitions for relief under the Bankruptcy Code.

Under currently effective provisions of the Bankruptcy Code, the claim or lien of holders of municipal securities on revenues that are specially pledged therefor remains effective after the filing of a bankruptcy petition by the issuer of such securities, with respect to revenues collected after such filing, **provided** that such revenues constitute so-called "special revenues." Such "special revenues" include (among other things) "receipts derived from the ownership, operation or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide ... utility ... services"

At the very least, bankruptcy proceedings by the City could have certain adverse effects on holders of the Series 2013 Warrants, including (a) delay in the enforcement of their remedies, (b) subordination of their claim or lien on the aforesaid pledged revenues to claims for "necessary operating expenses" of the System after the initiation of bankruptcy proceedings (and possibly to the administrative expenses of bankruptcy proceedings), and (c) imposition without their consent of a reorganization plan reducing or delaying payment on the Series 2013 Warrants. The Bankruptcy Code contains provisions intended to insure that, in any reorganization plan not accepted by the holders of any "class impaired under the plan" (within the meaning of the Bankruptcy Code), the holders of any such impaired "class" will have the benefit of their original claim or lien on the aforesaid pledged revenues or the "indubitable equivalent." The effect of these and other provisions of the Bankruptcy Code cannot be predicted with any certainty and may be significantly affected by judicial interpretation.

Jefferson County, Alabama has argued before the court in its on-going Chapter 9 bankruptcy case that the pledge of its net utility revenues to its debt secured by its net utility system revenues is not a "special revenue" and that its creditors should be unsecured. The court has not yet finally ruled on this point, but it is believed that a final determination by the court that utility revenue pledges are unsecured in bankruptcy would have an adverse impact on the secondary market prices for the Series 2013 Warrants and would have precedential effect on holders of the Series 2013 Warrants in a future bankruptcy proceeding relative to the Series 2013 Warrants.

FINANCIAL INFORMATION RESPECTING THE SYSTEM

The System is operated on the basis of an October 1-September 30 fiscal year as is the City. There are set out below statements of income of the System for the last five fiscal years, 2008 to 2012, excerpted from audited financial statements. This information should be read in conjunction with the audited financial statements of the System attached hereto as **Appendix C**.

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FISCAL YEAR ENDED SEPTEMBER 30
Years 2008 Through 2012**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
OPERATING REVENUES					
Sales Revenues:					
Industrial	\$3,644,719	\$3,205,910	\$2,905,399	\$2,541,827	\$2,952,248
Commercial	1,703,007	1,607,633	1,449,648	1,288,541	1,332,708
Residential	3,704,809	3,388,147	3,059,233	2,848,616	3,016,032
Water sales for resale	1,513,321	1,185,900	1,009,280	1,064,645	912,263
Fire protection services	127,239	124,436	121,817	118,460	116,832
Revenue from late payments	48,144	46,236	41,336	38,515	40,089
Miscellaneous service revenue	191,818	145,119	132,217	119,481	172,231
Rent and other receipts	<u>579,325</u>	<u>557,379</u>	<u>547,503</u>	<u>64,432</u>	<u>62,196</u>
TOTAL OPERATING REVENUES	11,512,382	10,260,760	9,266,433	8,084,517	8,604,599
OPERATING EXPENSES					
Treatment expense	3,987,684	4,114,352	4,024,460	3,598,012	3,076,128
Distribution and line expense	997,394	1,057,656	1,057,791	957,308	991,134
Customer accounts expense	424,136	407,646	402,531	405,448	427,149
General and administrative expense	1,686,701	1,768,851	1,593,188	1,490,780	1,183,718
Depreciation expense	2,434,989	2,310,943	2,272,127	2,232,672	2,221,519
Miscellaneous taxes	<u>153,036</u>	<u>160,506</u>	<u>149,233</u>	<u>145,367</u>	<u>132,539</u>
TOTAL OPERATING EXPENSES	<u>9,683,940</u>	<u>9,819,954</u>	<u>9,499,330</u>	<u>8,829,587</u>	<u>8,032,187</u>
OPERATING INCOME	1,828,442	440,806	(232,897)	(745,070)	572,412
NON-OPERATING REVENUES (EXPENSES)					
Interest earned on investments	21,803	15,473	17,589	46,676	311,351
Miscellaneous revenues	62	3	3	2	2
Interest expense	(584,246)	(497,335)	(524,691)	(860,480)	(936,103)
Amortization of debt discount and expenses	<u>(66,388)</u>	<u>(66,388)</u>	<u>(66,388)</u>	<u>(35,727)</u>	<u>(20,397)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(628,769)	(548,247)	(573,487)	(849,529)	(645,147)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,199,673	(107,441)	(806,384)	(1,594,599)	(72,735)
CAPITAL CONTRIBUTIONS	690,789	193,447	371,363	825,441	496,197
OPERATING TRANSFERS OUT					
City of Decatur General Fund	<u>(491,456)</u>	<u>(477,480)</u>	<u>(471,699)</u>	<u>(462,361)</u>	<u>(496,863)</u>
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS OUT	199,333	(284,033)	(100,336)	363,080	(666)
EXTRAORDINARY INCOME ITEM	3,662,402	-- --	--	--	--
CHANGE IN NET ASSETS	5,061,408	(391,474)	(906,720)	(1,231,519)	(73,401)
NET ASSETS AT BEGINNING OF YEAR	52,023,172	52,414,646	53,321,366	54,552,885	54,626,286
NET ASSETS AT END OF YEAR	<u>\$57,084,580</u>	<u>\$52,023,172</u>	<u>\$52,414,646</u>	<u>\$53,321,366</u>	<u>\$54,552,885</u>

[1] Unaudited

Debt Service for the Series 2013 Warrants (based on assumed rates) and the Series 2009 Warrants

FY- Ending 30-Sep	Series 2013 Warrants		Series 2009	Total Senior
	Principal	Interest[1]	Debt Service	Debt Service
2013	-	-	\$1,907,206	\$1,907,206
2014	-	\$318,461	2,118,713	2,437,173
2015	-	311,538	2,116,663	2,428,200
2016	-	311,538	2,118,113	2,429,650
2017	-	311,538	2,127,913	2,439,450
2018	-	311,538	2,136,000	2,447,538
2019	-	311,538	2,132,000	2,443,538
2020	\$640,000	311,538	-	951,538
2021	655,000	298,738	-	953,738
2022	670,000	285,638	-	955,638
2023	685,000	270,563	-	955,563
2024	700,000	253,438	-	953,438
2025	720,000	235,238	-	955,238
2026	740,000	215,438	-	955,438
2027	760,000	193,978	-	953,978
2028	780,000	171,178	-	951,178
2029	805,000	147,778	-	952,778
2030	830,000	121,615	-	951,615
2031	860,000	94,640	-	954,640
2032	885,000	66,690	-	951,690
2033	915,000	36,600	-	951,600
Totals	\$10,645,000	\$4,579,213	\$14,656,606	\$29,880,819

[1] Based on assumed rates

Debt Service for the Series 2013 Warrants, the Series 2009 Warrants and the Subordinated SRF Warrants

FY-Ending 30-Sep	Series 2013 Warrants		Series 2009 Debt Service	Total Senior Debt Service	2009 Water SRF	2012 Water SRF	Total
	Principal	Interest[1]					
2013		-	\$1,907,206	\$1,907,206	\$169,250	\$13,475	\$2,089,931
2014	-	\$318,461	2,118,713	2,437,173	224,475	33,475	2,695,123
2015	-	311,538	2,116,663	2,428,200	225,275	32,925	2,686,400
2016	-	311,538	2,118,113	2,429,650	225,900	32,375	2,687,925
2017	-	311,538	2,127,913	2,439,450	226,350	31,825	2,697,625
2018	-	311,538	2,136,000	2,447,538	226,625	31,275	2,705,438
2019	-	311,538	2,132,000	2,443,538	226,725	30,725	2,700,988
2020	\$640,000	311,538	-	951,538	226,650	30,175	1,208,363
2021	655,000	298,738	-	953,738	226,400	34,625	1,214,763
2022	670,000	285,638	-	955,638	225,975	33,938	1,215,550
2023	685,000	270,563	-	955,563	225,375	33,250	1,214,188
2024	700,000	253,438	-	953,438	224,600	32,563	1,210,600
2025	720,000	235,238	-	955,238	228,650	31,875	1,215,763
2026	740,000	215,438	-	955,438	227,350	31,188	1,213,975
2027	760,000	193,978	-	953,978	225,875	30,500	1,210,353
2028	780,000	171,178	-	951,178	229,225	29,813	1,210,215
2029	805,000	147,778	-	952,778	227,225	34,125	1,214,128
2030	830,000	121,615	-	951,615	225,050	33,300	1,209,965
2031	860,000	94,640	-	954,640	227,700	32,475	1,214,815
2032	885,000	66,690	-	951,690	-	31,650	983,340
2033	915,000	36,600	-	951,600	-	30,825	982,425
Totals	\$10,645,000	\$4,579,213	\$14,656,606	\$29,880,819	\$4,244,675	\$656,375	\$34,781,869

(1) Estimated, based on assumed rates

(2) The Alabama Drinking Water Finance Authority (the "Authority") loaned to the Water System \$6,877,402 with funds made available to the Authority by the American Recovery and Reinvestment Act (the "ARRA"). Of this amount, \$3,662,402 was forgiven pursuant to the ARRA and recorded as extraordinary income on the Statement of Revenues, Expenses and Changes in Net Assets set forth on page 7 hereof. The Authority required that the City issue a water warrant in the amount of the loan less the ARRA forgiveness portion. The 2009 Series SRF/ARRA Water Warrants were issued in the original principal amount of \$3,215,000.

Coverages

The audited "revenues available for debt service" for the fiscal year ended September 30, 2012 (\$4,263,493), cover maximum annual debt service (\$2,447,538), and average annual debt service (\$2,437,591), on the Series 2013 Warrants and the Series 2009 Warrants in years 2014-2019, approximately 1.74 and 1.75 times, respectively. There can of course be no assurance that the revenues available for debt service in the current or any future fiscal year will equal or exceed the amount thereof for the fiscal year ended September 30, 2012.

The Alabama Drinking Water Finance Authority has agreed to subordinate the repayment of the Subordinated SRF Obligations to the prior payment of the Series 2013 Warrants and the Series 2009 Warrants.

The audited "revenues available for debt service" for the fiscal year ended September 30, 2012 (\$4,263,493), cover maximum annual debt service (\$2,705,438), and average annual debt service (\$2,695,583), on the Series 2013 Warrants, the Series 2009 Warrants and the Subordinated SRF Obligations in the years 2014-2019 approximately 1.58 and 1.58 times, respectively. There can of course be no assurance that the revenues available for debt service in the current or any future fiscal year will equal or exceed the amount thereof for the fiscal year ended September 30, 2012.

"Revenues available for debt service" includes depreciation expense of \$2,434,989 and interest expense of \$584,246. Such revenues are before payment to the City's General Fund which was \$491,456 in 2011-12.

THE SYSTEM

General

The System, together with the City's wastewater or sanitary sewer system, natural gas distribution system and electric distribution system, are presently under the direct operational control of the Municipal Utilities Board, consisting of three members elected by the City Council for staggered nine-year terms. The present officers and members of the Municipal Utilities Board, the dates of expiration of their respective current terms of office and their respective principal occupations are shown below:

Name	Date of Expiration of Current Term	Principal Occupation
Neal A. Holland Chairman and Member	June 30, 2014	Chairman/CEO Alliance Sand and Aggregate, LLC
Richard Grace, PE Secretary and Member	June 30, 2017	County Engineer Madison County, Alabama
James R. "Skip" Thompson III Member	June 30, 2020	Director Corporate Billing

While the City holds legal title to the System, applicable statutes vest the Municipal Utilities Board with substantial autonomy in the management and operation thereof. However, the Municipal

Utilities Board has no borrowing power nor does it have statutory power to fix or revise basic rates for water or other services furnished from the System, which powers are vested in the City Council. The Municipal Utilities Board has been delegated by the City Council with the power to fix and revise reconnection and tap-on fees and other similar charges and fees. Further, expenditures by the Municipal Utilities Board for the acquisition of property, for the construction of additions or replacements to the System or for the purchase of equipment are subject to the consent and approval of the City Council if the total expense will exceed \$100,000.

As noted below, Ray Hardin has served since March 2008 as General Manager of the Municipal Utilities Board which operates the four City-owned utility systems.

Management Personnel

RAY HARDIN, age 41, General Manager. Mr. Hardin holds a B.S. degree in Mechanical Engineering from Auburn University. He began his employment with Decatur Utilities in March 2008. From 1993 to 2008, he worked at Alabama Gas Corporation in various phases of engineering, operations and management.

GARY BORDEN, age 53, Manager – Business Development and Operations Support. Mr. Borden is a graduate of Athens State University with a B.S. Degree in Accounting. He began his employment with the Gas, Water and Wastewater Department in 1981 and has since held various positions within Decatur Utilities.

STEVE PIRKLE, CPA, CGMA, age 57, Business Manager & CFO. Mr. Pirkle holds a B.S. Degree in Accounting from the University of North Alabama and a M.B.A. from Alabama A&M University. He began his employment with Decatur Utilities in 2003. He has over 27 years experience in management accounting and over 15 years utility experience.

GLENN BOYLES, age 45, Electric Manager. Mr. Boyles holds a B.S. degree in Electrical Engineering from the University of Alabama. He began his employment at Decatur Utilities in January 2009. He has over 22 years experience in electrical engineering, maintenance and supervision.

TOM CLEVELAND, P.E., age 48, Plants and Engineering Manager. He began his employment with Decatur Utilities in 2005 as the Gas, Water and Wastewater Engineering Supervisor. Mr. Cleveland holds a Bachelor of Civil Engineering Degree from Auburn University and is a Licensed Professional Engineer in the State of Alabama. He has over 22 years experience in the environmental, water and wastewater engineering fields.

JIMMY EVANS, age 44, Gas, Water and Wastewater Construction Manager. Mr. Evans holds a B.S. Degree in Business Administration from Athens State University. He began his employment with Decatur Utilities in 1989 and has held various positions at Decatur Utilities in the Gas, Water and Wastewater Systems.

ANENA MAXWELL, age 56, Customer Service Manager. Mrs. Maxwell is a graduate of Athens State University with a B.S. Degree in Business Administration. She began her employment at Decatur Utilities in the Customer Service Department in 1981.

PAUL NOSAL, age 48, Human Resource Manager. Mr. Nosal is a graduate of Louisiana State University with a B.S. Degree in Business Administration. He began his employment with Decatur

Utilities in 2012, and has previously held various management positions in Human Resources in addition to his business ownership experience.

Principal Components of the System

Although public distribution of water has been available in the City since 1888, the System was acquired by the City by purchase from Alabama Water Service Company in 1939. As it now exists, the System consists principally of (a) a water treatment plant which was originally constructed by Alabama Water Service Company in 1936 and subsequently expanded and modernized, (b) approximately 484 miles of mains varying in size from 2" to 36", (c) approximately 25,200 metered services (i.e., meters measuring water furnished and consumed), (d) approximately 2,020 fire hydrants, (e) 4 booster pump stations, and (f) 10 water storage tanks with an aggregate capacity of 24 million gallons.

The System derives its supply of water entirely from the Tennessee River, on the banks of which the City is situated. Although impounded by Wheeler Dam (located approximately 30 miles downriver of the City), the average daily flow (or "discharge") of the Tennessee River in the vicinity of the City was, during the twelve-month period ended September 30, 2008 (the most recent period for which statistics are available), measured as approximately 16 billion gallons per day.

Intake. Two transmission lines or pipes (one 30" in diameter and the other 72" in diameter) pump water from the center of the Tennessee River into two water intake stations forming a part of the treatment plant, with design capacities as follows: Number 1 (consisting of five pumps) - 24 million gallons per day ("MGD") and Number 3 (consisting of four pumps) - 68 MGD. Number 2 (consisting of one pump) - 12 MGD is out of service and no longer being used. Although capacity for the raw water intake is approximately 90 MGD and for raw water pumping is approximately 92 MGD, actual pumping is effectively limited, due to the filtration rates of the 30 filters forming a part of the treatment plant, to approximately 68 MGD.

