NEW ISSUE
BOOK-ENTRY-ONLY

Rating: Standard & Poor's: "A" Stable

PRELIMINARY OFFICIAL STATEMENT

$10,000,000*

THE FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE

Waterworks Revenue Refunding Bonds, Series 2016

OFFERED FOR SALE NOT SOONER THAN

Tuesday, April 19, 2016 at 10:15 A.M. E.D.T
Through the Facilities of ***PARITY***®
and at the offices of
Cumberland Securities Company, Inc.
Knoxville, Tennessee

Cumberland Securities Company, Inc.
Financial Advisor

April 11, 2016

* Subject to Change

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 11, 2016

NEW ISSUE — Rating: Standard & Poor's: "A" Stable
Book-Entry-Only — (See "MISCELLANEOUS - Rating")

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the District, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading "Legal Matters - Tax Matters" herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except inheritance, transfer and estate taxes, and Tennessee franchise and excise taxes. (See "Legal Matters - Tax Matters" herein).

$10,000,000*
THE FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE
Waterworks Revenue Refunding Bonds, Series 2016

Dated: Date of Issuance (assume May 20, 2016). — Due: June 1 (as shown below)

The $10,000,000* Waterworks Revenue Refunding Bonds, Series 2016 (the "Bonds") of The First Utility District of Hawkins County, Tennessee (the "District") will be issued as fully registered Bonds in denominations of $5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of $5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on December 1, 2016 and thereafter on each June 1 and December 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds are payable from and secured by a pledge of the Net Revenues of the System, as defined herein, subject to the prior pledge of such Net Revenues in favor of the District's Waterworks Revenue Bond, Series 2003, dated March 8, 2006 (the "Prior Lien Bond") and on a parity and equality of lien with respect to such Net Revenues with the District's outstanding Waterworks Revenue Refunding and Improvement Bonds, Series 2008A, dated June 18, 2008 (to the extent not refunded with the Bonds) and its outstanding Waterworks Revenue Bonds, Series 2008B, dated July 15, 2008 (to the extent not refunded with the Bonds)

Bonds maturing June 1, 2025 and thereafter are subject to redemption prior to maturity on or after June 1, 2024.

Due (June 1)	Amount*	Interest Rate	Yield	CUSIPs**	Due (June 1)	Amount*	Interest Rate	Yield	CUSIPs**
2017	$ 55,000				2030	$ 435,000			
2018	55,000				2031	445,000			
2019	55,000				2032	460,000			
2020	55,000				2033	470,000			
2021	55,000				2034	485,000			
2022	60,000				2035	495,000			
2023	60,000				2036	515,000			
2024	365,000				2037	535,000			
2025	375,000				2038	650,000			
2026	385,000				2039	665,000			
2027	390,000				2040	680,000			
2028	400,000				2041	700,000			
2029	415,000				2042	740,000			

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire *Preliminary Official Statement* to obtain information essential to make an informed investment decision.

The Bonds are offered when, as and if issued by the District, subject to the approval of the legality thereof by Glankler Brown, PLLC, Memphis, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. Certain legal matters in connection with the Bonds are subject to the approval of Joseph E. May, Esq. Mount Carmel, Tennessee, as counsel to the District. It is expected that the Bonds will be available for delivery through the facilities of DTC, New York, New York, on or about May __, 2016.

Cumberland Securities Company, Inc.
Financial Advisor

April __, 2016

* Subject to Change

This Preliminary Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Preliminary Official Statement may contain forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Preliminary Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Preliminary Official Statement. The Issuer disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This Preliminary Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Issuer, the Bonds, the Resolution, the Disclosure Certificate, and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions and statutes, the Resolution, the Disclosure Certificate, and other documents are intended as summaries only and are qualified in their entirety by reference to such documents and laws, and references herein to the Bonds are qualified in their entirety to the forms thereof included in the Bond Resolution.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Resolution has not been qualified under the Trust Indenture Act of 1939, in reliance on exemptions contained in such Acts. This Preliminary Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

No dealer, broker, salesman, or other person has been authorized by the Issuer, the Financial Advisor or the Underwriter to give any information or to make any representations other than those contained in this Preliminary Official Statement, and, if given or made, such other information or representations should not be relied upon as having been authorized by the Issuer, the Financial Advisor or the Underwriter. Except where otherwise indicated, all information contained in this Preliminary Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Preliminary Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

** These CUSIP numbers have been assigned by Standard & Poor’s CUSIP Service Bureau, a division of the McCraw-Hill Companies, Inc., and are included solely for the convenience of the Bond holders. The District is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

THE FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE

OFFICIALS

Terry Fletcher *President*		Carole Fuller *Commissioner*
	Lynn Parker *Secretary*	

GENERAL MANAGER

Jeremy Jones

COUNSEL TO THE DISTRICT

Joseph E. May
Mount Carmel, Tennessee

REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

BOND COUNSEL

Glankler Brown, PLLC
Memphis, Tennessee

FINANCIAL ADVISOR

Cumberland Securities Company, Inc.
Knoxville, Tennessee

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SUMMARY STATEMENT

The information set forth below is provided for convenient reference and does not purport to be complete and is qualified in its entirety by the information and financial statements appearing elsewhere in this *Preliminary Official Statement*. This Summary Statement shall not be reproduced, distributed or otherwise used except in conjunction with the remainder of this *Preliminary Official Statement*.

The Issuer	The First Utility District of Hawkins County, Tennessee (the "District" or "Issuer"). See APPENDIX B contained herein.
Securities Offered	$10,000,000[*] Waterworks Revenue Refunding Bonds, Series 2016 (the "Bonds") of the District will be dated the date of issuance (assume May 20, 2016) and maturing June 1, 2017 through June 1, 2042, inclusive. See the section entitled "SECURITIES OFFERED" for additional information.
Security	The Bonds shall be payable solely from and secured by a pledge of the Net Revenues on a parity and equality of lien with the Outstanding Parity Bonds and any Parity Bonds hereafter issued, subject to the prior pledges of such Net Revenues in favor of the Prior Lien Bond. The punctual payment of principal of and premium, if any, and interest on the Bonds, the Outstanding Parity Bonds and any Parity Bonds hereafter issued shall be secured equally and ratably by the Net Revenues without priority by reason of series, number or time of sale or delivery. The Bonds do not constitute a debt of Hawkins County, Tennessee, the State of Tennessee, or any political subdivision, agency or instrumentality thereof, or municipal corporation therein, other than the District, and no holder of the Bonds shall have recourse to the taxing power of any such entities. The District has no taxing power.
Purpose	The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, the Refunded Bonds, as described herein; and (ii) payment of the costs related to the issuance and sale of the Bonds.
Optional Redemption	The Bonds are subject to optional redemption, in whole or in part, at a price of par plus accrued interest on June 1, 2024, in whole or in part, and at any time thereafter at the price of par plus accrued interest to the redemption date. See the section entitled "SECURITIES OFFERED-Optional Redemption."
Tax Matters	In the opinion of bond counsel, interest on the Bonds will be excluded from gross income for federal income tax purposes and will not be an item of tax preference for purposes of the alternative minimum tax on individuals and corporations and will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled "LEGAL MATTERS - Tax Matters" and APPENDIX A (form of legal opinion) included herein.
Bank Qualification	The Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled "LEGAL MATTERS - Tax Matters" for additional information.
Rating	Standard & Poor's: "A" Stable. See the section entitled "MISCELLANEOUS-Ratings" for more information.
Registration and Paying Agent	Regions Bank, Nashville, Tennessee (the "Registration Agent").
Bond Counsel	Glankler Brown, PLLC, Memphis, Tennessee.

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[*] Preliminary, subject to change.