Treatment Plant. The treatment plant, which is the only water treatment plant forming a part of the System, is situated on the south bank of the Tennessee River and contains (i) two raw water intakes with pumps, (ii) four rapid mixers, (iii) 14 flocculators, (iv) 14 settling basins, (v) 14 settling basins with sludge collecting equipment, and four associated sludge removal pumps, (vi) 40 filters, (vii) two prestressed concrete clearwells having a capacity of 1,500,000 gallons and 2,100,000 respectively, and associated chlorine storage and feed facilities, (viii) two service pump bays, each containing four "high service" (or finished water) pumps, (ix) one service pump room, containing three high service pumps (three 800 HP pumps and one 600 HP pump), and (x) two 3,300-cubic-foot storage silos, with related facilities for storing lime used in treating water. Four of the high service (finished water) pumps have measured capacities of 4,000,000 gallons per day each, four have measured capacities of 6,000,000 gallons per day each, one has a measured capacity of 15,000,000 gallons per day, and three have measured capacities of 20,000,000 gallons per day each. The treatment plant is currently designed to handle 68 MGD; while the average flow is approximately 30.2 MGD, on peak days flow approaches or slightly exceeds 49 MGD. In addition to the construction and expansion of the treatment plant in 1936, further general expansions were made in 1948, 1958, 1966, 1978, 1985, 1987 and 1999, and various facilities forming a part of the treatment plant have been separately expanded or modernized over the years. The treatment plant uses poly-aluminum chloride, sodium permanganate, ortho-phosphate, hydrated lime, chlorine and hydrofluosilicic acid (fluoride) in the treatment of finished water. The water processed or produced by the treatment plant meets all Federal statutory requirements for safe drinking water.

Sludge Facilities. Also located at the treatment plant are facilities for the collection of sludge from the settling basins. The sludge is pumped by force main to the Wastewater Treatment Plant for processing. An upgrade to the sludge facilities will take place in 2013.

Distribution. The existing distribution system generally serves the entire area within the present corporate limits of the City and comprises approximately 484 miles of mains (most of which are cast or ductile iron) ranging in size from 2 inches to 36 inches and 10 storage reservoirs with an aggregate capacity of 24 million gallons. The City currently provides water service to a limited number of retail customers whose premises are located outside the City's boundaries.

System Rates

The City Council as the governing body of the City has, under existing statutes, sole authority to establish rates for the services furnished by the System. No approval or review by any State commission, agency or regulatory body is, under existing law, required for the establishment of, or any increase, decrease or other change in, the rates charged for services from the System. Such rates, however, must, under applicable judicial precedents, be "reasonable" and are subject to review by the courts in that regard upon complaint of a customer. See "Rate Study" herein.

The City has established monthly charges for water service to each establishment served by the System, based upon the amount of water furnished to each establishment. See also "**Billing and Collection Procedures**" below. The following table sets forth the various rates for water service furnished by the System that became effective with billing cycles beginning during the month of January, 2013.

**MONTHLY BILLING CYCLE WATER USAGE CHARGE
(per 1,000 gallons of water furnished per month)**

Quantity (gallons)	Amount
First 10,000	\$1.6053
Next 10,000	1.4714
Next 30,000	1.3890
Next 100,000	1.2551
Next 350,000	1.1418
Next 500,000	1.0285
Next 1,000,000	0.9358
Next 8,000,000	0.8534
All over 10,000,000	0.7710

Except as hereinafter noted under the heading "**Contracts with Other Area Water Distributors**," there are no minimum or maximum monthly charges with respect to any customer of the System, and water usage charges are the same for all customers of the System.

In addition to the water usage charges described above, the City also requires payment of a uniform account handling charge, not to exceed the average actual account handling cost, and a meter demand charge (the latter applicable only to meters of 5/8 inch or greater). Both these base charges are subject to adjustment (within the limits fixed by the City) by the Municipal Utilities Board. Meter demand charges currently in effect are as follows:

Size of meter (in inches)	Meter demand charge*
5/8"	\$ 4.08
1	7.18
1-1/2	12.35
2	18.56
3	35.11
4	53.72
6	105.45
8	167.52
10	239.93
12	312.34

* Effective since January, 2013

In order to defray the costs of installing service lines and meters, the Municipal Utilities Board is empowered by the City Council to charge "tapping fees" not to exceed, in the case of service lines of one inch or less, the average actual cost of installation (including costs of the meter and other materials). Tapping fees for service lines larger than 1 inch are required to be in the amount of the actual costs of installation (including costs of the meter and other materials). Tapping fees currently in effect are as follows:

Size of Line	Tapping Fee
5/8"	\$350
1"	\$400
Larger than 1"	Actual cost

To compensate the City for the use and appropriation of existing water system supply capacity, an impact fee shall be collected from any new customer connecting to the City Water System in the following amounts:

Size of Line	Impact Fee
5/8"	\$502
1"	1,255
1½"	2,510
2"	4,016
3"	8,032
4"	12,550
6"	25,100
8"	40,160
10"	57,730
12"	75,300

The City also fixes monthly charges for fire hydrants and for private fire protection services rendered through facilities owned and maintained by the customer.

The Municipal Utilities Board's established policy requires, as a condition precedent to extending any water main, the deposit with the City of the estimated total cost of the extension. The customer is not billed for any deficiency if the actual costs of construction exceed the estimate, and no surplus funds are returned to the customer if the amount deposited exceeds the actual costs.

Contracts with Other Area Water Distributors

The City, acting through the Municipal Utilities Board, supplies water to certain other local governments and public bodies that operate their own water distribution systems in nearby areas outside the City's corporate limits. Contractual arrangements between the City and these other local governments and public authorities are briefly described below.

Town of Trinity. The Municipal Utilities Board's obligation to provide to the Town of Trinity, Alabama ("Trinity"), and Trinity's obligation to take and purchase, all Trinity's requirements for potable water, pursuant to a contract dated May 24, 1974, and subsequently amended, expired in 2004. Since such contract expired, Trinity is required to pay for any water used according to the City's then effective rate schedules, but in no event less than the minimum meter charge on a month-to-month basis.

The contractual arrangement between the City and Trinity contained a description of the respective service areas of each in the area immediately surrounding Trinity's corporate limits and provided that Trinity shall have the right to serve residential and light commercial customers in the described Trinity service area and that the City could not serve any such customers without Trinity's consent unless (1) their consumption and requirements are beyond the reasonable capability of the Trinity system, or (2) such customers' premises are located in portions of the described Trinity service area that have been effectively annexed to the corporate limits of the City. It also prohibited Trinity from serving any customer outside the described Trinity service area (and outside Trinity's own corporate limits) without the consent of the City.

Northeast Morgan County Water Authority. Under the terms of a contract dated as of October 20, 1997, between the City (acting through the Municipal Utilities Board) and Northeast Morgan County Water Authority ("the Northeast Authority"), the City is obligated to supply not exceeding 5,000,000 gallons per day (or 3,500 gallons per minute) of potable water to the Northeast Authority, for a term expiring in 2027.¹ The Northeast Authority contract does not, however, obligate the Northeast Authority to purchase any specific quantity of water from the System. For water purchased by it under this contract, the Northeast Authority is obligated to pay the City's water rates at the time in effect. In the event of a rate increase by the City, the Northeast Authority is granted the option to consider obtaining another source of water. The contract provides that if the Northeast Authority chooses to do so, it will give the City written notice, whereupon the Northeast Authority will have five years to develop such other source and to terminate the contract upon development of such alternative source.

¹Under the terms of this contract, the maximum amount of water required to be supplied to the Northeast Authority may be increased if the City increases the "permitted capacity" of the water plant and if the Northeast Authority pays its proportionate "share" of the costs of any such increase. The Northeast Authority's proportionate "share" of such costs is to be determined in accordance with a formula specified in the contract and is required to be paid in cash (or otherwise as the parties may agree). The Northeast Authority has also agreed to reimburse the City for the Authority's proportionate share (as delineated in the contract) of the cost of certain specified types of capital improvements to the treatment plant that do not increase its capacity.

West Morgan/East Lawrence Water Authority. The Municipal Utilities Board is obligated to furnish water to West Morgan/East Lawrence Water Authority (the "West Morgan Authority") under a contract between the City (acting through the Municipal Utilities Board) and the West Morgan Authority which expires in 2016. The City has the option, commencing in 2016, to renew the term of this contract for up to four additional five-year periods. The City is currently obligated to deliver not exceeding 30,000,000 gallons per month of potable water to the West Morgan Authority. Pursuant to this contract, the Municipal Utilities Board currently furnishes water to the West Morgan Authority at one metered connection. The West Morgan Authority has effectively agreed to pay for all water taken by it pursuant to this contract on the basis of the City's water rates then in effect. The contractual arrangement with the West Morgan Authority does not obligate the latter to purchase any specific quantity of water that may be made available to it from the System.

Hartselle Utilities Board. Under a contract dated as of July 13, 1992, between the City (acting through the Municipal Utilities Board) and The City of Hartselle Utilities Board ("the Hartselle Board"), the City has agreed to provide the Hartselle Board potable water up to a maximum amount of 5,000,000 gallons per day (or 3,500 gallons per minute), for a term expiring in 2032.² This contract does not, however, obligate the Hartselle Board to purchase any specific quantity of water from the System. The Hartselle Board has the option to extend the term of this contract for additional periods of ten (10) years each, but only upon notice given the City at least ten (10) years prior to the expiration of the then effective term of the contract.

Under this contract, the Hartselle Board is obligated to pay for water purchased by it on the basis of the City's water rates at the time in effect. However, the Hartselle Board may, within six (6) months after it has been notified of a rate increase by the City, notify the City of its intention to terminate the contract and may so terminate the contract at any time within five (5) years thereafter. The contract also provides that the City may, after the expiration of the initial twenty (20) year term of the contract, cancel the contract, but only upon at least ten (10) years' notice to the Hartselle Board.³

Limestone County Water Authority. The City (acting through the Municipal Utilities Board) and Limestone County Water Authority ("the Limestone Authority") have entered into a contract dated as of September 25, 1992, whereunder the City has agreed to supply the Limestone Authority potable water up to a maximum amount of 2,000,000 gallons per day (or 1,400 gallons per minute). This contract does not, however, obligate the Limestone Authority to purchase any specified quantity of water from the City.

The Limestone Authority has agreed to pay the City for the water furnished to it pursuant to this contact on the basis of the City's water rates at the time in effect (with a guaranteed minimum payment of

²Under the terms of this contract, the maximum amount of water required to be supplied to the Hartselle Board may be increased if the City increases the "permitted capacity" of the water plant and if the Hartselle Board pays its proportionate "share" of the costs of any such increase. The Hartselle's Board's proportionate "share" of such costs is to be determined in accordance with a formula specified in the contract and is required to be paid in cash (or otherwise as the parties may agree). The Hartselle Board has also agreed to reimburse the City for its proportionate share (as delineated in the contract) of the cost of any capital improvement to the treatment plant that does not increase its capacity.

³If either the Hartselle Board or the City so terminates the contract, the City may be required to refund to the Hartselle Board (over a period of not more than five years) portions of any amounts previously paid to the City by the Hartselle Board in connection with the construction of certain capital improvements to the treatment plant.

\$400 per month), for a term expiring in 2022.⁴ The City has effectively agreed in this contract, among other things, (i) that it will not, without the written consent of the Limestone Authority, extend the System to serve any area of Limestone County that is at the time outside the corporate limits of the City and **not** served by the Limestone Authority, but (ii) that if the City annexes any portion of Limestone County that is **not** at the time served by the Limestone Authority, the City may thereafter, without the necessity of any consent of the Limestone Authority, furnish water service in that annexed area. The City has also agreed that if it annexes any portion of Limestone County that is at the time being served by the Limestone Authority, it will not expand the System into that annexed area unless it first purchases that portion of the Limestone Authority's water distribution system that is located in such annexed area, at and for a purchase price to be calculated in accordance with a formula set out in the contract. The Limestone Authority is not, however, obligated under this contract to sell any part of its water distribution system to the City following any such annexation (notwithstanding the willingness of the City to pay the specified purchase price) and thus effectively has a veto power over the extension of the System into any area of Limestone County served by the Limestone Authority (unless of course such area is annexed by the City prior to the time the Limestone Authority commenced providing water service therein).

General. The System is now the sole source of water for the Hartselle Board and the Northeast Morgan County Authority, and provides water to the West Morgan Authority, the Limestone Authority and Trinity on a more limited basis. The West Morgan Authority was formerly one of the System's largest customers, in terms of amount of water purchased, having purchased over 886,000,000 gallons from the City in fiscal year 1995. However, in 1998 the Authority completed the construction of a 4,000,000-gallon-per-day water treatment plant near the Tennessee River in order to provide water service to certain of its major new water customers, as well as to certain of its existing customers. The West Morgan Authority's purchases of water from the City during the System's recent fiscal years averaged only approximately 50,000 gallons per month, and the City does not expect any significant increases in the quantity of water purchased from it by the West Morgan Authority. The System is a substantial, though not the major, source of water for Limestone County. Trinity currently purchases most of its water from the West Morgan Authority.

Certain of the City's contractual arrangements with other area water distributors contain provisions that permit the distributor to terminate upon notice from the City of an increase in water rates. The City also does not believe that any of its resale water customers have any present plans to contract with other suppliers to furnish all or a substantial part of their water requirements. However, any decision of any of the System's resale customers to take actions along any of these lines could adversely affect System revenues and earnings. In the judgment of the management of the System, the size, efficiency and location of the City's water intake and treatment facilities, and the resulting economies of scale, enable the City, as a general rule, to sell water to its existing wholesale or resale customers at competitive prices and thus make it somewhat less likely that they will choose to develop their own sources of supply or to contract with others for water. The only one of the City's existing wholesale water customers whose facilities are located within close proximity to those of another potential supplier is Trinity. As noted above, however, there is no assurance that some other or all of these customers will not elect to develop their own sources of water or to contract for the purchase of water from others, particularly in view of those provisions of the City's existing contracts with certain of its wholesale water customers effectively obligating them to bear portions of certain capital costs incurred for the System.

⁴In the event of any rate increase by the City, the Limestone Authority may, within thirty (30) days after being notified of such increase, terminate the contract (insofar as it provides for the sale of water to the Limestone Authority) as of a date not less than thirty (30) days after it gives notice of termination to the City.

Certain provisions of Federal law afford various rural water districts and authorities that have received low-interest loans from certain Federal agencies (e.g., the Farmers Home Administration and the Department of Agriculture) varying degrees of protection from competition that may result from expansion of the corporate limits of nearby cities and towns. These provisions of Federal law (and somewhat analogous provisions of Alabama law) may impose certain constraints on the ability of the City to extend water service to newly-annexed or other nearby territory.

Billing and Collection Procedures

The Municipal Utilities Board bills customers being furnished water service from the System or from any other City-owned utility systems in a joint monthly statement - itemized as to separate services - for all services furnished from any of those four utility systems, as well as for garbage disposal services provided by the City. Such bills are collected by the Municipal Utilities Board and paid into the Gross Revenue Account maintained pursuant to the Cash Management Agreement hereinafter described. Present procedures with respect to residential customers (and certain industrial customers) prescribe a penalty [equal to 5% of any bill not exceeding \$250, with an additional 1% on the portion of a bill in excess of \$250] if a bill is not paid by the due date, which is fifteen (15) days after the bill date. Customers will be mailed a final notice three days after the due date stating that service will be disconnected anytime after 5:00 p.m. 14 days past the due date if payment has not been made. Uncollectible charges constituted less than 0.17% of all System revenues during the prior five fiscal years.

Certain Statistical Information

The following statistical information shows capital expenditures, customer growth and water sales data, all for the years indicated below:

Amounts Expended for Capital Improvements

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$1,963,679
2011	2,451,515
2010	5,815,981
2009	1,657,346
2008	1,011,266
2007	1,318,573
2006	1,348,880
2005	860,801
2004	984,337

Customer Growth

<u>Fiscal Year</u>	<u>Total Number of Customers*</u>	<u>Water Sold**</u>
2012***	25,194	9,731,544
2011	25,244	9,455,045
2010	25,144	9,340,500
2009	25,155	9,155,673
2008	25,154	9,838,865
2007	24,990	10,428,527
2006	24,532	9,809,535
2005	24,495	8,979,124
2004	24,268	9,101,462

* Includes only customers being served as of September 30 in such fiscal year

** In thousands of gallons

*** Such customer base for the 2012 fiscal year may be broken down as follows: Residential customers: 21,958; Commercial customers: 3,149; Industrial customers: 78; Resale customers: 9.

Amount of Water Sold and Revenues by Customer Class								
Fiscal Year	Residential Sales		Commercial Sales		Industrial Sales		Resale*	
	Amount**	Revenues	Amount**	Revenues	Amount**	Revenues	Amount**	Revenues
2012	1,699,839	3,704,809	1,198,494	1,703,077	4,746,083	3,644,719	2,087,128	1,513,321
2011	1,718,845	3,388,147	1,296,871	1,607,633	4,635,907	3,205,910	1,803,422	1,185,900
2010	1,708,846	3,059,233	1,287,742	1,449,648	4,645,913	2,905,399	1,697,999	1,009,280
2009	1,698,422	2,848,616	1,213,499	1,288,541	4,299,379	2,541,827	1,944,373	1,064,645
2008	1,853,633	3,016,032	1,267,982	1,332,708	5,069,603	2,952,248	1,647,647	912,263
2007	2,056,340	3,230,884	1,287,314	1,348,539	5,042,401	2,943,942	2,042,472	1,118,093
2006	1,933,310	3,087,165	1,218,748	1,288,694	4,578,380	2,681,401	2,079,097	1,137,267
2005	1,722,286	2,850,306	1,099,284	1,194,969	4,585,991	2,680,589	1,571,563	873,695
2004	1,691,847	2,589,259	1,055,656	1,094,245	4,844,723	2,717,716	1,509,236	823,833

* Includes sales to various public water authorities for resale by them to their retail water customers.
 ** In thousands of gallons.

Gallons Lost or Unaccounted For

The amount of gallons lost or unaccounted for has been as follows for the years indicated:

	Gallons Pumped	Gallons Sold	Gallons Unaccounted For	Loss Percentage
2012	9,963,183,000	9,731,544,000	231,639,000	2.32%
2011	10,305,060,000	9,455,045,000	850,015,000	8.25
2010	10,125,418,000	9,340,500,000	784,918,000	7.75
2009	9,500,000,000	9,155,673,000	344,327,000	3.62
2008	10,347,250,000	9,838,865,000	508,385,000	4.91
2007	10,783,465,000	10,428,527,000	354,938,000	3.29
2006	10,135,025,000	9,809,534,000	325,491,000	3.21
2005	9,632,880,000	8,979,124,000	653,756,000	6.79
2004	9,942,836,000	9,101,462,000	841,374,000	8.46

Mandated Payments of System Revenues to City's General Fund

The City Council effectively requires that there be paid to the City's General Fund, out of System revenues, an amount equal to \$.0505 per 1,000 gallons of water sold to customers of the System. The state statute creating the Municipal Utilities Board effectively requires the payment or distribution to the City of "any net revenues" from the System "at such time or times and in such manner as may be determined by the governing body of the City of Decatur." It also provides, however, that the Municipal Utilities Board shall comply "with the provisions of all bond ordinances" of the City pertaining to the System and "shall distribute and account for funds received from the sale of utility services as required by any such ... bond ordinances." Bond Counsel for the City take the view that the adoption of the Master Warrant Ordinance, the 2009 Warrant Ordinance and the 2013 Warrant Ordinance by the City Council effectively waives the City's "right" to any portion of the "net revenues" of the System that is required by the Master Warrant Ordinance, the 2009 Warrant Ordinance and the 2013 Warrant Ordinance to be paid into any of the special funds created therein and that the only portion of such "net revenues" to which the City's General Fund may be entitled is the amount thereof remaining after such required payments have been made. Bond Counsel also take the view that the General Fund of the City is, under the statute and the Master Warrant Ordinance, the 2009 Warrant Ordinance and the 2013 Warrant Ordinance, entitled to these "per gallon" payments mandated by the City Council

- (1) only to the extent that they do not exceed the "net revenues" from the System for the period in question, and
- (2) only to the extent that they do not exceed the revenues of the System remaining after there have been made the payments required by the Master Warrant Ordinance, the 2009 Warrant Ordinance and the 2013 Warrant Ordinance to be made into the various special funds therein created.

Projected Future System Capital Needs

The Municipal Utilities Board anticipates System capital expenditures over the next three years aggregating approximately \$17,652,000, of which approximately \$10,610,000 may be funded through the issuance of the Series 2013 Warrants or Additional Parity Securities. The remaining amounts needed for System capital purposes are expected by the Municipal Utilities Board to be funded with System earnings

and other internally generated funds, as well as certain other non-borrowed moneys (including certain so-called "Aid to Construction" moneys, such as amounts effectively paid to the City by real estate subdivision developers to reimburse the City for water lines installed in subdivisions by the City).

Principal Customers

The following table shows, for the fiscal year ended September 30, 2012, the 10 largest customers (based on usage) of the System, their respective water consumptions or usages and the water usage charges paid by each of them:

Top 10 Water Accounts - FY 2012			
Name	Consumption (in Gallons)	Water Charges	Percent of System Total
Ascend Performance Materials	865,149,000	\$ 665,228	6%
Hartselle Utilities	757,610,100	\$ 584,574	5%
NE Morgan Co Water Authority	743,755,000	\$ 575,026	5%
Minnesota Mining Co	701,558,000	\$ 542,535	5%
Limestone Co Water Authority	578,507,700	\$ 449,403	4%
Nucor Steel HM Main 12"	546,154,000	\$ 428,095	4%
Hexcel	540,700,600	\$ 421,073	4%
Daikin America Inc.	436,813,000	\$ 343,205	3%
Wayne Farms - Further Processing Plant, West	257,663,000	\$ 208,770	2%
Wayne Farms - Fresh Plant	231,595,000	\$ 188,496	2%
System Total Water Charges		\$ 10,693,095	

The amount received from the 10 customers shown above during the fiscal year ended September 30, 2012 (\$4,406,405), accounted for approximately 41% of total operating revenues of the System for that fiscal year (\$10,693,095).

Employees

General. As of September 30, 2012, approximately 164 persons were employed in the administration, operation and maintenance of the four City-owned utility systems, as follows:

Electric System	44
Water System	33
Wastewater System	28
Gas System	20
Administration	39

The 39 persons employed in Administration handle over-all supervision, personnel matters, customer service, billing, collection and accounting for all four City-owned utilities. All expenses relating thereto are allocated among the four City-owned utility systems on what the Municipal Utilities Board considers an appropriate basis.

Employee Retirement Plan. The Municipal Utilities Board contributes to the Employees' Retirement System of Alabama. A description of the plan is shown in Note 11 beginning on page 23 of the

Financial Statement attached hereto as Appendix C. The required employer contribution rate as of October, 2012 was 15.79% consisting of a normal contribution rate of 4.32%, an accrued liability rate of 11.14%, a pre-retirement death benefit of 0.15% and an administrative benefit of 0.18%. The required employer contribution rate as of October 1, 2013 will be 15.79% consisting of a normal contribution rate of 2.72%, an accrued liability rate of 12.72%, a pre-retirement death benefit of 0.14% and an administrative benefit of 0.21%. The Schedule of Funding Progress is set forth on page 24. The Unfunded Actuarial Accrued Liability as of September 30, 2010 was \$16,112,295 and the Funded Ratio was 62.2%. The Unfunded Actuarial Accrued Liability as of September 30, 2011 was \$17,475,220 and the Funded Ratio was 59.7%.

Post Employment Benefits Other Than Pension Plan. The Municipal Utilities Board provides post-employment benefits other than pension to all full-time employees who retire as an eligible participant in the retirement plan. Please see Note 12, page 25 of the Financial Statement attached hereto as Appendix C for a description of benefits. Medical and life post-employment benefits were unfunded at September 30, 2012.

Employee Relations. The City considers its relationships with those of its employees who are employed in the administration, operation and maintenance of the System and the other City-owned utility systems to be satisfactory.

Health Benefits. The Municipal Utilities Board is self-insured for health insurance for current employees and retirees. Reinsurance is purchased to limit the exposure to catastrophic loss for health. The health insurance program is administered by Blue Cross-Blue Shield of Alabama.

Cash Management Agreement

In connection with the operation of the System and the other municipally-owned utilities under its control, the Municipal Utilities Board presently maintains certain accounts with Renasant Bank pursuant to a Cash Management Agreement dated June 11, 2012 and effective October 1, 2012. Pursuant to the Cash Management Agreement, the Municipal Utilities Board deposits all payments by customers of the four City-owned utilities (as well as fees paid the City for garbage collection services provided by the City, which fees are collected on behalf of the City by the Municipal Utilities Board) into a "Gross Revenue Account" maintained at the office of Renasant Bank in the City. Renasant Bank has in the Cash Management Agreement agreed to pay the Municipal Utilities Board interest on the amount on deposit in the Gross Revenue Account at a rate equal to 100% of the average targeted federal funds rate as announced by the Federal Reserve Bank of New York with a floor of 0.25%. Interest on the Gross Revenue Account is computed on a daily basis but is payable monthly. The Gross Revenue Account will effectively include the moneys required by the Master Warrant Ordinance, 2009 Warrant Ordinance and the 2013 Warrant Ordinance to be deposited in the Gross Revenue Account created thereunder. See "**SUMMARY OF THE WARRANT ORDINANCE - Flow of Funds.**"

Under the Cash Management Agreement, two accounts, the Operations and Maintenance Fund and the Payroll Account, are maintained as "zero balance accounts." That is, moneys are effectively transferred daily from the Gross Revenue Account to each of those accounts in amounts sufficient to pay all checks presented for payment therefrom. The Operations and Maintenance Fund will effectively include the moneys required by the Warrant Ordinance to be paid, out of the aforesaid Gross Revenue Account, for expenses of administering, operating, maintaining and repairing the System. See "**SUMMARY OF THE WARRANT ORDINANCE - Flow of Funds - Revenue Account.**" The Municipal Utilities Board also maintains accounts under the Cash Management Agreement for use in paying for medical and dental

insurance carried by the Municipal Utilities Board and for receiving electronic payments from certain commercial and industrial customers.

In the opinion of the Municipal Utilities Board, the Cash Management Agreement provides for the efficient use and investment of the revenues and other moneys of the four City-owned utilities, and the Municipal Utilities Board intends to continue the financial practices established by the Cash Management Agreement beyond its expiration on October 1, 2017. The Municipal Utilities Board expects that, prior to October 1, 2017, it will solicit bids from at least three financial institutions with respect to an agreement or contract similar in substance to the Cash Management Agreement and will obtain appropriate certification from the successful bidder to the effect that obligations will neither be purchased, pursuant to such agreement or contract, at a price in excess of their fair market value nor sold pursuant thereto at a price less than their fair market value. The Municipal Utilities Board intends to require that the yield on such new agreement or contract be at least equal to the greater of (1) the yield offered under the highest bid received therefor by the Municipal Utilities Board or (2) the yield offered on similar obligations under investment contracts.

Litigation

There is no litigation pending, or, to the knowledge of the City, threatened, against the City that directly relates to the System. While the Municipal Utilities Board and the City are named defendants in various minor lawsuits, in the opinion of the Municipal Utilities Board's attorney and management, the resolution of these matters will not have a material adverse effect on the financial condition of the Municipal Utilities Board or the City.

Liability Insurance Respecting the System

The Municipal Utilities Board carries liability and casualty loss insurance (as well as directors' and officers' liability insurance and automobile, workmen's compensation and other categories of insurance) with respect to all the utilities operated by it, including the System. The Municipal Utilities Board considers its present liability and casualty loss insurance coverage, which is effective until September 30, 2013, to be adequate. However, the premiums for liability and casualty loss insurance may be higher than those now in effect, being subject to change each October 1. A schedule of insurance is shown on page 34 of the Financial Statement attached hereto as Appendix C.

BOOK-ENTRY ONLY SYSTEM

General

The Depository Trust Company ("DTC"), New York, New York, will act as security depository for the Warrants. The Series 2013 Warrants will be issued as fully-registered Warrants registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Series 2013 Warrants, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million

issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Bond Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2013 Warrants under the DTC system must be made by or through Direct Participants, which will receive a credit for the Warrants on DTC's records. The ownership interest of each actual purchaser of each Series 2013 Warrant ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 Warrants are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2013 Warrants, except in the event that use of the book-entry system for the Warrants is discontinued.

To facilitate subsequent transfers, all Series 2013 Warrants deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2013 Warrants with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Warrants; DTC's records reflect only the identity of the Direct Participants to whose accounts such Warrants are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2013 Warrants may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Warrants, such as redemptions, tenders, defaults, and proposed amendments to the Warrant documents. For example, Beneficial Owners of Series 2013 Warrants may wish to ascertain that the nominee holding the Warrants for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2013 Warrants are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Warrants to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2013 Warrants unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Warrants are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2013 Warrants will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from either the City or the Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Warrants held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2013 Warrants purchased or tendered, through its Participant, to the Registrar, and shall effect delivery of such Warrants by causing the Direct Participant to transfer the Participant's interest in the Warrants, on DTC's records, to the Registrar. The requirement for physical delivery of Series 2013 Warrants in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Warrants are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Warrants to the Registrar's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2013 Warrants at any time by giving reasonable notice to City or Registrar. Under such circumstances, in the event that a successor depository is not obtained, Warrant certificates are required to be printed and delivered.

The City, the Registrar, the Financial Advisor and the Underwriter cannot and do not give any assurances that any Direct or Indirect Participant will distribute to the Beneficial Owners of the Series 2013 Warrants (1) payments of principal or redemption price or purchase price of, premium, if any, or interest on, the Series 2013 Warrants, (2) certificates representing an ownership interest or other confirmation of beneficial ownership interests in Series 2013 Warrants, or (3) redemption or other notices sent to DTC or Cede & Co., as the registered owner of the Series 2013 Warrants, or that they will do so on a timely basis or that DTC or Cede & Co., any Direct or Indirect Participant will serve and act in the manner described in this Official Statement. All such payments to DTC or Cede & Co. of principal, interest, purchase price, or redemption price on behalf of the City and the Registrar shall be valid and effectual to satisfy and discharge the liability of the City and the Registrar to the extent of the amounts so paid, and the City and the Registrar shall not be responsible or liable for payment to any Beneficial Owner by DTC or any Direct or Indirect Participant. The City, the Registrar, the Financial Advisor and

the Underwriter will not have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (2) the payment by DTC, any Direct Participant or Indirect Participant, of any amount due to any Beneficial Owner in respect of the principal or redemption price or purchase price of, premium, if any, and interest on the Warrants; (3) the delivery or timeliness of delivery by DTC, any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Warrant Ordinance to be given to Beneficial Owners; or (4) any consent given or other action taken by DTC or Cede & Co., as owner.

Information Provided by DTC

The information in this section concerning the Securities Depository and the Book-Entry System has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Discontinuation of Book-Entry System; Payment, Transfer, Exchange and Registration

The Securities Depository may determine to discontinue the Book-Entry System with respect to the Series 2013 Warrants at any time upon notice to the City and the Registrar and upon discharge of its responsibilities with respect thereto under applicable law. Upon such notice the Book-Entry System for the Series 2013 Warrants will be discontinued unless a successor securities depository is appointed by the City.