Financial Advisor	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled "MISCELLANEOUS - Financial Advisor; Related Parties; Others" herein.
Underwriter	__________________________________.
Book-Entry-Only System	The Bonds will be issued under the Book-Entry System. For additional information, see the section entitled "BASIC DOCUMENTATION – Book-Entry-Only System."
General	The Bonds are being issued in full compliance with applicable provisions of Title 7, Chapter 82 and Title 9, Chapter 21, *Tennessee Code Annotated*, as supplemented and revised. See "SECURITIES OFFERED" herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of The Depository Trust Company, New York, New York.
Disclosure	In accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the County will provide the Municipal Securities Rulemaking Board ("MSRB") through the operation of the Electronic Municipal Market Access system ("EMMA") and the State Information Depository ("SID") established in Tennessee, if any, annual financial statements and other pertinent credit information, including the Comprehensive Annual Financial Reports. For additional information, see the section entitled "MISCELLANEOUS - Continuing Disclosure" for additional information.
Other Information	The information in the *Preliminary Official Statement* is deemed "final" within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover hereof except for the omissions of certain pricing information allowed to be omitted pursuant to such Rule 15c2-12. For more information concerning the District or the *Preliminary Official Statement*, contact Terry Fletcher, President, 219 West Main Boulevard, Church Hill, Tennessee 37642, Telephone: 423-357-7511 or the District's Financial Advisor, Cumberland Securities Company, Inc., 813 S. Northshore Drive, Suite 201A, Knoxville, Tennessee 37919, Telephone: 865-988-2663. Additional information regarding BiDCOMP™/PARITY® may be obtained from PARITY®, 1359 Broadway - 2nd Floor, New York, NY 10018, Telephone: (800) 850.7422.

NET ASSETS

Summary of Changes In Net Assets

(In Thousands)

	For the Fiscal Year Ended June 30				
	2011	**2012**	**2013**	**2014**	**2015**
Beginning Net Assets	$8,363,798	$8,437,862	$7,875,243	$7,806,887	$8,034,271
Revenues	3,237,307	3,161,988	3,741,538	3,842,772	3,937,906
Expenditures	3,045,879	3,168,918	3,024,874	3,068,709	3,046,312
Non-Operating Revenue (Expense)	(550,689)	(555,689)	(505,950)	(546,679)	(531,436)
Contributions	433,325	-	-	-	-
Change in Net Assets	74,064	(562,619)	210,714	227,384	360,158
Prior Period Adjustments	-	-	(279,070)	7,806,887	(216,321)
Ending Net Assets	**$8,437,862**	**$7,875,243**	**$7,806,887**	**$8,034,271**	**$8,178,108**

Source: Financial Statements with Report of Certified Public Accountants.

SUMMARY NOTICE OF SALE

$10,000,000*

THE FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE

Waterworks Revenue Refunding Bonds, Series 2016

NOTICE IS HEREBY GIVEN that the President of The First Utility District of Hawkins County, Tennessee (the "District") will receive electronic or written bids until **10:15 a.m. E.D.T.** on **Tuesday, April 19, 2016** for the purchase of all, but not less than all, of the District's $10,000,000* Waterworks Revenue Refunding Bonds, Series 2016 (the "Bonds"). Electronic bids must be submitted through ***PARITY***® as described in the "Detailed Notice of Sale". In case of written bids, bids will be received at the office of the County's Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the District reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the ***PARITY***® System not later than 9:00 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the ***PARITY***® System.

Electronic bids must be submitted through ***PARITY***® via the BiDComp Competitive Bidding Service as described in the Detailed Notice of Sale and no other provider of electronic bidding services will be accepted. For the purposes of the bidding process, both written and electronic, the time maintained by ***PARITY***® shall constitute the official time with respect to all bids. To the extent any instructions or directions set forth in ***PARITY***® conflict with the terms of the Detailed Notice of Sale and this Summary Notice of Sale, the Detailed Notice of Sale and this Summary Notice of Sale shall prevail.

The Bonds will be issued in book-entry form (except as otherwise described in the Detailed Notice of Sale) and dated the date of issuance (assume May 20, 2016). The Bonds will mature on June 1 in the years 2017 through 2042, inclusive, with term bonds optional, with interest payable on June 1 and December 1 of each year, commencing December 1, 2016, and will be subject to redemption prior to maturity on or after June 1, 2024. Bidders must bid not less than ninety-eight percent (98.00%) of par or more than one hundred and twenty-five percent (125%) of par for the Bonds. The approving opinion for the Bonds will be furnished at the expense of the District by Glankler Brown, PLLC, Bond Counsel, Memphis, Tennessee. No rate or rates bid for the Bonds shall exceed five percent (5.00%) per annum. Unless bids are rejected, the Bonds will be awarded by the President of the District on the sale date to the bidder whose bid results in the lowest true interest rate on the Bonds.

Additional information, including the PRELIMINARY OFFICIAL STATEMENT in near final form and the Detailed Notice of Sale, may be obtained through www.prospectushub.com or from the County's Financial Advisor, Cumberland Securities Company, Inc., P.O. Box 24508, Knoxville, Tennessee 37933, (865) 988-2663. Further information regarding ***PARITY***® may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

THE FIRST UTILITY DISTRICT OF
HAWKINS COUNTY, TENNESSEE
By: Terry Fletcher, President

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* Preliminary, subject to change.

DETAILED NOTICE OF SALE

$10,000,000*

THE FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE

Waterworks Revenue Refunding Bonds, Series 2016

NOTICE IS HEREBY GIVEN that the President of The First Utility District of Hawkins County, Tennessee (the "District") will receive electronic or written bids until **10:15 a.m. E.D.T.** on **Tuesday, April 19, 2016** for the purchase of all, but not less than all, of the District's $10,000,000* Waterworks Revenue Refunding Bonds, Series 2016 (the "Bonds"). Electronic bids must be submitted through ***PARITY®*** as described in the "Detailed Notice of Sale." In case of written bids, bids will be received at the office of the County's Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the District reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth herein, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the ***PARITY®*** System not later than 9:00 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the ***PARITY®*** System.

Description of the Bonds. The Bonds will be issued in fully registered book-entry-only form (except as otherwise described herein) without coupons, be dated the date of issuance, bear interest payable each June 1 and December 1, commencing December 1, 2016, be issued, or reissued upon transfer, in $5,000 denominations or multiples thereof, as shall be requested by the purchaser or registered owner thereof, as applicable, and will mature (subject to the right of redemption as hereinafter set forth) and be payable as follows:

YEAR (JUNE 1)	Amount*	YEAR (JUNE 1)	Amount*
2017	$ 55,000	2030	$ 435,000
2018	55,000	2031	445,000
2019	55,000	2032	460,000
2020	55,000	2033	470,000
2021	55,000	2034	485,000
2022	60,000	2035	495,000
2023	60,000	2036	515,000
2024	365,000	2037	535,000
2025	375,000	2038	650,000
2026	385,000	2039	665,000
2027	390,000	2040	680,000
2028	400,000	2041	700,000
2029	415,000	2042	740,000

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* Preliminary, subject to change.

<u>*Bank Qualification.*</u> The Bonds will be designated as “qualified tax-exempt obligations” within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended.

<u>Registration and Depository Participation</u>. The Bonds, when issued, will be registered in the name of Cede & Co., DTC’s partnership nominee. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry system maintained by DTC (the “Book-Entry-Only System”). One fully-registered bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC. The book-entry system will evidence beneficial ownership interests of the Bonds in the principal amount of $5,000 for the Bonds and any integral multiple of $5,000, with transfers of beneficial ownership interest effected on the records of DTC participants and, if necessary, in turn by DTC pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., nominee of DTC. The Bonds will be payable, at maturity or upon earlier redemption to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments (as applicable) to beneficial owners of the Bonds by Participants of DTC, will be the responsibility of such participants and of the nominees of beneficial owners. The District will not be responsible or liable for such transfer of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. Notwithstanding the foregoing, if the winning bidder certifies that it intends to hold the Bonds for its own account and has no present intent to re-offer the Bonds, the use the Book-entry system is not required.

In the event that the book-entry only system for the Bonds is discontinued and a successor securities depository is not appointed by the District, Bond Certificates in fully registered form will be delivered to, and registered in the names of, the DTC Participants or such other persons as such DTC participants may specify (which may be the indirect participants or beneficial owners), in authorized denominations of $5,000 for the Bonds or integral multiples thereof. The ownership of Bonds so delivered shall be registered in registration books to be kept by the Registration Agent (named herein) at its principal corporate trust office, and the District and the Registration Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Resolution authorizing the Bonds.