In the event the Book-Entry System for the Series 2013 Warrants is discontinued, Warrants in certificated form in Authorized Denominations will be physically distributed to the owners of beneficial interests in the Series 2013 Warrants, the Warrants will be registered in the names of the owners thereof on the registration books of the Registrar pertaining thereto, the Registrar shall make payments of the principal of, premium (if any) and interest on the Series 2013 Warrants to the registered owners thereof as provided in the Series 2013 Warrants and the Warrant Ordinance, and the following provisions with respect to registration, transfer and exchange of the Warrants by the registered owners thereof shall apply, subject to the further conditions set forth in the Warrant Ordinance with respect thereto:

(a) The Series 2013 Warrants may be transferred by the registered owner in person or by authorized attorney, only on the Warrant Register maintained by the Registrar and only upon surrender of the Series 2013 Warrant to the Registrar for cancellation with a written instrument of transfer acceptable to the Registrar executed by the registered owner or his duly authorized attorney, and upon any such transfer, a new Series 2013 Warrant of like tenor shall be issued to the transferee in exchange therefor.

(b) The registered owner of any Series 2013 Warrant in a face amount of more than \$5,000 may surrender the same in exchange for more than one Series 2013 Warrant, each in the principal amount which is an integral multiple of \$5,000, having the same year of maturity as the Series 2013 Warrant so surrendered and the same aggregate principal amount. The registered owner of two or more Warrants having the same principal maturity may surrender the same in exchange for a single Warrant in the aggregate principal amount of the Warrants so surrendered.

(c) The Registrar shall not be required to transfer or exchange any Series 2013 Warrant during the period from the Record Date and the then next succeeding interest payment date; and in the event that any Series 2013 Warrant (or any part thereof) is duly called for redemption, the Registrar shall not be required to register or transfer any such Warrant during the period of forty-five (45) days next preceding the date fixed for such redemption. No charge shall be made for the privilege of transfer or exchange,

but the registered owner of any Series 2013 Warrant requesting any such transfer or exchange shall pay any tax or other governmental charge required to be paid with respect thereto. The registered owner of any Series 2013 Warrant will be required to pay any expenses incurred in connection with the replacement of a mutilated, lost, stolen or destroyed Warrant.

The Warrant Ordinance provides that each registered owner of the Series 2013 Warrants, by receiving or accepting the Warrant, consents and agrees and is estopped to deny that, insofar as the City and the Registrar are concerned, the Warrant may be transferred only in accordance with the provisions of the Warrant Ordinance.

SUMMARY OF THE WARRANT ORDINANCE

The following (in addition to the material under the caption "**DESCRIPTION OF THE SERIES 2013 WARRANTS**" with respect to the 2013 Warrant Ordinance) is a brief summary of certain provisions of the Master Warrant Ordinance, the 2009 Warrant Ordinance and the 2013 Warrant Ordinance, to which reference is hereby made for the detailed provisions thereof.

Master Warrant Ordinance, the 2009 Warrant Ordinance and 2013 Warrant Ordinance

The Series 2013 Warrants are being issued as "Parity Securities," as respects the pledge of net revenues from the System, under the provisions of the Master Warrant Ordinance, and many of the provisions of that ordinance (respecting, e.g., flow of funds, maintenance of rates, default and other similar matters) are effectively incorporated by reference into the 2013 Warrant Ordinance and made applicable to the Series 2013 Warrants. The Master Warrant Ordinance is thus to a large extent the "master ordinance" for those matters. This summary of the Master Warrant Ordinance, the 2009 Warrant Ordinance and the 2013 Warrant Ordinance (which are herein together sometimes referred to as "the Warrant Ordinance") does not purport to be complete and is expressly made subject to the exact provisions of such documents, to each of which reference is made in its entirety for the detailed provisions thereof.

Definitions

For purposes of this summary of the Warrant Ordinance, words and phrases used but not otherwise defined herein shall have the meanings respectively ascribed to them elsewhere in this Official Statement, and the following words and phrases shall be given the following respective interpretations herein:

"Annual Debt Service Requirements" means, with respect to the Series 2013 Warrants, the Series 2009 Warrants and any Additional Parity Securities, the amount of principal and interest maturing with respect thereto in the Fiscal Year in question (it being understood that any Series 2013 Warrants, Series 2009 Warrants or Additional Parity Securities maturing on the first day of any Fiscal Year shall, for purposes of this definition, be considered as maturing in the immediately preceding Fiscal Year); provided, that the principal amount of any such Warrants or Additional Parity Securities required, by the terms of the Master Warrant Ordinance, the 2009 Warrant Ordinance and the 2013 Warrant Ordinance or any Parity Securities Ordinance (as the case may be), to be redeemed during any Fiscal Year out of a sinking or other similar fund shall, for purposes of this definition, be considered as maturing in the Fiscal Year during which such redemption is required and not in the Fiscal Year in which their stated maturity occurs.

"Annual Net Income" means the total revenues derived from the operation of the System during a Fiscal Year (including, without limitation, interest and other income earned on investments, but excluding

interest and other income derived by the City from the investment of money borrowed by it), less the total of the Operating Expenses during such Fiscal Year, all determined in accordance with generally accepted accounting standards except as otherwise specifically provided in the Master Warrant Ordinance.

"Authorized Collateral" means any Federal Securities that (a) are in so-called "book-entry" form, or (b) in the case of so-called "certificated" Federal Securities, are in bearer form or are registered in the name of the Major Bank (or its nominee) with whom deposited and pledged.

"Capital Improvements" means improvements, extensions and additions to the System that are properly chargeable to fixed capital (or asset) account by generally accepted accounting standards and includes real estate (and easements and other interests therein) on, under or over which any such improvements, extensions or additions are, or are proposed to be, located.

"Council" means the City Council, or other governing body, of the City.

"Counsel" means an attorney duly admitted to practice before the highest court in the State of Alabama.

"Current Maximum Required Improvement Fund Balance" means the sum of \$500,000 (or such greater amount as shall have theretofore been established by resolution of the Municipal Utilities Board as the then "Current Maximum Required Improvement Fund Balance").

"Current Maximum Required Reserve Fund Balance" means

(a) as of any time subsequent to the issuance of the Series 2013 Warrants, and until such time as the Series 2013 Warrants are fully paid, whichever of the following is the least:

- (1) the maximum Annual Debt Service Requirements, during the then current or any subsequent Fiscal Year, with respect to those of the Series 2013 Warrants, the Series 2009 Warrant and any Additional Parity Securities outstanding immediately following the issuance of those of such Additional Parity Securities then most recently issued;
- (2) one hundred twenty-five percent (125%) of the sum obtained by dividing (i) the total amount of principal and interest maturing in the then current and each subsequent Fiscal Year (not including, however, any Fiscal Year during which no such principal matures) with respect to those of the Series 2013 Warrants, the Series 2009 Warrants and any Additional Parity Securities outstanding immediately following the issuance of those of such Additional Parity Securities then most recently issued, by (ii) the number of Fiscal Years from the first Fiscal Year in which any such principal matures until and including the last Fiscal Year in which any such principal matures; or
- (3) 10% of the original stated principal amount of the Series 2009 Warrants, Series 2013 Warrants and any Additional Parity Securities or the maximum amount that can (under the provisions of Section 148 of the Tax Code and any applicable regulations, and without any approval from the Secretary of the Treasury or the Treasury Department) be invested without

restriction as to yield as part of a reasonably required reserve or replacement fund for those of the Series 2013 Warrants, the Series 2009 Warrants and any Additional Parity Securities outstanding immediately following the issuance of those of such Additional Parity Securities then most recently issued, without causing any of such Warrants or other Tax-Exempt Parity Securities to be "arbitrage bonds" within the meaning of said Section 148 (and applicable regulations, if any);

provided, that for all purposes of this definition, the principal amount of Series 2013 Warrants, Series 2009 Warrants or Additional Parity Securities required, by the terms of the Master Warrant Ordinance, of the 2009 Warrant Ordinance, of the 2013 Warrant Ordinance, or of any Parity Securities Ordinance (as the case may be), to be redeemed during any Fiscal Year out of a sinking or other similar fund shall be considered as maturing in the Fiscal Year during which such redemption is required and not in the Fiscal Year in which their stated maturity occurs.

"Eligible Investments" means (a) Federal Securities, (b) Eligible Deposits, and (c) any of the following that are at the time legal investments for the City:

(1) any of the following bonds, debentures, notes or other evidences of indebtedness: (i) senior debt obligations issued or guaranteed by the Federal Home Loan Bank System or the Student Loan Marketing Association, (ii) senior debt obligations and participation certificates issued or guaranteed by the Federal Home Loan Mortgage Corporation, (iii) senior debt obligations and mortgage-backed securities issued or guaranteed by Federal National Mortgage Association, (iv) obligations issued or guaranteed by Resolution Funding Corp., and (v) consolidated system-wide bonds and notes issued or guaranteed by the Farm Credit System; and

(2) debt securities issued by or on behalf of any state or political subdivision thereof and that are, at the time of their acquisition for the account of the City (and, in the case of any such securities forming a part of the Reserve Fund, continue to be), rated by Moody's and S&P in one of the two highest rating categories assigned by the rating agency in question.

"Federal Securities" means (a) any debt securities that are direct general obligations of the United States of America, (b) any debt securities payment of the principal of and the interest on which is unconditionally guaranteed by the United States of America, and (c) from and after the issuance of the Series 2013 Warrants, and to the extent at the time legal investments for the City, securities of or other interests in any open-end or closed-end management-type investment company or investment trust, provided (1) that such investment company or investment trust is registered under the Investment Company Act of 1940 (as from time to time amended) and its shares are registered under the Securities Act of 1933, (2) that the portfolio of such investment company or investment trust consists only of debt securities of the type and character described in the preceding clauses (a) and (b), and (3) that such investment company or investment trust has an S&P rating of AAm-G or AAm or a Moody's rating of AA.

"Fiscal Year" means (a) the period of twelve consecutive calendar months beginning on October 1 of one calendar year and ending on September 30 of the then next succeeding calendar year, and (b) any other period of twelve consecutive calendar months that is duly established by either the City or the Municipal Utilities Board as the fiscal year of the System (including any so-called "irregular" fiscal year necessitated by a change in fiscal years).

"**Holder**," when used in conjunction with a Series 2013 Warrant, a Series 2009 Warrant or an Additional Parity Security, means the person in whose name such Warrant or Additional Parity Security is registered on the registry books of the Registrar pertaining to the Warrants or such Additional Parity Securities.

"**Improvement Fund**" means the Water System Replacement, Extension and Improvement Fund created in the Master Warrant Ordinance.

"**Independent Auditor**" means a public accountant, or firm thereof, not employed full-time by the City (or any agency or department thereof) and regularly engaged in the auditing of financial records.

"**Independent Engineer**" means a person at the time registered or licensed under the laws of Alabama as a professional engineer and not employed full-time by the City (or any agency or department thereof).

"**MSRB**" means the Municipal Securities Rulemaking Board.

"**Operating Expenses**" means, for the applicable period or periods, (a) the reasonable and necessary expenses of efficiently and economically administering and operating the System and maintaining it in good repair and operating condition (not including, however, interest, depreciation, payments into any of the special funds created in the Master Warrant Ordinance or any expenses for items properly chargeable by generally accepted accounting principles to fixed asset account), (b) the fees and charges of the Registrar and of any other depositories for any of the special funds created in the Master Warrant Ordinance, and (c) any other charges expressly stated in the Master Warrant Ordinance to constitute an Operating Expense.

"**Parity Securities Ordinance**" means an ordinance or resolution adopted by the Council and authorizing the issuance of any Additional Parity Securities that are issued by the City subsequent to the issuance of the Series 2013 Warrants.

"**Required Rebate**" means any amount that is required, by the provisions of Section 148(f) of the Tax Code and any applicable regulations, to be paid by the City to the United States of America in order that the Series 2013 Warrants or any Tax-Exempt Parity Securities shall not be treated as "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the Tax Code and any applicable regulations.

"**Reserve Deposit**" means an irrevocable and unconditional policy of insurance that provides for the payment of money to the Registrar for credit to the Reserve Fund and that is issued by either (a) a Bond Insurer, or (b) any other insurance company insuring payment of municipal bonds and other similar obligations if any such bonds or other obligations so insured by it are at the time eligible for a rating by both Moody's and S&P in one of the two highest rating categories maintained by Moody's and S&P, respectively; provided that the structure of such policy, if not issued by the Bond Insurer, is reasonably satisfactory to the Bond Insurer.

"**Reserve Fund Increase**" means, in the case of the issuance of the Series 2013 Warrants or any Additional Parity Securities, the excess (if any) of the Current Maximum Required Reserve Fund Balance applicable immediately following the issuance of the Series 2013 Warrants or such Additional Parity Securities over the Current Maximum Required Reserve Fund Balance applicable immediately prior to the issuance of the Series 2013 Warrants or such Additional Parity Securities.

"**Revenue Account**" means the Water System Gross Revenue Account created in the Master Warrant Ordinance.

"**S&P**" means Standard & Poor's Ratings Group (a division of McGraw Hill), or any successor.

"**SEC**" means the Securities and Exchange Commission.

"**Tax-Exempt Parity Securities**" means Additional Parity Securities issued by the City on the basis or representation that the interest thereon is excludible from gross income for Federal income tax purposes generally.

Flow of Funds

Revenue Account. The Master Warrant Ordinance creates the Revenue Account, required to be maintained on the books of the Municipal Utilities Board until all debt service on the Series 2013 Warrants, the Series 2009 Warrants and the Additional Parity Securities (if any) is paid in full. Moneys on deposit in the Revenue Account may be withdrawn therefrom by the City only for the several purposes hereinafter described, or for investment in accordance with applicable provisions of the Master Warrant Ordinance. See "**Investment of Moneys in Revenue Account and Improvement Fund**" below.

The Master Warrant Ordinance requires that the City transfer and debit (or cause to be transferred and debited) to the Revenue Account all revenues derived from the operation of the System, as received by it. The City has effectively agreed, in the Master Warrant Ordinance, to pay each month, out of moneys on deposit in the Revenue Account, all Operating Expenses incurred by it during that month and any then preceding month. The Master Warrant Ordinance further requires that the City transfer moneys from the Revenue Account, on or before the 25th day of each calendar month, to the Debt Service Fund, the Reserve Fund and the Improvement Fund, in the order named, to the extent required by the Warrant Ordinance (and any Parity Securities Ordinance), and to the extent that moneys on deposit in the Revenue Account are sufficient therefor. All these required payments are more specifically summarized below.

Debt Service Fund. The Master Warrant Ordinance requires the payment by the City into the Debt Service Fund on or before the 25th day of each calendar month, out of the moneys then on deposit in the Revenue Account, of the lesser of (1) an amount equal to the sum of (a) one-sixth (1/6) of the interest maturing with respect to the then outstanding Series 2013 Warrants, Series 2009 Warrants and Additional Parity Securities (if any) on the next succeeding semiannual interest payment date with respect thereto, and (b) one-twelfth (1/12) of the principal (if any) maturing with respect to the then outstanding Series 2013 Warrants, Series 2009 Warrants and Additional Parity Securities (if any) on the then next succeeding May 1, or (2) an amount which, when added to the amount then on deposit in the Debt Service Fund, will equal the sum of the principal (if any) and interest maturing with respect to the then outstanding Series 2013 Warrants, Series 2009 Warrants and Additional Parity Securities (if any) on the then next succeeding May 1. Moneys in the Debt Service Fund may, with certain limited and narrow exceptions, be applied by the Registrar only for payment of principal of and interest on the aforesaid Warrants and any Additional Parity Securities on or after their respective maturity or due dates.

Reserve Fund. The 2013 Warrant Ordinance effectively requires that, simultaneously with the issuance of the Series 2013 Warrants, the City deposit into the Reserve Fund, out of the proceeds derived by the City from the sale of the Series 2013 Warrants and from existing Reserve Fund moneys an amount equal to the Current Maximum Required Reserve Fund Balance.

The Master Warrant Ordinance effectively requires that if any Reserve Fund Increase resulting from the issuance of the Series 2013 Warrants or any series of Additional Parity Securities is not fully funded simultaneously with the issuance of such Additional Parity Securities, the City also pay and transfer into the Reserve Fund, on the 25th day of each calendar month, commencing with the month next succeeding that during which such Additional Parity Securities were issued and continuing for fifty-nine (59) calendar months thereafter, and out of the moneys on deposit in the Revenue Account remaining after first paying Operating Expenses and making the payments into the Debt Service Fund required by applicable provisions of the Master Warrant Ordinance, the least of (i) one-sixtieth (1/60) of the Reserve Fund Increase, or (ii) if a portion (but less than all) of the Reserve Fund Increase (if any) resulting from the issuance of such Additional Parity Securities is funded or otherwise deposited into the Reserve Fund simultaneously with the issuance of such Additional Parity Securities, an amount equal to one-sixtieth (1/60) of the excess of such Reserve Fund Increase over the portion thereof so funded or otherwise so deposited into the Reserve Fund, or (iii) an amount which, when added to the amount then on deposit in the Reserve Fund, will result in the amount on deposit in the Reserve Fund aggregating the then Current Maximum Required Reserve Fund Balance. See "**Additional Parity Securities**" below.

The Master Warrant Ordinance provides that if, during any calendar month, there is, as a result of a transfer of moneys out of the Reserve Fund to the Debt Service Fund, on deposit in the Reserve Fund an amount less than the amount then required to be on deposit therein (if any), the City will, immediately following the making of any other then required monthly payment of Operating Expenses and any then required payment (or payments) into the Debt Service Fund and with respect to each of the then next succeeding eleven (11) calendar months, and in addition to any payments required to be made into the Reserve Fund and described in the immediately preceding paragraph, transfer and pay into the Reserve Fund the lesser of

- (1) an amount equal to one-twelfth (1/12) of the amount so transferred into the Debt Service Fund, or
- (2) an amount which, when added to the amount then on deposit in the Reserve Fund, will result in the amount on deposit in the Reserve Fund aggregating the then Current Maximum Required Reserve Fund Balance,

all to the end that the deficiency in the Reserve Fund resulting from such transfer be fully restored within not more than twelve (12) months.

The Master Warrant Ordinance requires the Registrar to ascertain and determine (or to cause to be ascertained and determined), as of the 25th day of each April and October, or immediately following the making of any required monthly payments into the Debt Service Fund with respect to such April or October, whichever occurs earlier, the amount on deposit in the Reserve Fund. If, according to such determination, there is on deposit in the Reserve Fund an amount less than the then Current Maximum Required Reserve Fund Balance, and if such deficiency resulted from circumstances other than (1) a transfer of moneys out of the Reserve Fund into the Debt Service Fund for the purpose of preventing a default in payment of debt service on the Series 2013 Warrants, the Series 2009 Warrants or any Additional Parity Securities, or (2) a Reserve Fund Increase resulting from the issuance of the Series 2013 Warrants, the Series 2009 Warrants or any Additional Parity Securities, the Master Warrant Ordinance requires that the City transfer and pay into the Reserve Fund, on the 25th day of the calendar month next succeeding such April or October (as the case may be) and on the 25th day of each of the then next succeeding eleven (11) calendar months, all moneys remaining in the Revenue Account after making any required monthly payment of Operating Expenses, any

then required monthly payments into the Debt Service Fund, and any other required monthly payments into the Reserve Fund, until

(A) there has been paid into the Reserve Fund during the then current calendar month a sum at least equal to one-twelfth (1/12) of the amount by which the sum required to be on deposit in the Reserve Fund as of the date of such determination exceeded the amount on deposit therein as of such date, all to the end that such deficiency be fully restored within not more than twelve (12) months, or

(B) there is on deposit in the Reserve Fund an amount at least equal to the then Current Maximum Required Reserve Fund Balance,

whichever of the foregoing (A) or (B) will result in the lesser payment. If, according to any such determination as aforesaid, there is on deposit in the Reserve Fund an amount in excess of the then Current Maximum Required Reserve Fund Balance, the Master Warrant Ordinance requires that the Registrar promptly transfer such excess amount to the City, which is in turn obligated to deposit such excess amount into the Revenue Account.

Moneys in the Reserve Fund may be applied, with certain limited and narrow exceptions, only for payment of a maturing installment of principal of or interest on the Series 2013 Warrants, Series 2009 Warrants or any Additional Parity Securities, but only if the moneys in the Debt Service Fund are insufficient therefor and only to the extent necessary to prevent a default in payment of such principal or interest.

Under the provisions of the Master Warrant Ordinance, the City may withdraw all or any part of the moneys on deposit in the Reserve Fund if it simultaneously makes and deposits with the Registrar a Reserve Deposit in an amount equal to the amount of moneys so withdrawn. The City is effectively required, under the Master Warrant Ordinance, to expend any moneys so withdrawn, as promptly as practicable after withdrawal, for the purpose of paying the costs of Capital Improvements or of reimbursing itself for costs of any Capital Improvements theretofore paid by it from sources other than proceeds from borrowed money. In addition, under the terms of the Master Warrant Ordinance, the City is effectively required, in the event of any payment of Reserve Fund moneys to it resulting from a decrease in the Current Maximum Required Reserve Fund Balance (other than a decrease that occurred as a result of and simultaneously with the payment and retirement of the Warrants or any series of Additional Parity Securities), to expend the amount so paid to it as promptly as practicable after receipt for the purpose of paying the costs of Capital Improvements or of reimbursing itself for costs of any Capital Improvements theretofore paid by it from sources other than proceeds from borrowed money. However, the City may apply moneys withdrawn by it from the Reserve Fund differently than as described above if it furnishes to the Registrar and files in the office of the City Clerk an opinion of Bond Counsel that such will not result in the inclusion of interest on any Series 2013 Warrants, Series 2009 Warrants or any Additional Parity Securities in gross income for Federal income tax purposes. See also "Additional Parity Securities" below.

Improvement Fund. The Master Warrant Ordinance creates the Improvement Fund and requires that there be paid into the Improvement Fund, on or before the 25th day of each calendar month until the amount on deposit in the Improvement Fund equals or exceeds the Current Maximum Required Improvement Fund Balance, and out of the moneys remaining in the Revenue Account after all required payments of Operating Expenses and payments into the Debt Service Fund and the Reserve Fund have been made, the sum of \$5,000. Whenever the moneys on deposit in the Improvement Fund equal or exceed the Current Maximum Required Improvement Fund Balance, the City need not make any further payments therein; but

if any such moneys are used to such an extent that the amount on deposit in the Improvement Fund is less than the Current Maximum Required Improvement Fund Balance, then the City is required to resume monthly payments therein, at the rate of \$5,000 per month, until the total amount on deposit in the Improvement Fund again equals or exceeds the Current Maximum Required Improvement Fund Balance.

The Master Warrant Ordinance provides that moneys on deposit in the Improvement Fund may be applied by the City, with certain limited and narrow exceptions, for the purpose of replacing any portion of the System that has become worn out or inadequate for the rendition of efficient service and of constructing or acquiring Capital Improvements. See "**Investment of Moneys in Revenue Account and Improvement Fund**" below. So long as the City is not in default under the Master Warrant Ordinance, the Municipal Utilities Board may withdraw moneys on deposit in the Improvement Fund from time to time, for use for any purpose for which the Improvement Fund was created.

Disposition of Revenue Account Balance. In the event that as of the 25th day of each calendar month, the following conditions exist:

- (1) all Operating Expenses then due and payable have been paid in full,
- (2) there are on deposit in the Debt Service Fund the amounts at the time required to be maintained therein (including any amounts required to have been paid therein on or before such day), and
- (3) there have been paid into the Reserve Fund and the Improvement Fund any amounts required to have been paid therein on or before such date,

then moneys in the Revenue Account may be used for any lawful purpose.

Depositories for Special Funds. The Master Warrant Ordinance effectively designates the bank acting at the time as Registrar to be the depository, custodian and disbursing agent for the Debt Service Fund and for the Reserve Fund. The Municipal Utilities Board may from time to time designate any banking institution or institutions as depository or depositories for the Improvement Fund and for each account in which moneys required under the Master Warrant Ordinance to be paid into the Revenue Account are deposited.

Investment of Moneys in Debt Service Fund and Reserve Fund. The Master Warrant Ordinance in general provides that the City will keep (or cause to be kept) all moneys in the Debt Service Fund not needed, during the then next ensuing five (5) days, for payment of debt service on the Series 2013 Warrants, Series 2009 Warrants or any Additional Parity Securities, invested in Federal Securities having such stated maturities as will assure the availability of cash in the Debt Service Fund sufficient to meet the needs thereof. The Master Warrant Ordinance further obligates the City to keep (or to cause to be kept) all moneys in the Reserve Fund invested in Federal Securities maturing (or being redeemable at the option of the holder at a stated price) not later than five (5) years from the date of such investment.

The City may at any time sell or convert into cash any investments forming a part of either the Debt Service Fund or the Reserve Fund [provided that such sale or other conversion will not jeopardize the payment of debt service (or premium, if any) on the Series 2013 Warrants, the Series 2009 Warrants or any Additional Parity Securities]. The Master Warrant Ordinance provides that the income from investments forming a part of either the Debt Service Fund or the Reserve Fund shall become a part of the respective fund from which moneys were used to make such investments; except that income derived

from the investment of Reserve Fund moneys shall, to the extent required to comply with those provisions of the Master Warrant Ordinance mandating semiannual transfers to the City of amounts on deposit in the Reserve Fund in excess of the then Current Maximum Required Reserve Fund Balance, be transferred by the Registrar to the City for deposit by it into the Revenue Account. See "**Reserve Fund**" above.

Investment of Moneys in Revenue Account and Improvement Fund. The Master Warrant Ordinance provides that the City may invest moneys in the Revenue Account and the Improvement Fund only in Eligible Investments that mature, or are redeemable at the option of the holder thereof, on such dates and in such amounts as may be necessary to provide moneys (in the case of the Revenue Account) to make any transfers, payments or withdrawals required by the Master Warrant Ordinance to be made therefrom or (in the case of the Improvement Fund) for the purposes for which moneys in the Improvement Fund may, pursuant to the provisions of the Master Warrant Ordinance, be expended. See "**Revenue Account**" and "**Improvement Fund**" above. Under the terms of the Master Warrant Ordinance, all Eligible Investments in which any moneys in the Revenue Account or the Improvement Fund may be invested, together with all income and gain derived therefrom, form a part of the account or fund from which moneys were used to make such investments, to the same extent as moneys on deposit therein, except that

- (a) income or gain from any such investments in the Improvement Fund are required by the Master Warrant Ordinance to be paid and transferred to the Revenue Account not less often than once during each calendar year (but only to the extent that the amount remaining on deposit in the Improvement Fund following any such payment and transfer is not less than the then Current Maximum Required Improvement Fund Balance); and
- (b) the City may convert into cash Eligible Investments forming a part of the Improvement Fund if and to the extent such sale or conversion is necessary to obtain moneys for payment of costs of Capital Improvements or any other purpose for which moneys in the Improvement Fund may, under the Master Warrant Ordinance, be expended.

Use of Moneys in Special Funds to Pay Required Rebates. Moneys on deposit in the Debt Service Fund, the Reserve Fund and the Improvement Fund may, under the terms of the Warrant Ordinance, be used and applied to make any Required Rebates or other similar payments to the United States of America if and to the extent necessary to preserve the exclusion of the interest on the Series 2013 Warrants, the Series 2009 Warrants or any series of Tax-Exempt Parity Securities from gross income for Federal income tax purposes generally. The Warrant Ordinance provides however, that such moneys may be so used and applied only if and to the extent that the City does not have any other moneys derived from the operation of the System available for payment of any such Required Rebates or other similar payments; and the Master Warrant Ordinance further provides that moneys in the Debt Service Fund may be so used and applied only if and to the extent that such use and application will not jeopardize payment of any maturing installment of principal of or interest on the Series 2013 Warrants, the Series 2009 Warrants or any Additional Parity Securities, or the making of any required redemption of such Warrants or Additional Parity Securities prior to maturity.

Additional Parity Securities

The City has in the Warrant Ordinance reserved the right or privilege to issue, at any time and from time to time, Additional Parity Securities, without express limit as to principal amount, for the purpose of financing costs of acquiring and constructing Capital Improvements, refunding or retiring any

then outstanding Warrants or Additional Parity Securities, or for the combined purpose of refunding any such Warrants or Additional Parity Securities and financing costs of acquiring or constructing Capital Improvements [including, in each instance, the funding of any Reserve Fund Increase resulting from the issuance of such Additional Parity Securities].

The Master Warrant Ordinance provides that any Reserve Fund Increase resulting from the issuance of any Additional Parity Securities may be fully funded, simultaneously with the issuance of such Additional Parity Securities, with proceeds from the sale of such Additional Parity Securities, with other available moneys of the City, or with any combination thereof specified by the City. If not so fully funded simultaneously with the issuance of such Additional Parity Securities, the Reserve Fund Increase resulting therefrom is effectively required, under the Master Warrant Ordinance, to be fully funded over a period of not more than sixty (60) months. However, the 2013 Warrant Ordinance provides that the Parity Securities Ordinance referable to such Additional Parity Securities may provide for the funding of all or any part of any Reserve Fund Increase resulting from the issuance of such Additional Parity Securities not only through any one or more of the sources described above [viz., sale proceeds of such Additional Parity Securities, other available moneys of the City, or any combination thereof], but also through a Reserve Deposit or through any combination thereof and any of the said sources, all as the City may specify. See "**Flow of Funds - Reserve Fund**" above.

The Series 2013 Warrants, the Series 2009 Warrants and any Additional Parity Securities issued pursuant to and in compliance with applicable provisions of the Master Warrant Ordinance, irrespective of when issued, shall all have the same priorities and be entitled to the same lien position, with respect to the pledge made in the Master Warrant Ordinance of the net revenues derived from the operation of the System.

Conditions Precedent to Issuance of Additional Parity Securities. As conditions precedent to the issuance of any Additional Parity Securities, the City is required by the Master Warrant Ordinance and the 2013 Warrant Ordinance to place on file in the office of the City Clerk, among other things, one of the following:

- (1) a report of an Independent Auditor to the effect that the average Annual Net Income for the two Fiscal Years next preceding the Fiscal Year during which such Additional Parity Securities are issued was not less than 125% of the maximum Annual Debt Service Requirements with respect to the Series 2013 Warrants, the Series 2009 Warrants, the Subordinated SRF Obligations and any Additional Parity Securities that will be outstanding immediately following the issuance of such Additional Parity Securities; or
- (2) a report or opinion of an Independent Auditor and an Independent Engineer stating that the City has, prior to the date of issuance of such Additional Parity Securities, put into effect revised rates, charges and fees (effective not earlier than the second day of the second Fiscal Year next preceding the Fiscal Year during which such Additional Parity Securities are issued) for water and other service furnished from the System, and that had such revised rates, charges or fees been in effect during the two Fiscal Years next preceding the Fiscal Year during which such Additional Parity Securities are issued, the average Annual Net Income for such two Fiscal Years would have been not less than 135% of the maximum Annual Debt Service Requirements with respect to the Series 2013 Warrants, the Series 2009 Warrants, the Subordinated SRF Obligations and any Additional Parity Securities that will be outstanding immediately following the issuance

of such Additional Parity Securities (and such report or opinion may contain a statement by such Independent Auditor that he assumes responsibility only for the correctness of the computations on which the conclusions in such report or opinion are based); or

(3) if such Additional Parity Securities are being issued solely for the purpose of refunding any Series 2013 Warrants, the Series 2009 Warrants or other Additional Parity Securities then outstanding and of funding (to the extent permitted in the Master Warrant Ordinance) any Reserve Fund Increase resulting from the issuance of such Additional Parity Securities, a report or opinion of an Independent Auditor stating either (i) that the Annual Debt Service Requirements for the then current Fiscal Year, or for any Fiscal Year thereafter until and including the Fiscal Year during which the last maturity of the Series 2013 Warrants, the Series 2009 Warrants and Additional Parity Securities then outstanding under the Master Warrant Ordinance occurs, with respect to such Warrants and Additional Parity Securities that will be outstanding immediately following the issuance of such Additional Parity Securities, do not exceed 110% of the Annual Debt Service Requirements for the same Fiscal Year with respect to the Series 2013 Warrants, the Series 2009 Warrants and Additional Parity Securities outstanding immediately prior to the issuance of such Additional Parity Securities, or (ii) that the maximum Annual Debt Service Requirements with respect to the Series 2013 Warrants, the Series 2009 Warrants and Additional Parity Securities outstanding immediately following the issuance of such Additional Parity Securities will not be greater than the maximum Annual Debt Service Requirements with respect to such Warrants and Additional Parity Securities outstanding immediately prior to the issuance of such Additional Parity Securities [provided that in the determination of Annual Debt Service Requirements for purposes of such report or opinion, there may be disregarded any interest paid or anticipated to be paid from the proceeds of either the Series 2013 Warrants, the Series 2009 Warrants or any Additional Parity Securities (including the Additional Parity Securities with respect to which such report or opinion is given) that are or are anticipated to be on deposit in the Debt Service Fund].