<u>Security Pledged</u>. This Bond is payable solely from and secured by a pledge of revenues to be derived from the operation of the District’s water system (the "System”) on a parity and complete equality of lien with respect to such revenues with the District’s Waterworks Revenue Refunding and Improvement Bonds, Series 2008A, dated June 18, 2008 (to the extent not refunded with the Bonds) and its outstanding Waterworks Revenue Bonds, Series 2008B, dated July 15, 2008 (to the extent not refunded with the Bonds) (collectively, the “Outstanding Parity Bonds”), and any bonds issued hereafter on parity with the Outstanding Parity Bonds and/or the Bonds, subject to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System and subject to the prior pledges of such revenues in favor of its outstanding Waterworks Revenue Bond, Series 2003 dated March 8, 2006 (the “Prior Lien Bond”). As provided in the Resolution, the punctual payment of principal of and interest on the series of the Bonds of which this Bond is one, the Outstanding Parity Bonds and any other bonds hereafter issued on a parity therewith, shall be secured equally and ratably by said revenues without priority by reason of series, number or time of sale or delivery. The revenues of the District are required by law and by the proceedings pursuant to which this Bond is issued to be fully sufficient to pay the cost of operating, maintaining, repairing and insuring the System, including reserves therefor, to pay principal of and interest on the Prior Lien Bond, and to pay principal of and interest on the Outstanding Parity Bonds and this Bond and the issue of which it is a part promptly as each becomes due and payable. The District has covenanted and does hereby covenant that it will fix and impose such rates and charges for the services rendered by the System and will collect and account for sufficient revenues to pay promptly the principal of and interest on the Outstanding Parity Bonds and this Bond and the issue of which it is a part as each becomes due. This Bond and the interest hereon are payable

solely from the revenues so pledged to the payment hereof, and this Bond does not constitute a debt of the District within the meaning of any statutory limitation. For a more complete statement of the revenues from which and conditions under which this Bond is payable, a statement of the conditions on which obligations may hereafter be issued on a parity with this Bond, the general covenants and provisions pursuant to which this Bond is issued and the terms upon which the Resolution may be modified, reference is hereby made to the Resolution.

A statutory mortgage lien, which is hereby recognized as valid and binding, is created and granted by the Act on the System, subject to the Prior Lien Bond, in favor of the owner or owners of this Bond and the issue of which it is a part, the Outstanding Parity Bonds and any bonds hereafter issued on a parity therewith, and the System shall remain subject to such statutory mortgage lien until the payment in full of the principal of and interest on said Bonds.

Purpose. The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, the Refunded Bonds, as described herein; and (ii) payment of the costs related to the issuance and sale of the Bonds.

Optional Redemption. The Bonds maturing on June 1, 2025, and thereafter, will be subject to optional redemption prior to maturity at the option of the District on and after June 1, 2024, in whole or in part, at the redemption price of par plus accrued interest as provided herein.

Term Bond Option; Mandatory Redemption. Bidders shall have the option to designate certain consecutive serial maturities of the Bonds as one or more term bonds ("Term Bonds") bearing a single interest rate. If the successful bidder for the Bonds designates certain consecutive serial maturities of such Bonds to be combined as one or more Term Bonds as allowed herein, then each Term Bond shall be subject to mandatory sinking fund redemption by the District at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest to the date fixed for redemption at the rate stated in the Term Bonds to be redeemed. Each such mandatory sinking fund redemption shall be made on the date on which a consecutive maturity included as part of a Term Bond is payable in accordance with the proposal of the successful bidder for the Bonds and in the amount of the maturing principal installment for the Bonds listed herein for such principal payment date. Term Bonds to be redeemed within a single maturity shall be selected in the manner provided above for optional redemption of Bonds within a single maturity.

Bidding Instructions. The District will receive electronic or written bids for the purchase of all, but not less than all, of the Bonds. Bidders for the Bonds are requested to name the interest rate or rates the Bonds are to bear in multiples of one-eighth of one percent and/or one-hundredth of one percent (.01%) or one (1) basis point, but no rate specified shall be in excess of five percent (5.00%) per annum. There will be no limitation on the number of rates of interest that may be specified in a single bid for the Bonds but a single rate shall apply to each single maturity of the Bonds. Bidders must bid not less than ninety-eight percent (98.00%) of par or more than one hundred and twenty-five percent (125%) of par.

Electronic bids must be submitted through ***PARITY***® via BiDCOMP Competitive Bidding System and no other provider of electronic bidding services will be accepted. Subscription to the i-Deal LLC Dalcomp Division's BiDCOMP Competitive Bidding System is required in order to submit an electronic bid. The District will not confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. For the purposes of the bidding process, the time as maintained by ***PARITY***® shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in ***PARITY***® conflict with the terms of the Detailed Notice of Sale, this Notice shall prevail. An electronic bid made through the facilities of ***PARITY***® shall be deemed an offer to purchase in response to the Detailed Notice of Sale and shall be binding upon the bidder as if made by a signed, written bid delivered to the District. The District shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by ***PARITY***®. The use of ***PARITY***® facilities are at the sole risk of the prospective bidders.

For further information regarding ***PARITY®***, potential bidders may contact i-Deal LLC at 1359 Broadway, 2nd Floor, New York, NY 10018, Telephone: 212-849-5000.

In the event of a system malfunction in the electronic bidding process only, bidders may submit bid prior to the established date and time by FACSIMILE transmission sent to the District's Financial Advisor, Cumberland Securities Company, Inc. at 865-777-5836. Any facsimile submission is made at the sole risk of the prospective bidder. The District and the Financial Advisor shall not be responsible for confirming receipt of any facsimile bid or for any malfunction relating to the transmission and receipt of such bids.

Separate written bids should be submitted in sealed envelope marked "Bid for Bonds" at the offices of the District's Financial Advisor, at 865-988-1863. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

The District reserves the right to reject all bids for the Bonds and to waive any informalities in the bids accepted. Acceptance or rejection of "Bids for Bonds" for the Bonds will not obligate the District to accept or reject "Bids for Bonds".

Unless all bids for the Bonds are rejected, the Bonds will be awarded by the President of the District to the bidder whose bid complies with this notice and results in the lowest true interest rate on the Bonds to be calculated as that rate that, when used in computing the present worth of all payments of principal and interest on the Bonds (compounded semi-annually from the date of the Bonds), produces an amount equal to the purchase price of the Bonds exclusive of accrued interest. For purposes of calculating the true interest cost, the principal amount of Term Bonds scheduled for mandatory sinking fund redemption as part of the Term Bond shall be treated as a serial maturity in such year. In the event that two or more bidders offer to purchase the Bonds at the same lowest true interest rate, the President shall determine in his sole discretion which of the bidders shall be awarded the Bonds.

After receipt of the bids, the District reserves the right to make adjustments and/or revisions to the Bonds, as described below.

Adjustment and/or Revision. While it is the District's intention to sell and issue the approximate par amounts of the Bonds as offered herein, there is no guarantee that adjustment and/or revision may not be necessary in order to properly size the Bonds. Accordingly, the President reserves the right, in his sole discretion, to adjust down the original par amount of the Bonds by up to $2,500,000. The principal factor to be considered in making any adjustments is the amount of premium bid for particular maturities. Among other factors the President may (but shall be under no obligation to) consider in sizing the par amounts and individual maturities of the Bonds is the size of individual maturities or sinking fund installments and/or other preferences of the District. The maximum adjustment will only occur if a bidder bids the maximum price of 125% of par. Additionally, the President reserves the right to change the dated date of the Bonds.

In the event of any such adjustment and/or revision with respect to the Bonds, no rebidding will be permitted, and the portion of such premium or discount (as may have been bid for the Bonds) shall be adjusted in the same proportion as the amount of such revision in par amount of the Bonds bears to the original par amount of such Bonds offered for sale.

The successful bidder for the Bonds will be tentatively notified by not later than 5:00 p.m. (Eastern Daylight Time), on the sale date of the exact revisions and/or adjustments required, if any.