Special Covenants of the City

Annual Audit. The City has agreed in the Master Warrant Ordinance that it will cause an audit of its books with respect to the System to be made at the end of each Fiscal Year by an Independent Auditor, and that it will cause an appropriately certified report by such Independent Auditor with respect to the audit for such year to be delivered within one hundred eighty (180) days following the close of each Fiscal Year.

Maintenance of Adequate Rates. The Master Warrant Ordinance obligates the City to fix, maintain and collect such rates and charges for water and other services supplied from the System as will produce

(1) revenues sufficient (1) to provide for timely payment of all Operating Expenses, (2) to provide for payment of principal of and interest on the Series 2013 Warrants, the Series 2009 Warrants, the Subordinated SRF Obligations and Additional Parity Securities (if any), as and when such principal and interest become due and payable, and (3) to make on a timely basis all payments required by the Master Warrant Ordinance to be made into the Debt Service Fund, into the Reserve Fund (in order to build up a reserve for payment of debt service on the Warrants and any Additional Parity

Securities), and into the Improvement Fund (in order to build up a reserve for improvements, betterments and extensions to the System, other than those necessary to maintain it in good repair and working order), and

(2) in each Fiscal Year, Annual Net Income in an amount not less than 120% of the then maximum Annual Debt Service Requirements with respect to the Series 2013 Warrants, the Series 2009 Warrants, the Subordinated SRF Obligations and any Additional Parity Securities then outstanding.

The City has further agreed in the Master Warrant Ordinance that it will, from time to time and to the fullest extent permitted by law, make such increases and other changes in its rates and charges and collection procedures as may be necessary to produce such amounts. See, however, "**THE SYSTEM - System Rates,**" for reference to the law-imposed (i.e., judicially created) limitation on the City's rate-making power.

Under the provisions of the Master Warrant Ordinance the City is obligated to discontinue furnishing water to any user whose account remains unpaid for a period of more than thirty (30) days, subject to compliance by the City with any applicable constitutional standards. However, the Master Warrant Ordinance permits the City to resume furnishing water to such user upon payment of such delinquent account, including any penalties or connection or disconnection charges. See also "**THE SYSTEM - Billing and Collection Procedures.**"

Operation of System. Restrictions on the Sale, Lease or Other Disposition of the System.

The Master Warrant Ordinance contains covenants on the part of the City to operate and maintain the System so long as any debt service on the Series 2013 Warrants, the Series 2009 Warrants or any Additional Parity Securities remains unpaid, or to cause the System to be so operated and maintained. The City has also agreed in the Master Warrant Ordinance that it will not, prior to full payment of all the Series 2013 Warrants, the Series 2009 Warrants and Additional Parity Securities (if any), sell, lease or otherwise dispose of

- (a) all or substantially all the System (either in a single transaction or a series of related transactions), or
- (b) any integral part of the System (either in a single transaction or in a series of related transactions), other than in the ordinary course of business,

unless such disposition is made pursuant to a merger, consolidation or transfer described under "**Merger, Consolidation and Transfer**" below. Furthermore, if the City is not then in default under the Master Warrant Ordinance, it may at any time and from time to time sell, abandon or otherwise dispose of any property used (or intended for use) as a part of the System that shall have been or become inadequate, obsolete, worn out, or unsuitable, undesirable or unnecessary for such use, provided that

- (i) promptly following such sale, abandonment or other disposition, the City replaces such property with (or substitutes for the same), free from all prior liens other than Permitted Encumbrances, other property useful as a part of the System and having equal or greater utility (though not necessarily the same value or function) in the operation of the System, or

(ii) such sale, abandonment or disposition does not materially impair the revenue-producing capacity of the System.

Merger, Consolidation and Transfer. The City is effectively allowed under the Master Warrant Ordinance to consolidate with or to merge into another municipal or public entity having authority to carry on the business of operating the System, or to transfer the System as an entirety to a public corporation or instrumentality whose property and income are not subject to taxation, subject, however, to certain conditions, including, among others, a requirement that there be placed on file in the office of the City Clerk, prior to or simultaneously with such consolidation, merger or transfer, an opinion of certain nationally recognized bond counsel to the effect that such consolidation, merger or transfer will not result in the interest on the Series 2013 Warrants, the Series 2009 Warrants or any then outstanding Tax-Exempt Parity Securities becoming includible in gross income for Federal income tax purposes generally or subject to Alabama income taxation.

Except as described or referred to above, the Warrant Ordinance contains no restrictions on any consolidations or mergers to which the City may be a party and no restrictions on the transfer by the City of the System as an entirety.

Respecting Priority of Pledge. The City has agreed in the Master Warrant Ordinance that if it hereafter issues any securities (other than the Series 2013 Warrants, the Series 2009 Warrants and any Additional Parity Securities) or makes any contract payable out of the revenues derived from the operation of the System, or for which any part of such revenues may be pledged, or any part of the System may be mortgaged (other than contracts relating to the issuance of such Warrants or any Additional Parity Securities), it will recognize (in the proceedings authorizing such securities, or contract) the priority of the pledge of said revenues made in the Master Warrant Ordinance for the benefit of the Series 2013 Warrants, the Series 2009 Warrants and any Additional Parity Securities. The City has further agreed in the Master Warrant Ordinance not to enter into any contract for the supply of water to either the City or the System, or for the purchase of water by the City for distribution through the System or other water works system of the City, unless such contract expressly provides that every obligation of the City thereunder for the payment of money is subject and subordinate to its obligations under the Master Warrant Ordinance and under any Parity Securities Ordinance, including (without limitation) its obligations with respect to the payment of debt service on the Series 2013 Warrants, the Series 2009 Warrants and any Additional Parity Securities.

Statutory Mortgage Liens. The City may not, under the Master Warrant Ordinance, itself place any mortgage or create any lien on the System or any substantial part thereof, or subject the System or any substantial part thereof to any so-called "statutory mortgage lien," unless (i) such mortgage or instrument creating such lien shall expressly recognize the priority of the pledge contained in the Master Warrant Ordinance and of the lien or charge created and imposed in the Master Warrant Ordinance on the revenues from the System, or (ii) such mortgage or instrument creating such lien shall be solely for the effective and pro rata benefit of the Holders of the Series 2013 Warrants, the Series 2009 Warrants and all Additional Parity Securities (if any) at any time outstanding (whether before or after the imposition of such mortgage or lien). The City has further agreed in the Master Warrant Ordinance that it will not under any circumstances itself hereafter subject all or substantially all the System to the lien of a foreclosable mortgage.

Other Special Covenants; Performance by Municipal Utilities Board. The City has in the Master Warrant Ordinance agreed that it will not furnish or permit to be furnished by or from the System any free water or free water service to the City, to any other incorporated municipality, to any county, or

to any other person. All water and water service furnished from the System is effectively required by the Master Warrant Ordinance to be charged for at the rates at the time established therefor.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the City has agreed in the 2013 Warrants Ordinance to provide, or cause to be provided,

(i) to the Municipal Securities Rulemaking Board ("MSRB"), certain annual financial information, including audited financial statements on or before March 31 of each year for the fiscal year ending on the preceding September 30.

(ii) within ten Business Days after the occurrence of a reportable event, to the Registrar and to MSRB, notice of the occurrence of any of the following events with respect to the Series 2013 Warrants: (a) principal and interest payments delinquencies, (b) non-payment related defaults, (c) unscheduled draws on debt service reserves reflecting financial difficulties, (d) unscheduled draws on credit enhancements reflecting financial difficulties, (e) substitution of credit or liquidity providers or their failure to perform, (f) adverse tax opinions or events affecting the tax-exempt status of the Series 2013 Warrants, (g) modifications to rights of holders of the Series 2013 Warrants, (h) calls for redemption, (i) defeasances, (j) release, substitution or sale of property securing repayment of the securities, (k) rating changes, if any are then in effect, (l) bankruptcy, insolvency, receivership or similar events, (m) merger, consolidation, acquisition or sale of assets involving an Obligated Party, and (n) appointment of a successor or additional trustee or the change of name of a trustee.

(iii) in a timely manner, to the MSRB, notice of a failure by the City to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The City will reserve the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the City; provided that, the City will agree that any such modification will be done in a manner consistent with the Rule. The City will reserve the right to terminate its obligation to provide the annual operating information and financial information and notices of material events, as set forth above, if and when the City no longer remains an obligated person with respect to the Series 2013 Warrants within the meaning of the Rule. The City will acknowledge that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the registered owners of the Warrants and shall be enforceable by the holders; provided that, the holders' rights to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the City's obligations hereunder and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Series 2013 Warrants and shall not subject the City to money damages in any amount, whether compensatory, penal or otherwise. The name, address and telephone number of the initial contact person at the City are as follows:

Stephen A. Pirkle, or successor as Business Manager/CFO
Municipal Utilities Board of Decatur, Alabama
PO Box 2232
Decatur, Alabama 35609
Phone: (256) 552-1407
Email: spirkle@decaturutilities.com

Effective July 1, 2009, The Securities and Exchange Commission (SEC) made two procedural changes to the way in which these annual reports and event notices are filed. They are as follows: (1) the Municipal Securities Rulemaking Board (MSRB) must receive all continuing disclosure filings, and (2) continuing disclosure filings must also be submitted in electronic pdf format to the Electronic Municipal Market Asset (EMMA) system. Rule 15c2-12 was amended by Release No. 34-62184 dated May 26, 2010 and MSRB Notice 2010-32 approved by the SEC on August 19, 2010. The City will comply with these changes and further agrees to comply with all future SEC regulations, several of which are presently under consideration, which may affect the City's continuing obligations hereunder.

The City is in compliance with its continuing disclosure obligations.

Events of Default and Remedies

Under the provisions of the Master Warrant Ordinance, a failure by the City to pay, when due, debt service on the Series 2009 Warrants, the Series 2013 Warrants or any other Additional Parity Securities (including the failure to pay, on the applicable required redemption date, the redemption price of any such Warrant or Additional Parity Security specifically required to be redeemed prior to its maturity) constitutes an immediate default by the City. Also, the failure by the City to perform any of its other agreements under the Warrant Ordinance [not including, however, (a) its continuing disclosure obligations summarized under "**Continuing Disclosure Undertaking**" above,] will constitute a default if, after the expiration of sixty (60) days following the date written notice of such failure is given to the City by the Holders of not less than twenty-five percent (25%) in principal amount of the then outstanding Series 2013 Warrants, the Series 2009 Warrants and Additional Parity Securities (if any), has not cured such default or commenced and be diligently pursuing appropriate corrective action. Further, the appointment of a receiver for all or a substantial part of the System and other similar events of bankruptcy constitute, under the terms of the Master Warrant Ordinance, defaults under the Master Warrant Ordinance.

The Master Warrant Ordinance provides that, upon a default by the City, the Holders of a majority in aggregate principal amount of the Series 2013 Warrants, the Series 2009 Warrants and any Additional Parity Securities then outstanding may, by written notice to the City, accelerate the maturity of all the Additional Parity Securities (if any) then outstanding. The Master Warrant Ordinance further provides that the Holders of not less than twenty-five percent (25%) in principal amount of the Series 2013 Warrants, the Series 2009 Warrants and Additional Parity Securities (if any) then outstanding are empowered to proceed against the City by suit or action to enforce and compel performance and observance of all agreements and covenants of the City contained in the Master Warrant Ordinance, and to apply for and obtain the appointment of a receiver to operate the System.

The Master Warrant Ordinance expressly provides, however, that no Holder of any Series 2013 Warrant, Series 2009 Warrant or any Additional Parity Security may, under the Master Warrant Ordinance, compel a sale of the System or any part thereof; and no foreclosure proceedings or sale may

be had with respect to the System or any part thereof under the authority of the Master Warrant Ordinance.

Defeasance of Outstanding Warrants and Additional Parity Securities

Any of the Series 2013 Warrants, Series 2009 Warrants or Additional Parity Securities (if any) may, for purposes of the Warrant Ordinance, be considered fully paid upon the execution by the City and the Registrar (or another bank or trust company that is qualified to administer trusts, that is a member of the Federal Reserve System or of any other agency of the United States, if any, that may succeed to its functions, and that has combined capital and surplus of not less than \$100,000,000) of an appropriate trust agreement under which there is deposited, for payment and redemption of such Warrants or Additional Parity Securities, moneys sufficient for payment or redemption thereof and for payment of the interest to mature thereon until maturity or redemption, or, in lieu thereof, Federal Securities [not including, however, any obligations defined as such in clause (c) of the definition of the term "Federal Securities" under the heading "**Definitions**" above] which are not subject to redemption prior to their respective maturities at the option of the issuer (or both cash and such Federal Securities) and which, together with the income to be derived from such Federal Securities, will produce moneys sufficient to provide for such payment, redemption and retirement on a timely basis. Further conditions precedent to any of such Warrants or Additional Parity Securities (if any) being considered "paid" under either of the foregoing circumstances are (1) that there have theretofore been adopted all necessary proceedings relating to the redemption of any such Warrants or Additional Parity Securities that are to be redeemed prior to their respective maturities, and (2) that there shall have been placed on file in the office of the City Clerk an opinion of certain nationally recognized bond counsel to the effect that the effectuation of any such trust agreement will not result in subjecting the interest on any then outstanding Warrants or Tax-Exempt Parity Securities to Federal income taxation generally.

SPECIAL FACTORS

State Legislative Control. The City, along with other local governmental units in the State of Alabama, is subject to the virtually plenary powers of the Legislature of Alabama.

Governmental and Environmental Regulation. The operation of water facilities (such as these comprising the System) is subject to extensive regulation by Federal and state authorities. Management of the System believes that the City and the Municipal Utilities Board (hereinafter referred to) have obtained all Federal, state or local permits necessary to operate the System. Management of the System believes that the System is being operated in compliance with all applicable permits and regulations.

Dependence on Revenues from Major Industrial and Wholesale Customers. During fiscal year 2011-12, the revenues from the ten largest customers of the System (based on water use or consumption) accounted for approximately 41% of the total operating revenues of the System, and the revenues received from the largest single customer (Ascend Performance Materials) accounted for approximately 6% of total operating revenues. The City is the sole water supplier for two of its major wholesale customers, and only one of its existing contracts with those customers requires that such customers purchase all their water requirements from the City. None of such contracts obligate the customer to purchase any specific volume of water from the City. See "**Principal Customers**" under the caption "**THE SYSTEM.**"

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's, a division of the McGraw-Hill Companies ("S&P"), have assigned their respective underlying municipal bond ratings of "Aa3" and "AA-" to the Series 2013 Warrants and the City's System. The underlying ratings reflect the respective rating agency's current assessment of the creditworthiness of the City's System. Any further explanation as to the significance of the above ratings may be obtained only from the respective rating agency.

The ratings by such rating agencies reflect only the views of such agencies at the time such ratings are given, and the City makes no representation as to the appropriateness of any rating. There is no assurance that the ratings will continue for any given period of time or that any rating may not be suspended, lowered or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of the rating may have an adverse effect on the secondary market of the Warrants.