Good Faith Deposit. No good faith check will be required to accompany any bid submitted. The successful bidder shall be required to deliver to the District's Financial Advisor (wire transfer or certified check) the amount of two percent (2%) of the aggregate principal amount of the Bonds offered for sale which will secure the faithful performance of the terms of the bid. A certified check or wire transfer must be received by the District's Financial Advisor no later than the close of business on the day following the competitive sale. A wire transfer may be sent to First Tennessee Bank, ABA Number: 084-000-026 First Tenn Mem, FAO Cumberland Securities Company, Inc. & Company, Account No. 0010000117382, for further credit to Suspense Account No. 255000-04.

The good faith deposit shall be applied (without interest) to the purchase price of the Bonds. If the successful bidder should fail to accept or pay for the Bonds when tendered for delivery and payment, the good faith deposit will be retained by the District as liquidated damages.

In the event of the failure of the District to deliver the Bonds to the purchaser in accordance with the terms of this Notice within forty-five (45) days after the date of the sale, the good-faith deposit will be promptly returned to the purchaser unless the purchaser directs otherwise.

Reoffering Prices; Other Information. The successful bidder must furnish the following information to the District to complete the *Official Statement* in final form within two (2) hours after receipt and award of the bid for the Bonds:

1. The offering prices or yields for the Bonds (expressed as a price or yield per maturity, exclusive of any accrued interest, if applicable);

2. Selling compensation (aggregate total anticipated compensation to the underwriter expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields as provided above);

3. The identity of the underwriters if the successful bidder is part of a group or syndicate; and

4. Any other material information necessary to complete the *Official Statement* in final form but not known to the District.

In addition, within two hours of the award of the Bonds, the successful bidder shall furnish to the District a certificate acceptable to Bond Counsel stating: (i) the reoffering prices (as shown in the bidder's winning bid); (ii) that the successful bidder will make a bona fide public offering of the Bonds at such reoffering prices; and (iii) that the successful bidder reasonably expects that the Bonds (or at least 10% of each maturity of the Bonds) will be sold to the public (excluding bond houses, brokers and other intermediaries) at those reoffering prices.

As a condition to the delivery of the Bonds, the successful bidder will be required to deliver a certificate to the District confirming that nothing has come to the bidder’s attention that would lead it to believe that its certification with respect to the reoffering prices of the Bonds given in connection with the award of the Bonds is inaccurate, and addressing such other matters as to the reoffering prices of the Bonds as bond counsel may request.

Legal Opinion. The approving opinion of Glankler Brown PLLC, Memphis, Tennessee, Bond Counsel along with other certificates including, but not limited to, a tax certificate and a continuing disclosure certificate dated as of the date of delivery of the Bonds will be furnished to the purchaser at the expense of the District. As set forth in the *Preliminary Official Statement*, Bond Counsel's opinion with respect to the Bonds will state that interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal law alternative minimum tax imposed on individuals and corporations. As set forth in the *Preliminary Official Statement*, the owners of the Bonds, however, may be subject to certain additional taxes or tax consequences arising with respect to ownership of the Bonds, reference is hereby made to the *Preliminary Official Statement* and the form of the opinion contained in Appendix A.

Continuing Disclosure. At the time the Bonds are delivered, the District will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than twelve months after each of the District's fiscal years, (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events. The Annual Report (and audited financial statements, if filed separately) will be filed with the Municipal Securities Rulemaking Board ("MSRB") and any State Information Depository established in the State of Tennessee (the "SID"). If the District is unable to provide the Annual Report to the MSRB and the SID by the date required, notice of each failure will be sent to the MSRB and the SID on or before such date. The specific nature of the information to be contained in the Annual Report or the notices of events will be summarized in the District's *Official Statement* to be prepared and distributed in connection with the sale of each series of Bonds.

Delivery of Bonds. Delivery of the Bonds is expected within forty-five (45) days. At least five (5) days notice will be given to the successful bidder. Delivery will be made in book-entry form through the facilities of The Depository Trust Company, New York, New York. Payment for the Bonds must be made in *Federal Funds* or other immediately available funds.

CUSIP Numbers. CUSIP numbers will be assigned to the Bonds at the expense of the District. The District will assume no obligation for assignment of such numbers or the correctness of such numbers and neither failure to record such numbers on Bonds nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and make payment for the Bonds.

Official Statements; Other. The District has deemed the PRELIMINARY OFFICIAL STATEMENT to be final as of its date within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission (the "SEC") except for the omission of certain pricing and other information. The District will furnish the successful bidder at the expense of the District a reasonable number of copies of *Official Statement* in final form, containing the pricing and other information to be supplied by the successful bidder and to be dated the date of the sale, to be delivered by the successful bidder to the persons to whom such bidder and members of its bidding group initially sell the Bonds. Acceptance of the bid will constitute a contract between the District and the successful bidder for the provision of such copies within seven business days of the sale date.

Further Information. Additional information, including the *Preliminary Official Statement*, the Detailed Notice of Sale and the Official Bid Form, may be obtained from the District's Financial Advisor, Cumberland Securities Company, Inc., P.O. Box 24508, Knoxville, Tennessee 37933, Telephone: 865-988-2663. Further information regarding ***PARITY***® may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

THE FIRST UTILITY DISTRICT
OF HAWKINS COUNTY, TENNESSEE
By: Terry Fletcher
President

BID FORM

Terry Fletcher, President
219 West Main Boulevard
Church Hill, Tennessee 37642

April 19, 2016

Dear Mr. Fletcher:

For your legally issued, properly executed $10,000,000* Waterworks Revenue Refunding Bonds, Series 2016 (the "Bonds") of The First Utility District of Hawkins County, Tennessee, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of ________________________________ ____________________ ($______________________).

The Bonds shall be dated the date of issuance (assume May 20, 2016) and shall be callable in accordance with the DETAILED NOTICE OF SALE. The Bonds shall mature on June 1 and bear interest at the following rates:

Maturity (June 1)	**Amount***	**Rate**	**Maturity (June 1)**	**Amount***	**Rate**
2017	$ 55,000	___	2030	$ 435,000	___
2018	55,000	___	2031	445,000	___
2019	55,000	___	2032	460,000	___
2020	55,000	___	2033	470,000	___
2021	55,000	___	2034	485,000	___
2022	60,000	___	2035	495,000	___
2023	60,000	___	2036	515,000	___
2024	365,000	___	2037	535,000	___
2025	375,000	___	2038	650,000	___
2026	385,000	___	2039	665,000	___
2027	390,000	___	2040	680,000	___
2028	400,000	___	2041	700,000	___
2029	415,000	___	2042	740,000	___

We have the option to designate two or more consecutive serial maturities as term bond maturities as indicated:

Term Bond 1: Maturities from June 1, 20_______ through June 1, 20_______ @ _______%.
Term Bond 2: Maturities from June 1, 20_______ through June 1, 20_______ @ _______%.
Term Bond 3: Maturities from June 1, 20_______ through June 1, 20_______ @ _______%.
Term Bond 4: Maturities from June 1, 20_______ through June 1, 20_______ @ _______%.
Term Bond 5: Maturities from June 1, 20_______ through June 1, 20_______ @ _______%.
Term Bond 6: Maturities from June 1, 20_______ through June 1, 20_______ @ _______%.
Term Bond 7: Maturities from June 1, 20_______ through June 1, 20_______ @ _______%.
Term Bond 8: Maturities from June 1, 20_______ through June 1, 20_______ @ _______%.

It is our understanding that the Bonds are offered for sale as "qualified tax-exempt obligations" subject to the final approving opinion of Glankler Brown, PLLC, Bond Counsel, Memphis, Tennessee, whose opinion together with the executed Bonds, will be furnished by the District without cost to us.

If our bid is accepted, we agree to provide a good faith deposit for 2% of the Bonds on which we have bid by the close of business on the date following the competitive public sale as outlined in the *Detailed Notice of Sale*. Should for any reason we fail to comply with the terms of this bid, this good faith deposit shall be forfeited by us as full liquidated damages. Otherwise, this good faith deposit shall be applied to the purchase price of the Bonds on which we have bid.

Accepted for and on behalf of the
The First Utility District of Hawkins County, Tennessee
this 19th day of April, 2016.

____
Terry Fletcher, President

Respectfully submitted,
____
____

Total interest cost from
May 20, 2016 to final maturity $______________________
Less: Premium /plus discount, if any $_________________
Net Interest Cost .... $_________________
True Interest Rate .... ______________%

The computations of net interest cost and true interest rate are for comparison purposes only and are not to be considered as part of this proposal.