TAX EXEMPTION

In the opinion of Bond Counsel, assuming the accuracy of certain representations and the compliance with certain covenants made in the 2013 Warrant Ordinance by the City with respect to the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2013 Warrants is presently excludable from gross income for federal income taxation pursuant to Section 103 of the Code, regulations and rulings of the Commissioner of Internal Revenue and court decisions heretofore rendered. Bond Counsel is also of the opinion that interest on the Series 2013 Warrants is presently exempt from income taxation by the State of Alabama.

No opinion is expressed with respect to the tax treatment of any taxpayer under any provision or section of the Code other than the aforesaid Section 103 as a result of the receipt of interest on the Series 2013 Warrants. It should be noted that, in computing federal income tax liability, (1) interest on the Series 2013 Warrants is required to be included in the alternative minimum tax calculations for corporations, (2) property and casualty insurance companies are required to include a portion of the tax-exempt interest on the Series 2013 Warrants to offset the loan loss reserve, (3) interest on the Series 2013 Warrants is required to be included in the calculation of the amount, if any, of social security or certain railroad retirement benefits required to be included in gross income, and (4) interest on the Series 2013 Warrants is required to be included in the calculation of the amount, if any, of passive investment income of Subchapter S corporations subject to taxation.

The City has covenanted that the applicable requirements of the Code will be met as long as the Series 2013 Warrants are outstanding. The exclusion from gross income for federal income tax purposes of the interest on the Series 2013 Warrants depends on and is subject to the accuracy of the certifications with respect to the applicable requirements of the Code. A failure to comply with these requirements could cause interest on the Series 2013 Warrants to be deemed not excludable from gross income for federal income tax purposes as of the date of issuance of the Series 2013 Warrants or as of some later date.

No assurances can be given that federal legislation will not be introduced and enacted which could adversely affect the exclusion of interest on the Series 2013 Warrants from gross income for federal income taxation or the tax treatment of certain owners of the Series 2013 Warrants as a result of the receipt of such interest. Neither the Series 2013 Warrants nor the 2013 Warrant Ordinance contains any provision for an increase in the rate of interest applicable to the Series 2013 Warrants or for the

mandatory redemption of the Series 2013 Warrants, in the event the interest thereon should become includable in gross income for federal income taxation after their date of issuance. Legislation, in past years, has proposed, among other things, to limit the value to certain individual taxpayers of certain deductions and exclusions, including the exclusion from gross income of interest on the Series 2013 Warrants. It is unknown whether similar federal legislation will become law. Regardless, the introduction of such federal legislation may have an adverse effect on the initial offering or secondary market prices for the Series 2013 Warrants. Prospective purchasers should consult their personal tax advisors with regard to the possible consequences of receipt of interest on the Series 2013 Warrants.

LEGAL MATTERS

The validity and legality of the Series 2013 Warrants are being approved by Jones Walker LLP, Birmingham, Alabama, Bond Counsel for the City, whose approving opinion will be delivered with the Series 2013 Warrants. It is anticipated that the approving opinion of Bond Counsel will be in substantially the form set forth in **Appendix B** hereto. Bond Counsel have been employed by the City to represent and act for the City in the financing transaction being evidenced by the Series 2013 Warrants and are not representing or acting as legal counsel for any others in connection with such financing. The City has not, however, employed Bond Counsel to advise it on a continuing basis in the future as to whether events occurring after the date of issuance of the Series 2013 Warrants may affect the Federal income tax status of interest on the Series 2013 Warrants. Nor have Bond Counsel been engaged to advise the City (or the Municipal Utilities Board, as the City's designated agent), on a continuing basis or otherwise, as to the City's compliance with its contractual obligations under the 2013 Warrant Ordinance to provide certain annual financial information and appropriate notices of certain material and other events that may occur while the Series 2013 Warrants are outstanding.

Bond Counsel have been employed primarily for the purpose of preparing certain legal documents and supporting certificates, reviewing the transcript of proceedings by which the Series 2013 Warrants have been authorized to be issued and rendering an opinion in conventional form as to the essential validity and legality of the Series 2013 Warrants, to the legal security for their payment, to the exemption of the interest thereon from present Alabama income taxation and to the exclusion of such interest from gross income for Federal income tax purposes. While Bond Counsel have assisted in the preparation of this Official Statement and are of the opinion that the statements made under those portions thereof appearing under the captions "**DESCRIPTION OF THE SERIES 2013 WARRANTS**," "**SUMMARY OF THE WARRANT ORDINANCE**," "**TAX EXEMPTION**" and "**LEGAL MATTERS**" fairly summarize the matters therein referred to, they have not been requested to check or verify, have not checked or verified, and will render no opinion with respect to, the accuracy, adequacy, completeness or fairness of any information contained in any portions of this Official Statement not mentioned above or in any of the appendices hereto (other than the form of their approving opinion set forth in **Appendix B**).

NOT "BANK-QUALIFIED" INVESTMENTS

The Series 2013 Warrants have not been designated by the City as "qualified tax-exempt obligations" for purposes of paragraph (3) of subsection (b) of Section 265 of the Code (see "**TAX EXEMPTION**" above) and should not be considered by prospective purchasers as "bank-qualified" obligations.

ACCOUNTING MATTERS

The financial statements of the System included in **Appendix C** to this Official Statement for the year ended September 30, 2012, have been examined by Mercer & Associates, P.C., independent certified public accountants, Huntsville, Alabama, as set forth in their report thereon appearing in **Appendix C**. Such financial statements have been included in reliance upon such report and upon the authority of Mercer & Associates, P.C. as experts in accounting and auditing.

FINANCIAL ADVISOR

Joe Jolly & Co., Inc. Birmingham, Alabama (the "Financial Advisor") is serving as financial advisor to the City in connection with the issuance of the Series 2013 Warrants. The Financial Advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2013 Warrants, and provided other advice to the City. The Financial Advisor will not engage in any underwriting activities with regard to the issuance and sale of the Series 2013 Warrants. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement, and is not obligated to review or ensure compliance with the undertaking by the City to provide continuing secondary market disclosure.

UNDERWRITER

_____ has purchased the Warrants from the City for a purchase price of \$_____ (consisting of the principal amount of \$10,645,000 less underwriter's discount of \$_____) plus accrued interest to the date of delivery.

The initial public offering price may be changed by the Underwriter. The Underwriter may offer and sell the Warrants to certain dealers (including dealers depositing warrants in investment funds) and others at prices lower than the public offering price set forth on the cover page of this Official Statement.

MISCELLANEOUS

Original Issue Discount and Premium on Series 2013 Warrants

Certain of the Series 2013 Warrants (or those of the Series 2013 Warrants having certain stated maturities) may initially be sold to the public at an "original issue discount." As that term is effectively defined in the Tax Code and applicable regulations thereunder, the "original issue discount" referable to a Series 2013 Warrant is the excess (if any) of (i) the stated redemption price of such Series 2013 Warrant at maturity, over (ii) the initial offering price to the public, or (in other words) the first price, at which a substantial amount of the Series 2013 Warrants of the "issue" of which such Series 2013 Warrant is a part, was sold for money (excluding sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Original issue discount is treated as interest excluded from gross income for Federal income tax purposes.

An amount equal to the excess of the purchase price of the Series 2013 Warrants over its stated redemption price at maturity constitutes premium on such Series 2013 Warrant. A purchaser of a Series

2013 Warrant must amortize any premium over such Series 2013 Warrant's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Series 2013 Warrant is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2013 Warrant prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

The holder of any Series 2013 Warrant or Series 2013 Warrants should consult his own tax advisors with respect to (a) the determination, for Federal income tax purposes, of the amount of original issue discount or premium (if any) accrued with respect to each Series 2013 Warrant held by him as of any date, including the date of disposition of such Series 2013 Warrant, and (b) the treatment of such original issue discount or premium for purposes of state or local taxation.

General

The City has not, to the knowledge of its present officers, defaulted in payment of the principal of or the interest on any of its funded debt, nor has it, to the knowledge of its present officers, ever refunded any funded debt for the purpose of preventing or avoiding such a default.

Insofar as any statements are made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The agreements of the City with the holders of the Series 2013 Warrants are fully set forth in the Master Warrant Ordinance and the 2013 Warrant Ordinance, and this Official Statement should not be construed as a contract or agreement between the City and the successful bidders or any other purchasers or holders of the Series 2013 Warrants. Copies of the Master Warrant Ordinance and the 2013 Warrant Ordinance are on file in the office of the City Clerk of the City.

This Official Statement has been approved by the City, and distribution of copies hereof to prospective purchasers of the Series 2013 Warrants has been authorized by the City.

CITY OF DECATUR, ALABAMA

By /s/ Don Kyle
Its Mayor

Appendix A

Demographic Information of the City

General Information

The City of Decatur, incorporated in 1826, is the county seat of Morgan County, Alabama. Centrally situated in the Tennessee River valley of north Alabama (the Tennessee River being the northern boundary of Morgan County), the City is located approximately 25 miles west of Huntsville, approximately 85 miles north of Birmingham, and approximately 125 miles south of Nashville, Tennessee. The City is about 55 square miles in area; and a relatively small portion of the City is located north of the Tennessee River in Limestone County. The City is characteristically Southern in climate. Temperatures average about 80 degrees in summer and about 44 degrees in winter (the mean temperature being about 61 degrees), and the average annual rainfall is approximately 55 inches.

The City of Decatur provides a full range of services. These include police and fire protection, sanitation services, the construction and maintenance of streets and infrastructure, recreational facilities (26 parks comprising 1,278 acres, 46 tennis courts, 4 recreation centers, 35 ball fields, 3 pools, 4 golf courses (both public and private), 62 acres of soccer fields), cultural events, community services and general administrative services. The City operates Point Mallard Park, a major 750-acre family recreation park on the Tennessee River. At this location, in addition to America's first wave pool, there is an Olympic diving pool, water slides, children's water feature, 18-hole championship golf course, regulation size ice rink and a 210-site campground. The City continues to make major investments in the park.

Population Characteristics

According to the 2010 Federal Decennial Census, the City is both the largest municipality in Morgan County and the eighth largest municipality in the State, while Morgan County has the ninth largest population of counties in the State. The following statistics outline the growth in population of the City and Morgan County:

<u>Year</u>	<u>City Population</u>	<u>Rate of Increase</u>	<u>County Population</u>	<u>Rate of Increase</u>
2010	55,683*	3.3%	119,490	7.6%
2000	53,929*	10.6	111,064	11.0
1990	48,761*	16.1	100,043	10.9
1980	42,002	10.5	90,231	16.7
1970	38,944	--	77,306	--

* Includes City population in both Morgan and Limestone Counties

** Estimate

Utility Facilities and Services

The City owns its own electric, water, wastewater (sanitary sewer) and natural gas systems. Local telephone service is provided by BellSouth Telecommunications, Inc. The following table show total City-owned utility connections for the years indicated.

<u>Utility Connections</u>				
<u>Year</u>	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Natural Gas</u>
2012	26,618	25,194	20,245	13,640
2011	26,513	25,244	20,327	13,691
2010	26,453	25,144	20,293	13,793
2009	26,403	25,155	20,308	13,785
2008	26,595	25,154	20,338	13,861
2007	26,439	24,990	20,233	13,824
2006	26,105	24,532	19,895	13,826
2005	26,348	24,495	19,900	13,925
2004	26,316	24,268	19,694	13,729

Source: Municipal Utilities Board of Decatur, Alabama

Building Permits

The following table shows the value of building permits issued by the City for the fiscal years indicated.

<u>Year</u>	<u>Residential</u>	<u>Apartment</u>	<u>Commercial</u> [1]	<u>Total</u>
2012	\$55,404,195	\$4,615,987	\$174,412,249	\$234,432,431
2011	38,386,864	4,557,622	71,586,054	114,530,540
2010	30,791,962	6,000	39,452,486	70,250,448
2009	30,932,853	--	55,712,347	86,645,200
2008	15,186,528	400,000	10,245,428	25,831,956
2007	26,402,504	3,653,846	76,518,156	106,574,506
2006	23,990,591	--	14,879,576	38,870,167
2005	35,740,208	325,000	118,293,001	154,358,209
2004	34,866,047	2,261,125	102,305,870	139,433,042
2003	28,109,346	325,000	62,706,977	91,141,323
2002	27,341,256	3,193,087	47,101,128	77,635,471
2001	25,873,768	3,193,987	193,333,374[2]	222,400,229

[1] Includes repairs, expansions and new construction

[2] The City attributes approximately 55% of the commercial building permits in fiscal year 2001 to the construction by Calpine Corporation of a new co-generation plant.

Per Capita Income

Estimated per capita personal income in the Decatur Metropolitan Statistical Area, Morgan County, the State and the United States in recent years is as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Decatur MSA	\$29,866	\$31,171	\$32,171	\$31,974
Morgan County	31,255	32,437	33,270	33,065
State of Alabama	31,421	32,773	33,928	33,411
United States	37,698	39,392	40,166	39,138

Source: U.S. Department of Commerce, Bureau of Economic Analysis; www.bea.gov

Unemployment

Comparative average annual unemployment figures for the Decatur Metropolitan Area, Morgan County, the State of Alabama, and U.S. national average are as follows:

<u>Calendar Year</u>	<u>Decatur MSA</u>	<u>Morgan County</u>	<u>State of Alabama</u>	<u>U.S. National Average</u>
2013	7.6%	7.2%	7.8%	8.5%
2012	6.3	6.1	7.1	7.8
2011	7.4	7.2	7.5	8.3
2010	10.3	8.9	8.9	9.1
2009	10.4	10.6	10.6	9.7
2008	5.0	5.3	5.1	5.8
2007	3.5	3.4	3.5	4.6
2006	3.6	3.6	3.6	4.6
2005	4.3	4.1	4.0	5.1
2004	6.1	6.0	5.6	5.5
2003	6.9	7.0	5.8	6.0
2002	7.0	6.9	5.9	5.8
2001	5.7	5.4	5.3	4.7
2000	4.9	4.0	4.5	4.0

Source: Alabama Department of Labor

Principal Manufacturing Employers

The principal employers in Morgan County, and the approximate number of employees of each, are shown in the following table. The City has not been immune from the current recession and certain layoffs and closings have been announced pertaining to the employers in the City over the past four years. The facilities of some of these employers are situated outside the City.

<u>Company</u>	<u>Product</u>	<u>Employment</u>
General Electric	Refrigerators	1,250
United Launch Alliance	Rocket Boosters	854
3M Company	Industrial Chemicals	815
Wayne Farms Fresh	Chicken Processing	800
Nucor Steel	Steel Mill	710
Wayne Farms East/West Facility	Chicken Processing	568
BP Decatur Site	Plastics, Raw Materials	457
Ascend Performance Materials	Nylon Intermed./ Metallurgical-grade Coke	410
Baker Division	Wood Reels	350
Daikin America	Fluoropolymers	324
National Packaging	Packaging for Sugar/Creamer	240
Toray Carbon Fibers	Polyacrylonitrile	237
Turner Industries	Pipe Welding-Equipment Setting	200
M & D Mechanical Contractors	Ventilation Duct Fabrication	190
Hyosung USA, Inc.	Nylon Tire Cord Fabric	175
ITW Sexton	Aerosol Cans	175
Hexcel Corporation	Polyacrylonitrile Fiber	171
Sonoco Wood Reels	Wood Reels	165
Alabama Farmers Co-op	Animal Feeds	159
Del Monte Foods/Meow Mix	Cat Food	150
Sonoco Products Co., Metco Plant	Steel "T" Shipping Reels	147
Hubbard & Drake	Industrial Piping, Concrete	145
Bunge	Soybean Oil	136
Cerro Wire LLC	Electrical Cable	131
AlphaPet	Plastics	129

Major Non-Manufacturing Employers in the City

<u>Employer</u>	<u>Product</u>	<u>Approximate Number of Employees</u>
Decatur City Schools	Education	1,205
Morgan County Schools	Education	1,027
Decatur General Hospital*	Health care	1,000
City of Decatur	Government	635
Morgan County Government	Government	420
Parkway Medical Center	Health care	414
Hartselle City Schools	Education	397
City of Hartselle	Government	114

Source: Morgan County Economic Development Association internet website www.mceda.org (updated November 2012)

General Housing Characteristics

The following table presents general housing characteristics for housing units in the City of Decatur for the periods shown:

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2009[1]</u>
Total Housing Units	16,233	20,640	24,002	24,844
Total Occupied Units	15,183	19,136	21,848	23,002
Total Owner Occupied Units	9,974	11,811	13,375	14,638
Median Value of Owner Occupied Units	\$42,300	\$66,000	\$89,200	\$115,600

Source: U.S. Census Bureau

According to the same source, the Median Values of Owner Occupied Units for the State for periods 1980, 1990 and 2000 were \$33,900, \$55,700, and \$85,100, respectively. For 2009, the U.S. Census Bureau estimates the Median Value of Owner Occupied Units for the State to be \$111,900.