* Subject to Change

$10,000,000[*]
THE FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE
Waterworks Revenue Refunding Bonds, Series 2016

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This *Preliminary Official Statement* which includes the "Summary Statement" and appendices is furnished in connection with the offering by The First Utility District of Hawkins County, Tennessee (the "District" or "Issuer") of its $10,000,000 Waterworks Revenue Refunding Bonds, Series 2016 (the "Bonds").

The Bonds are authorized to be issued pursuant to the provisions of Title 7, Chapter 82, and Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, and other applicable provisions of law and pursuant to resolutions authorizing Waterworks Revenue Refunding Bonds duly adopted by the Board of Commissioners (the "Governing Body") of the District on July 13, 2015 and March 14, 2016 (collectively, the "Resolution").

The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, the Refunded Bonds, as described below; and (ii) payment of the costs related to the issuance and sale of the Bonds.

REFUNDING PLAN

The District is proposing to refinance a portion of its outstanding Waterworks Revenue Refunding and Improvement Bonds, Series 2008A, dated June 18, 2008 (the "Series 2008A Bonds"), maturing June 1, 2024 through June 1, 2037 in the principal amount of $5,875,000 and its outstanding Waterworks Revenue Bonds, Series 2008B, dated July 15, 2008 (the "Series 2008B Bonds", collectively with the Series 2008A Bonds, the "Refunded Bonds"), maturing June 1, 2042 in the principal amount of $3,400,000. The Refunded Bonds will be escrowed until the June 1, 2018 redemption date.

As required by Title 9, Chapter 21, Part 9 of *Tennessee Code Annotated* as supplemented and revised, a plan of refunding (the "Plan") for the Refunded Bonds was submitted to the Director of the Office of State and Local Finance for review and the report of such office was received and published as required by law.

DESCRIPTION OF THE BONDS

The Bonds will be initially dated and bear interest from the date of issuance (assume May 20, 2016). Interest on the Bonds will be payable semi-annually on June 1 and December 1,

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[*] Preliminary, subject to change.

commencing December 1, 2016. The Bonds are issuable in registered form only and in $5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

The Bonds shall be signed by the signature of the District's President and shall be attested by the signature of the District's Secretary. No Bond shall be valid until it has been authorized by the manual signature of an authorized officer or employee of the Registration Agent and the date of authentication noted thereon.

SECURITY

This Bond is payable solely from and secured by a pledge of revenues to be derived from the operation of the District's water system (the "System) on a parity and complete equality of lien with respect to such revenues with the District's Waterworks Revenue Refunding and Improvement Bonds, Series 2008A, dated June 18, 2008 (to the extent not refunded with the Bonds) (the "Outstanding Parity Bonds"), and any bonds issued hereafter on parity with the Outstanding Parity Bonds and/or the Bonds, subject to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System and subject to the prior pledges of such revenues in favor of its outstanding Waterworks and Sewer Revenue Bond, Series 2003 dated March 8, 2006 (the "Prior Lien Bond"). As provided in the Resolution, the punctual payment of principal of and interest on the series of the Bonds of which this Bond is one, the Outstanding Parity Bonds and any other bonds hereafter issued on a parity therewith, shall be secured equally and ratably by said revenues without priority by reason of series, number or time of sale or delivery.

A statutory mortgage lien, which is hereby recognized as valid and binding, is created and granted by the Act on the System, subject to the Prior Lien Bond, in favor of the owner or owners of this Bond and the issue of which it is a part, the Outstanding Parity Bonds and any bonds hereafter issued on a parity therewith, and the System shall remain subject to such statutory mortgage lien until the payment in full of the principal of and interest on said Bonds.

The "System" is the complete water procurement, treatment, storage and distribution system of the District, together with and including all properties of every nature hereafter owned by the District, including all improvements and extensions made by the District while the Bonds outstanding under the Bond Resolution remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles; provided, however, at the election of the Governing Body, an Acquired System (as defined in the Bond Resolution) may be included within the System and become a part thereof or, at the election of the Governing Body, not become a part of the System but be operated as a separate and independent system by the Governing Body with the continuing right, upon the election of the Governing Body, to incorporate such separately Acquired System within the System.

"Net Revenues" are Gross Earnings, excluding any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets, less Current Expenses.

"Gross Earnings" means all revenues, rentals, earnings and income of the District from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the System; proceeds from the sale of property; proceeds of insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; Hedge Receipts and Termination Payments made to the District pursuant to a Hedge Agreement; and all amounts realized from the investment of funds of the System, including money in any accounts and funds created by the Bond Resolution and resolutions authorizing any Parity Bonds or subordinate lien bonds (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to defease any outstanding obligations of the District); provided, however, at the election of the Governing Body, the term "Gross Earnings" as used in the Bond Resolution shall not include any revenues, rentals, earnings or other income received by the District from the operation of an Acquired System, and any bonds or other obligations issued in connection with such Acquired System shall not be payable from or secured by Net Revenues or be deemed to be Parity Bonds.

"Current Expenses" means expenses incurred by the District in the operation of the System, determined in accordance with generally accepted accounting principles, including the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, the cost of producing potable water, salaries and wages, cost of material and supplies, and insurance premiums, but shall exclude depreciation, amortization and interest on any bonds, notes or other obligations of the District and in-lieu of tax payments.

Under the Bond Resolution, the District has established a Debt Service Reserve Fund that must be funded in the amount of the Reserve Fund Requirement to be used solely for the purpose of paying the principal of and interest on the Bonds and the Series 2008A Bonds, to the extent not refunded with the Bonds, and on all other Parity Bonds hereafter issued. See, APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION – Application of Revenues. The District intends to fund the Reserve Fund Requirement with proceeds from existing funds on hand.

The punctual payment of principal of and interest on the Bonds are secured equally and ratably by the Net Revenues without priority by reason of series, number or time of sale or delivery. Said revenues are required by law and by the proceedings pursuant to which the Bonds are issued to be fully sufficient to pay the cost of operating, maintaining, repairing and insuring the System, including reserves therefor, and to pay principal of and interest on the Bonds and the issue of which it is a part promptly as each becomes due and payable. The District has covenanted that it will fix and impose such rates and charges for the services rendered by the System and will collect and account for sufficient revenues to pay promptly the principal of and interest on the Bonds and the issue of which it is a part as each becomes due. The Bonds and the interest on the Bonds are payable solely from the revenues so pledged to the payment of the Bonds, and the Bonds do not constitute a debt of the District within the meaning of any statutory limitation.

For a more complete statement of the Net Revenues from which and conditions under which the Bonds are payable, a statement of the conditions on which obligations may hereafter be issued on a parity with the Bonds, the general covenants and provisions pursuant to which the Bonds are issued and the terms upon which the Resolution may be modified, reference is hereby made to the Resolution.

The Bonds will not be obligations of the State of Tennessee or Hawkins County, Tennessee.

OPTIONAL REDEMPTION OF THE BONDS

The Bonds maturing June 1, 2016 through June 1, 2024 are not subject to redemption prior to maturity. The Bonds maturing June 1, 2025 and thereafter shall be subject to redemption, in whole or in part, at a price of par plus accrued interest to the redemption date, on or after June 1, 2024. If less than all of the Bonds within a single maturity shall be called for redemption, the Bonds within the maturity to be redeemed shall be selected as follows:

(a) if the Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the Bonds to be redeemed shall be determined by DTC, or such successor Depository, by lot or such other manner as DTC, or such successor Depository, shall determine; or

(b) if the Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

NOTICE OF REDEMPTION

Notice of call for redemption, whether optional or mandatory, shall be given by the Registration Agent on behalf of the Municipality not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Bonds for which proper notice was given. The notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to effect the redemption with the Registration Agent no later than the redemption date ("Conditional Redemption"). As long as DTC, or a successor Depository, is the registered owner of the Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Bonds, as and when above provided, and neither the Municipality nor the Registration Agent shall be responsible for mailing notices of redemption to DTC Participants or Beneficial Owners. Failure of DTC, or any successor Depository, to provide notice to any DTC Participant or Beneficial Owner will not affect the validity of such redemption. The Registration Agent shall mail said notices as and when directed by the Municipality pursuant to written instructions from an authorized representative of the Municipality (other than for a mandatory sinking fund redemption, notices of which shall be given on the dates provided herein) given at least forty-five (45) days prior to the redemption date (unless a shorter notice period shall be satisfactory to the Registration Agent). From and after the redemption date, all Bonds called for redemption shall cease to bear interest if funds are available at the office of the Registration Agent for the payment thereof and if notice has been duly provided as set forth herein. In the case of a Conditional Redemption, the failure of the Municipality to make funds available in part or in whole on or before the redemption date shall not constitute an event of default, and the Registration Agent shall give immediate notice to the Depository or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain outstanding.

PAYMENT OF BONDS

The Bonds will bear interest from their date or from the most recent interest payment date to which interest has been paid or duly provided for, on the dates provided herein, such interest being computed upon the basis of a 360-day year of twelve 30-day months. Interest on each Bond shall be paid by check or draft of the Registration Agent to the person in whose name such Bond is registered at the close of business on the 15th day of the month next preceding the interest payment date. The principal of the Bonds shall be payable in lawful money of the United States of America at the principal corporate trust office of the Registration Agent.

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BASIC DOCUMENTATION

REGISTRATION AGENT

The Registration Agent (named herein) will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the bond registration records maintained by the Registration Agent as of the close of business on the fifteenth day of the month next preceding the interest payment date (the "Regular Record Date") by check or draft mailed to such owner at its address shown on said bond registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the District in respect of such Bonds to the extent of the payments so made. Payment of principal of the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable.

Any interest on any Bond which is payable but is not punctually paid or duly provided for on any interest payment date (hereinafter "Defaulted Interest") shall forthwith cease to be payable to the registered owner on the relevant Regular Record Date; and, in lieu thereof, such Defaulted Interest shall be paid by the District to the persons in whose names the Bonds are registered at the close of business on a date (the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner: the District shall notify the Registration Agent in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the District shall deposit with the Registration Agent an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Registration Agent for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest. Thereupon, not less than ten (10) days after the receipt by the Registration Agent of the notice of the proposed payment, the Registration Agent shall fix a Special Record Date for the payment of such Defaulted Interest which date shall be not more than fifteen (15) nor less than ten (10) days prior to the date of the proposed payment to the registered owners. The Registration Agent shall promptly notify the District of such Special Record Date and, in the name and at the expense of the District, not less than ten (10) days prior to such Special Record Date, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each registered owner at the address thereof as it appears in the bond registration records maintained by the Registration Agent as of the date of such notice. Nothing contained in the Resolution or in the Bonds shall impair any statutory or other rights in law or in equity of any registered owner arising as a result of the failure of the District to punctually pay or duly provide for the payment of principal of, premium, if any, and interest on the Bonds when due.

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. For additional information, see the following section.

BOOK-ENTRY-ONLY SYSTEM

The Registration Agent, its successor or the Issuer will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent as of the close of business on the fifteenth day of the month next preceding the interest payment date (the "Regular Record Date") by check or draft mailed to such owner at its address shown on said Bond registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the Issuer in respect of such Bonds to the extent of the payments so made, except as described above. Payment of principal of the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable.

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

The Bonds, when issued, will be registered in the name of Cede & Co., DTC's partnership nominee, except as described above. When the Bonds are issued, ownership interests will be available to purchasers only through a book entry system maintained by DTC (the "Book Entry Only System"). One fully registered bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC.

DTC and its Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the U.S. Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

Payments of Principal and Interest. Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Registration Agent on the payable date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe it will not receive payment on such date. Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with municipal securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Issuer or the Registration Agent subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, tender price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

Notices. 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds f or 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 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as practicable after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

NONE OF THE ISSUER, THE UNDERWRITER, THE BOND COUNSEL, THE FINANCIAL ADVISOR OR THE REGISTRATION AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENT TO, OR THE PROVIDING OF NOTICE FOR, SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES.

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

None of the Issuer, the Bond Counsel, the Registration Agent, the Financial Advisor or the Underwriter will have any responsibility or obligation, legal or otherwise, to any party other than to the registered owners of any Bond on the registration books of the Registration Agent.

DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM

In the event (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the District determines to discontinue the Book-Entry System, the Book-Entry System shall be discontinued. Upon the occurrence of the event described in (i) or (ii) above, the District will attempt to locate another qualified securities depository. Upon the occurrence of the event described in (ii) above, bond certificates will be printed and delivered to Beneficial Owners.

No Assurance Regarding DTC Practices. The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District, the Registration Agent and the Underwriter do not take any responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

None of the District, the Registration Agent or the Underwriter will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the Beneficial Owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

For more information on the duties of the Registration Agent, please refer to the Resolution. Also, please see the section entitled "SECURITIES OFFERED – Redemption."

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DISPOSITION OF BOND PROCEEDS

The proceeds of the sale of the Bonds (net of any underwriter's discount and/or bond insurance premiums withheld from such proceeds) shall be used and applied as follows:

(a) pre-issuance accrued interest and the rounding amount, if any, shall be deposited to the Bond Fund to be used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds;

(b) there shall then be deposited to the Reserve Fund bond proceeds or other funds of the District, in an amount sufficient to cause the amount being held therein to be equal to the Reserve Requirement for the Bonds;

(c) the portion of the proceeds of the Bonds, which, together with other legally available funds of the Issuer and earnings on said proceeds and funds, will be sufficient to pay principal, accrued interest and redemption premium, as appropriate, on the Refunded Obligations shall be immediately applied for such purpose;

(d) the balance of the proceeds shall be used to pay the costs of issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, Bond Insurance Policy premiums, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds.

DISCHARGE AND SATISFACTION OF BONDS

If the District shall pay and discharge the indebtedness evidenced by any of the Bonds in any one or more of the following ways:

(a) by paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;

(b) by depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers (“an Agent”; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, as hereafter defined, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving or such notice); or

(c) by delivering such Bonds to the Registration Agent for cancellation by it; and if the District shall also pay or cause to be paid all other sums payable hereunder by the District with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such escrow agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the District to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void; and if the District shall pay and discharge the indebtedness evidenced by any of the Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations (defined herein) deposited as aforesaid.

Except as otherwise provided in this section, neither Defeasance Obligations nor moneys deposited with the Registration Agent nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the District as received by the Registration Agent and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the District, as received by the Registration Agent. For the purposes hereof, Defeasance Obligations shall mean direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations at the time of the purchase thereof are permitted investments under Tennessee law for the purposes described herein, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

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LEGAL MATTERS

LITIGATION

There are no suits threatened or pending challenging the legality or validity of the Bonds or the right of the District to sell or issue the Bonds.

TAX MATTERS

Federal

General. Glankler Brown, PLLC, is Bond Counsel for the Bonds. Their opinion under existing law, relying on certain statements by the District and assuming compliance by the District with certain covenants, is that interest on the Bonds:

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986, as amended (the "Code"),
- is not a preference item for a bondholder under the federal alternative minimum tax, and
- is included in the adjusted current earnings of a corporation under the federal corporate alternative minimum tax.

The Code imposes requirements on the Bonds that the District must continue to meet after the Bonds are issued. These requirements generally involve the way that Bond proceeds must be invested and ultimately used. If the District does not meet these requirements, it is possible that a bondholder may have to include interest on the Bonds in its federal gross income on a retroactive basis to the date of issue. The District has covenanted to do everything necessary to meet these requirements of the Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit or
- a borrower of money to purchase or carry the Bonds.

If a bondholder is in any of these categories, it should consult its tax advisor.

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Bonds or affect the market price of the Bonds. See also "Changes in Federal and State Law" below in this heading.

Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Bonds, or under State, local or foreign tax law.