Transportation

U.S. Interstate Highway 65, which connects Chicago and Mobile, is situated near the eastern corporate limits of the City. The City is connected to Interstate Highway 65 by Alabama Highways 20 and 67, both four-lane highways. Four major highways [Alabama Highways 67 (east-west) and 24 (east-west) and U.S. Highways 31 (north-south) and 72 Alternate (east-west)] traverse the City and provide access to outlying areas. The City is served by approximately 11 common carriers and by main lines of Norfolk Southern Railway and CSX Railroad Company.

The Huntsville-Decatur County Airport Authority operates the Huntsville International Airport, which is located approximately 10 miles east of Decatur and is the principal airport serving north Alabama and south central Tennessee. Airport operations are conducted on approximately 5,800 acres of land and include two active runways, associated taxiways, the International Intermodal Center, and the Jetplex Industrial Park adjacent to the Airport. Connections are available to virtually all national, and most international, destinations. Fixed-base operations for private aircraft and air taxi, charter, sales, rental, training and other private flight services are also available through Signature Flight Support. In addition, Pryor Field, a general aviation airport located approximately three miles north of the City on U. S. Highway 31, provides hangar space for thirty small planes and maintains a runway measuring 5,096 feet in length and 150 feet in width.

Primary and Secondary Education

The City school system is now composed of 12 elementary schools, three middle schools and two senior high schools, and an alternative high school (for students who have not succeeded in the regular curriculum).

The present City public school facilities are as follows:

<u>Name</u>	<u>Type</u>	<u>Renovated</u>	<u>Capacity</u>
Austinville	Elementary	1951, 1988, 2010	440
Chestnut Grove	Elementary	1990, 2010	546
Eastwood	Elementary	1962, 1965, 2011	281
Frances Nungester	Elementary	1983, 2009	475
Banks-Caddell	Elementary	2007	580
Leon Sheffield	Elementary	1954, 1962, 2006	352
Somerville Road	Elementary	1941, 1989, 2008	563
Walter Jackson	Elementary	1954, 1961, 2011	334
West Decatur	Elementary	1950, 1964, 2002, 2004	387
Benjamin Davis	Elementary	1959, 1962, 2006	264
Woodmeade	Elementary	1965, 1967, 2009	422
Julian Harris	Elementary	1987, 2007	493
Brookhaven	Middle	1971, 2011	946
Oak Park	Middle	1971, 2011	946
Cedar Ridge	Middle	1992, 2011	946
Austin	High School	1962, 1989, 2010	1,600
Decatur	High School	1950, 1989, 2011	1,105
Horizon	Alternative High School	1927, 2003	200

Source: Decatur City Board of Education

Higher Education

John C. Calhoun State Community College, established in 1965, is situated on a 110-acre tract four miles north of the City. Enrollment at the Community College is approximately 8,800 students. The Community College offers post-secondary educational opportunities to all qualified students. Degrees awarded include Associate in Arts, Associate in Science, and Associate in Applied Science; diplomas and certificates for non-degree programs are also conferred.

There are three state-supported four-year colleges and universities located within commuting distance of the City: Athens State College, located 16 miles north of the City; the University of Alabama in Huntsville, a campus of the University of Alabama system; and Alabama A & M University, also in Huntsville.

The University of Alabama in Huntsville (UAH) is an autonomous campus of the University of Alabama System. UAH, which has an enrollment for the current academic year of approximately 7,100 students, including approximately 1,400 graduate students, was originally established to provide graduate scientific and engineering education in support of the Marshall Space Flight Center at Redstone Arsenal, and now offers the undergraduate degrees of Bachelor of Science, Bachelor of Nursing, Bachelor of Engineering, and Bachelor of Business Administration, as well as the graduate degrees of Master of Arts, Master of Science, Master of Science & Engineering, Master of Nursing and Doctor of Philosophy.

Medical and Health Services

The City is served by two general hospitals having approximately 370 beds and one psychiatric hospital having over 100 beds. There are over 200 physicians and 30 dentists in the City. The Tri-County District Health Agency administers a public health program serving the Counties of Morgan, Lawrence, Limestone and Cullman.

Park and Recreational Facilities

Among the park and recreational facilities operated by the City is Point Mallard Park, an approximately 750-acre City park surrounded by Wheeler Wildlife Refuge (a migratory home for mallard ducks and Canadian geese) and located near the City at a site on the Tennessee River leased under a long-term arrangement with the Tennessee Valley Authority. Among the facilities forming a part of the Park are an Aquatic Center (including a sandy beach, an Olympic-size pool, and a wave pool), an 18-hole championship golf course, a 25-acre campground located in the central area of the Park, and an ice skating rink. In addition, City-owned tennis courts, while not a part of the Park, are located on a site adjacent to the Park and are available for use by Park visitors.

APPENDIX B

[PROPOSED FORM OF OPINION OF BOND COUNSEL]

JONES WALKER LLP
ONE FEDERAL PLACE
1819 FIFTH AVENUE NORTH, SUITE 1100
BIRMINGHAM, ALABAMA 35203

[date]

The Honorable Mayor and City Council
City of Decatur
Decatur, Alabama

Joe Jolly & Co., Inc.
Birmingham, Alabama

Regions Bank
Birmingham, Alabama

[Successful Bidder]

Ladies and Gentlemen:

We have examined certified copies of proceedings of the governing body of the CITY OF DECATUR, ALABAMA (the "City"), various certificates signed by certain of its officials, and other certificates and documents, all pertaining to the authorization, sale and issuance of

\$10,645,000

CITY OF DECATUR, ALABAMA

Water Revenue Warrants
Series 2013

Dated April 23, 2013

Maturing on May 1, and bearing interest from April 23, 2013, until their respective maturities (payable on November 1, 2013, and semiannually on each May 1 and November 1 thereafter), in the amounts and at the rates specified in the proceedings of the City authorizing their issuance and sale

Issuable as fully registered warrants in the denomination of any authorized integral multiple of \$5,000 and exchangeable, at the option of the registered holders thereof and upon the terms and conditions specified in the proceedings whereunder they were authorized to be issued, for other fully registered warrants and in such authorized denominations.

Payable, as to principal (and premium, if any), at the designated corporate trust office of Regions Bank, Birmingham, Alabama (as Registrar), and, as to interest, in accordance with the provisions of a Book-Entry System. While we have not examined any of the executed Warrants, we have examined a certificate signed by appropriate City officials regarding their form and execution. The statements herein made and the opinions hereinafter expressed are based upon our examination of the aforesaid proceedings, certificates and other documents.

The proceedings, certificates and documents submitted to us show as follows:

(a) that the City has heretofore adopted and approved Ordinance No. 95-3284 adopted by the then governing body of the City on November 20, 1995 (the "Master Warrant Ordinance");

(b) that under the provisions of the Master Warrant Ordinance, payment of the principal of and the interest on the Warrants issued thereunder are of the net revenues to be derived by the City from the operation of the System (hereinafter referred to);

(c) that in the Master Warrant Ordinance, the City reserved the privilege of issuing from time to time additional securities (therein and herein called "Additional Parity Securities"), without express limit as to principal amount, on a parity of lien as respects the pledge of the aforesaid revenues to be derived by the City from the aforesaid System, upon compliance with certain applicable conditions set out in the Master Warrant Ordinance;

(d) that the Water Revenue Warrants, Series 2009, dated May 1, 2009 (the "Series 2009 Warrants") and the Water Revenue Warrants, Series 2013, dated April 23, 2013 (the "Series 2013 Warrants") have been issued, as "Additional Parity Securities," pursuant to such privilege reserved in the Master Warrant Ordinance; and

(e) that in its ordinance authorizing the issuance of the Series 2013 Warrants (herein called the "2013 Warrant Ordinance"), the City has reaffirmed the aforesaid privilege, reserved by it in the Master Warrant Ordinance, of issuing from time to time other Additional Parity Securities, without express limit as to principal amount, on a parity of lien with the Series 2009 Warrants and the Series 2013 Warrants as respects the pledge of the aforesaid revenues to be derived by the City from the aforesaid System, upon compliance with certain applicable conditions set out in the Master Warrant Ordinance.

We are of the following opinion: that the Series 2013 Warrants have been validly authorized, sold, executed and issued pursuant to the applicable provisions of the constitution and laws of the State of Alabama, are in due and legal form and constitute valid orders on the City Treasurer of the City, payable on a parity of lien with the Series 2009 Warrants solely out of the revenues to be derived by the City from the operation of its water works plant and distribution system, as presently or hereafter constituted (the "System"), remaining after payment of the expenses of administering, operating, maintaining and repairing it; that payment of the principal of and the interest on the Series 2013 Warrants is secured, on a parity of lien with the Series 2009 Warrants, pro rata one with the other, with any other Additional Parity Securities (when, as, if and to the extent issued), by a valid pledge of the revenues out of which they are payable, subject to bankruptcy, insolvency, reorganization and other laws relating to or affecting creditors' rights; that the City has agreed and is obligated to maintain, within reasonable limitations, such rates and charges for water and other services furnished from and by the System as will produce amounts sufficient to provide for payment of the reasonable and necessary expenses of efficiently and economically administering and operating the System and maintaining it in good repair and operating condition and to provide for payment of the principal of and the interest on the Series 2013 Warrants, the Series 2009 Warrants and any other Additional Parity Securities that may be issued, as and when the same become due and payable; that under existing law the interest on the Series 2013 Warrants is presently exempt from all present Alabama income taxation; and that under existing law the interest on the Series 2013 Warrants is presently excludible from gross income for Federal income tax purposes

(subject, however, to the qualifications expressed in the next paragraph hereof) under the Internal Revenue Code of 1986, as amended (the "Tax Code").

Under existing law, interest on the Series 2013 Warrants may be included in gross income for Federal income tax purposes generally, retroactively to the date of issuance thereof, if the City fails to comply with those provisions of the Tax Code that must be satisfied subsequent to the issuance of the Series 2013 Warrants in order that the interest thereon be, or continue to be, excluded from gross income for Federal income tax purposes generally. The City has effectively agreed, in the 2013 Warrant Ordinance, that from and after the date of issuance of the Series 2013 Warrants, it will (1) in a timely manner, take such lawful actions as shall be necessary, under the Tax Code and any applicable regulations, to preserve the exclusion of the interest on the Series 2013 Warrants from gross income for Federal income tax purposes generally, and (2) refrain from taking any action that would, under the Tax Code and any applicable regulations, result in such interest being or becoming included in gross income for Federal income tax purposes generally. Further, existing law effectively requires that a portion of the interest on tax-exempt obligations be included in alternative minimum taxable income for purposes of the alternative minimum tax imposed on corporations by the Tax Code.

We express no opinion regarding other Federal tax consequences arising with respect to the Series 2013 Warrants. However, we call to your attention that portion of the Official Statement (hereinafter referred to) appearing under the caption "**TAX EXEMPTION**" for a further discussion of certain potential Federal income and other tax consequences for certain types or classes of taxpayers who may become holders of the Series 2013 Warrants.

No assurances can be given that federal legislation will not be introduced and enacted which could adversely affect the exclusion of interest on the Series 2013 Warrants from gross income for federal income taxation or the tax treatment of certain owners of the Series 2013 Warrants as a result of the receipt of such interest. Legislation has been introduced in Congress during recent years, which among other things, if passed, could limit the value to certain individual taxpayers of certain deductions and exclusions, including the exclusion from gross income of interest on tax-exempt obligations. It is unknown whether such legislation or similar legislation incorporating similar provisions will become law. Regardless, the introduction of such legislation may have an adverse effect on the initial offering or secondary market prices for tax-exempt obligations. Neither the Series 2013 Warrants nor the 2013 Warrant Ordinance contains any provisions for an increase in the rate of interest applicable to the Series 2013 Warrants or for the mandatory redemption of the Series 2013 Warrants in the event the interest thereon should become includable in gross income for federal income taxation after their date of issuance. Prospective purchasers should consult their personal tax advisors with regard to the possible consequences of receipt of interest on tax-exempt obligations.

We have been furnished a certificate signed by certain officers of the City and stating that except for the Series 2009 Warrants and the Series 2013 Warrants, there are no outstanding securities of the City payable out of or secured by a special pledge of revenues to be derived by it from the operation of the System other than two subordinated warrants ("Subordinated SRF Obligations") payable to the Alabama Drinking Water Finance Authority (the "Authority") pursuant to a Subordination Agreement dated as of April 1, 2013. The Authority has agreed to subordinate the Subordinated SRF Obligations to the prior payment of the Series 2009 Warrants and Series 2013 Warrants.

We have not examined the title of the City to the System and therefore express no opinion thereon.

We have been employed primarily for the purpose of preparing certain legal documents and supporting certificates, reviewing the transcript of proceedings by which the Series 2013 Warrants were authorized to be issued and rendering an opinion in conventional form as to the essential validity and legality of the Series 2013 Warrants, to the legal security for their payment, to the exemption of the interest thereon from present Alabama income taxation and to the exclusion of such interest from gross income for Federal income tax purposes. While we have assisted in the preparation of the City's Official Statement dated April __, 2013 with respect to the Series 2013 Warrants and are of the opinion that the statements made therein under the captions "**DESCRIPTION OF THE SERIES 2013 WARRANTS,**" "**SUMMARY OF THE WARRANT ORDINANCE,**" "**TAX EXEMPTION**" and "**LEGAL MATTERS**" fairly summarize the matters there referred to, we have not been requested to check or verify, have not checked or verified, and express no opinion with respect to, the accuracy, adequacy, completeness or fairness of any other information in such Official Statement or in any of the Appendices thereto (other than the form of our approving opinion set forth in Appendix B). Further, we have not been employed by the City to advise it on a continuing basis in the future as to whether events occurring after the date of issuance of the Series 2013 Warrants may affect the Federal income tax status of the interest thereon.

The City has covenanted that the applicable requirements of the Code will be met as long as the Series 2013 Warrants are outstanding. The exclusion from gross income for federal income tax purposes of the interest on the Series 2013 Warrants depends on and is subject to the accuracy of the certifications with respect to the applicable requirements of the Code. A failure to comply with these requirements could cause interest on the Series 2013 Warrants to be deemed not excludable from gross income for federal income tax purposes as of the date of issuance of the Series 2013 Warrants or as of some later date.

The rights of the registered owners of the Series 2013 Warrants and the enforceability thereof are subject to the exercise of judicial discretion in accordance with general principles of equity, to the valid exercise of the constitutional powers of the United States of America and the sovereign police powers of the State of Alabama, and to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights heretofore or hereafter enacted.

The opinion is (a) limited to matters stated herein and no opinion may be inferred beyond the matters expressly stated, (b) given as of the date hereof and with the express understanding that we have no obligation to advise you or any of your successors or assigns of any changes in law or fact subsequent to the date hereof, even though such changes may affect the opinions expressed herein, (c) rendered to you solely in connection with the subject transactions and may not be relied upon by you or by any other person for any other purpose, and (d) rendered as an expression of our professional judgment as to the legal issues explicitly addressed herein, by the rendering of which we do not become an insurer or guarantor of that expression of professional judgment or of the outcome of any legal dispute that may arise with respect to any of the matters herein contained.

Yours very truly,

APPENDIX C

FINANCIAL STATEMENTS