Bond Premium. If a bondholder purchases a Bond for a price that is more than the principal amount, generally the excess is "bond premium" on that Bond. The tax accounting treatment of bond premium is complex. It is amortized over time and as it is amortized a bondholder's tax basis in that Bond will be reduced. The holder of a Bond that is callable before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Bond with bond premium, even though the Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

Original Issue Discount. A Bond will have "original issue discount" if the price paid by the original purchaser of such Bond is less than the principal amount of such Bond. Bond Counsel's opinion is that any original issue discount on these Bonds as it accrues is excluded from a bondholder's federal gross income under the Internal Revenue Code. The tax accounting treatment of original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder's tax basis in these Bonds will be increased. If a bondholder owns one of these Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount.

Qualified Tax-Exempt Obligations. Under the Code, in the case of certain financial institutions, no deduction from income under the federal tax law will be allowed for that portion of such institution's interest expense which is allocable to tax-exempt interest received on account of tax-exempt obligations acquired after August 7, 1986. The Code, however, provides that certain "qualified tax-exempt obligations", as defined in the Code, will be treated as if acquired on August 7, 1986. Based on an examination of the Code and the factual representations and covenants of the County as to the Bonds, Bond Counsel has determined that the Bonds upon issuance will be "qualified tax-exempt obligations" within the meaning of the Code.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

State Taxes

Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on interest on the Bonds during the period the Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

CHANGES IN FEDERAL AND STATE TAX LAW

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the District will execute in a form satisfactory to Bond Counsel, certain closing certificates including the following: (i) a certificate as to the *Official Statement*, in final form, signed by the District’s President and Secretary acting in his official capacity to the effect that to the best of his knowledge and belief, and after reasonable investigation, (a) neither the *Official Statement*, in final form, nor any amendment or supplement thereto, contains any untrue statements of material fact or omits to state any material fact necessary to make statements therein, in light of the circumstances in which they are made, misleading, (b) since the date of the *Official Statement*, in final form, no event has occurred which should have been set forth in such a memo or supplement, (c) there has been no material adverse change in the operation or the affairs of the District since the date of the *Official Statement*, in final form, and having attached thereto a copy of the *Official Statement*, in final form, and (d) there is no litigation of any nature pending or threatened seeking to restrain the issuance, sale, execution and delivery of the Bonds, or contesting the validity of the Bonds or any proceeding taken pursuant to which the Bonds were authorized; (ii) certificates as to the delivery and payment, signed by the District's President and Secretary acting in his official capacity, evidencing delivery of and payment for the Bonds; (iii) a signature identification and incumbency certificate, signed by the District's President and Secretary acting in their official capacities certifying as to the due execution of the Bonds; and, (iv) a Continuing Disclosure Certificate regarding certain covenants of the District concerning the preparation and distribution of certain annual financial information and notification of certain material events, if any.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters relating to the authorization and the validity of the Bonds are subject to the approval of Glankler Brown, PLLC, Memphis, Tennessee, Bond Counsel. Bond counsel has not prepared the *Preliminary Official Statement* or the *Official Statement*, in final form, or verified their accuracy, completeness or fairness. Accordingly, Bond Counsel expresses no opinion of any kind concerning the *Preliminary Official Statement* or *Official Statement*, in final form, except for the information in the section entitled "LEGAL MATTERS - Tax Matters." The opinion of Bond Counsel will be limited to matters relating to authorization and validity of the Bonds and to the tax-exemption of interest on the Bonds under present federal income tax laws, both as described above. The legal opinion will be delivered with the Bonds and the form of the opinion is included in APPENDIX A. For additional information, see the section entitled "MISCELLANEOUS – Competitive Public Sale", "- Additional Information" and "- Continuing Disclosure."

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MISCELLANEOUS

RATING

Standard & Poor's Rating Services ("Standard & Poor's") has given the Bonds the rating of "A" Stable.

There is no assurance that such rating will continue for any given period of time or that the ratings may not be suspended, lowered or withdrawn entirely by Standard & Poor's, if circumstances so warrant. Due to the ongoing uncertainty regarding the economy of the United States of America, including, without limitation, matters such as the future political uncertainty regarding the United States debt limit, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds. Any such downward change in or withdrawal of the rating may have an adverse effect on the secondary market price of the Bonds.

The rating reflects only the views of Standard & Poor's and any explanation of the significance of such rating should be obtained from Standard & Poor's.

COMPETITIVE PUBLIC SALE

The Bonds will be offered for sale at competitive public bidding on April 19, 2016. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated April 11, 2016.

The successful bidder for the Bonds was an account led by __________________, _______, _______ (the "Underwriters") who contracted with the District, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Bonds at a purchase price of $__________ (consisting of the par amount of the Bonds, less an underwriter's discount of $_________ and less an original issue discount of $__________) or ____% of par.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Cumberland Securities Company, Inc., Knoxville, Tennessee, has served as financial advisor (the "Financial Advisor") to the District for purposes of assisting with the development and implementation of a bond structure in connection with the issuance of the Bonds. The Financial Advisor has not been engaged by the District to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the District, including without limitation any of the District's financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the District, any of its affiliated or constractors and any outside parties has not been independently verified by the Financial Advisor, and inclusion of such information is not, and should not be construed as, a representation by the Financial Advisor as to its accuracy or completeness or otherwise. The Financial Advisor is not a public accounting firm and has not been engaged by the District to review or audit any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in accordance with accounting standards.

Regions Bank. Regions Bank (the "Bank") is a wholly-owned subsidiary of Regions Financial Corporation. The Bank provides, among other services, commercial banking, investments and corporate trust services to private parties and to State and local jurisdictions, including serving as registration, paying agent, filing agent or escrow agent related to debt offerings. The Bank will receive compensation for its role in serving as Registration and Paying Agent for the Bonds. In instances where the Bank serves the District in other normal commercial banking capacities, it will be compensated separately for such services.

Official Statements. Certain information relative to the location, economy and finances of the Issuer is found in the *Preliminary Official Statement*, in final form and the *Official Statement*, in final form. Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

Cumberland Securities Company, Inc. distributed the *Preliminary Official Statement*, in final form, and the *Official Statement*, in final form on behalf of the District and will be compensated and/or reimbursed for such distribution and other such services.

Bond Counsel. From time to time, Glankler Brown, PLLC has represented the Bank on legal matters unrelated to the District and may do so again in the future.

Other. Among other services, Cumberland Securities Company, Inc. and the Bank may also assist local jurisdictions in the investment of idle funds and may serve in various other capacities, including Cumberland Securities Company's roll as serving as the District's Dissemination Agent. If the District chooses to use one or more of these other services provided by Cumberland Securities Company, Inc. and/or the Bank, then Cumberland Securities Company, Inc. and/or the Bank may be entitled to separate compensation for the performance of such services.

DEBT RECORD

There is no record of default or non payment of any legal obligations of the District.

ADDITIONAL DEBT

The District may authorize the refinancing of additional maturities of the Series 2008A Bonds in future calendar years.

CONTINUING DISCLOSURE

The District will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2016 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the District. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the District with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Act Rule 15c2-12(b), as it may be amended from time to time (the "Rule 15c2-12"). The District is in compliance with the undertakings required under the Rule.

Five-Year History of Filing. The District was late in filing its required information on EMMA for Fiscal Year 2010 (November 2, 2011), however the FY 2010 Annual Report was filed on time on June 16, 2011. While it is believed that all appropriate filings were made with respect to the ratings of the District's outstanding bond issues, some of which were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds or various insurance companies which insured some transaction were made or made in a timely manner as required by Rule 15c2-12. With the exception of the foregoing, for the past five years, the District has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

Content of Annual Report. The District's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the District for the fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the District's audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained herein, and the audited financial statements shall be filed when available. The Annual Report shall also include in a similar format the following information included in APPENDIX B entitled "SUPPLEMENTAL INFORMATION STATEMENT."

1. Number of Water System Customers by Class as shown on page B-4;
2. Top Ten System Customers as shown on page B-5;

3. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-7;
4. Information about the Bonded Debt Service Requirements as of the end of such fiscal year as shown on page B-8;
5. Summary of Revenues, Expenditures and Changes in Fund Balances for the fiscal year as shown on page B-9; and
6. The Historical Debt Service Coverages as shown on page B-10.

Any or all of the items listed above may be incorporated by reference from other documents, including OFFICIAL STATEMENTS in final form for debt issues of the District, which have been submitted to each of the MSRB or the U.S. Securities and Exchange Commission. If the document incorporated by reference is an OFFICIAL STATEMENT, in final form, it will be available from the MSRB. The Distrcit shall clearly identify each such other document so incorporated by reference.

Reporting of Significant Events. The District will file notice regarding material events with the MSRB and the SID, if any, as follows:

1. Upon the occurrence of a Listed Event (as defined in (3) below), the District shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any.

2. For Listed Events where notice is only required upon a determination that such event would be material under applicable Federal securities laws, the District shall determine the materiality of such event as soon as possible after learning of its occurrence.

3. The following are the Listed Events:

    a. Principal and interest payment delinquencies;

    b. Non-payment related defaults, if material;

    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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

g. Modifications to rights of Bondholders, if material;

h. Bond calls, if material, and tender offers;

i. Defeasances;

j. Release, substitution, or sale of property securing repayment of the securities, if material;

k. Rating changes;

l. Bankruptcy, insolvency, receivership or similar event of the obligated person;

m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

n. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Termination of Reporting Obligation. The District's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the District may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions concerning the Annual Report and Reporting of Significant Events it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Default. In the event of a failure of the District to comply with any provision of the Disclosure Certificate, any Bondholder or any beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an event of default, if any, under the Resolution, and the sole remedy under the Disclosure Certificate in the event of any failure of the District to comply with the Disclosure Certificate shall be an action to compel performance.

ADDITIONAL INFORMATION

Use of the words "shall," "must," or "will" in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in summaries of documents or laws to describe future events or continuing obligations is not intended as a representation that such event will occur or obligation will be fulfilled but only that the document or law contemplates or requires such event to occur or obligation to be fulfilled.

Any statements made in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Bonds.

The references, excerpts and summaries contained herein of certain provisions of the laws of the State of Tennessee, and any documents referred to herein, do not purport to be complete statements of the provisions of such laws or documents, and reference should be made to the complete provisions thereof for a full and complete statement of all matters of fact relating to the Bonds, the security for the payment of the Bonds, and the rights of the holders thereof.

The PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT, in final form, and any advertisement of the Bonds, is not to be construed as a contract or agreement between the District and the purchasers of any of the Bonds. Any statements or information printed in this PRELIMINARY OFFICIAL STATEMENT or the OFFICIAL STATEMENT, in final form, involving matters of opinions or of estimates, whether or not expressly so identified, is intended merely as such and not as representation of fact.

The District has deemed this PRELIMINARY OFFICIAL STATEMENT as “final” as of its date within the meaning of Rule 15c2-12 except for the omission of certain pricing information allowed to be omitted pursuant to Rule 15c2-12.

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CERTIFICATION

On behalf of the District, we hereby certify that to the best of our knowledge and belief, the information contained herein as of this date is true and correct in all material respects, and does not contain an untrue statement of material fact or omit to state a material fact required to be stated where necessary to make the statement made, in light of the circumstance under which they were made, not misleading.

THE FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE

/s/________________________________
President
Board of Commissioners

ATTEST:

/s/__________________________
Secretary
Board of Commissioners

APPENDIX A

LEGAL OPINION

[PROPOSED OPINION OF GLANKLER BROWN, PLLC, BOND COUNSEL]

(Date of Closing)

The First Utility District
of Hawkins County, Tennessee
523 W. Main Street
Church Hill, TN 37642

Re: Waterworks Revenue Refunding Bonds, Series 2016 of
The First Utility District of Hawkins County, Tennessee

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by The First Utility District of Hawkins County, Tennessee (the "District"), of $_________ aggregate principal amount of its Waterworks Revenue Refunding Bonds, Series 2016, dated of even date herewith (the "Series 2016 Bonds"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material published and distributed in connection with the sale of the Series 2016 Bonds or any other information concerning the financial condition of the District which may have been provided to the purchasers of the Series 2016 Bonds, and we express no opinion relating thereto.

Based on our examination, we are of the opinion, under existing law, as of the date hereof, as follows:

1. The Series 2016 Bonds have been authorized and issued in accordance with the Constitution and statutes of the State of Tennessee and constitute the valid and binding limited obligations of the District, payable as to both principal and interest exclusively from the net available revenues of the District’s water procurement, treatment, storage and distribution system (collectively, the “System”), after payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, on a parity with the District’s outstanding Waterworks Revenue Refunding and Improvement Bonds, Series 2008A, dated June 18, 2008, subject to prior pledges of such revenues in favor of the District’s Waterworks Revenue Bond, Series 2003, dated March 8, 2006. We express no opinion as to the sufficiency of such net available revenues for the payment of principal of, premium, if any, and interest on the Series 2016 Bonds.

2. Interest on the Series 2016 Bonds (including any original issue discount properly allocable to an owner thereof) (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2016 Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Series 2016 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2016 Bonds. The District has covenanted to comply with all such requirements. Except as set forth in this Paragraph 2 and Paragraph 4 below, we express no opinion regarding other federal tax consequences arising with respect to the Series 2016 Bonds.

3. The Series 2016 Bonds and the income therefrom are exempt from all present state, county and municipal taxation in the State of Tennessee, except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any Series 2016 Bonds during the period such Series 2016 Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of inclusion of the book value of the Series 2016 Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

4. The Series 2016 Bonds have been designated by the District as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

To the extent constitutionally applicable, the rights of the holders of the Series 2016 Bonds and the enforceability thereof are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereinafter enacted. Also, the enforcement of bondholder rights may be subject to the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

APPENDIX B

SUPPLEMENTAL INFORMATION STATEMENT

THE DISTRICT

GENERAL

The First Utility District (the "District") is located in Hawkins County in North East Tennessee. The District's main office is located in Church Hill, Tennessee. As of June 30, 2015, potable water was supplied to 7,814 customers in a 30 square mile area that includes the communities of Church Hill and Mt. Carmel. The service area consists primarily of housing subdivisions and rural farmland, with several commercial customers and six industries.

ORGANIZATION

The District was created pursuant to Order of the County Court of Hawkins County, Tennessee, entered on February 22, 1946, Supplemental Orders entered on March 22, 1980 and August 28, 1980 and Memorandum and Judgement of the County Executive of Hawkins County entered on September 11, 1990 (collectively, the "Order of Incorporation"), and thereunder shall be a municipality or public corporation in perpetuity and be a body politic and corporate with power of perpetual succession, but without any power to levy or collect taxes.

The District Act provides that, as long as the District continues to furnish any of the services which it is authorized to furnish, it shall continue to be the sole public corporation having the power to furnish such services within the boundaries of the District, and no other person, firm or corporation shall furnish or attempt to furnish any of such services in the District, unless and until it shall have been established that the public convenience and necessity require or additional services.

POWERS

The District Act and the Order of Incorporation provide that the District is empowered, among other things, to conduct, operate and maintain a system or systems for the furnishing of water. To carry out such purposes, the District has the power and authority to acquire, construct, reconstruct, improve, better, extend, consolidate, maintain and operate a water system or systems within or without the District, and to purchase from, furnish, deliver and sell to any municipality, the state, any public institution and the public, generally, any of its services. The District has the power of eminent domain and has the power to issue its negotiable bonds for the purpose of constructing, acquiring, reconstructing, improving, bettering or extending any of its facilities, system or systems and to pledge to the payment of such negotiable bonds all or any part of the revenues derived from the operation of such facilities, system or systems or combination thereof. The District has no power to levy or collect taxes.

MANAGEMENT

Governing Body. All corporate powers of the District are vested in and exercised by the Board. The Board consists of three members, each of which must reside or on property within the boundaries of the District, serving staggered for year terms. The Commissioners are appointed by the County Mayor of Hawkins County from a list of three nominees submitted by the other members of the Board then in office. Each member of the Board of Commissioners, upon expiration of his or her term, shall continue to hold office until the successor shall have been appointed. A Board member may succeed himself or herself in office.

Pursuant to the District Act, the Board acts by a majority of its members and must meet at least once each quarter. The Board is authorized by the District Act, among other things, to exercise by vote, ordinance or resolution all of the general and specific powers of the District, to make all necessary rules, regulations and bylaws for the management and conduct of the affairs of the District and to issue bonds of the District by resolution of the Board.

There are 3 Commissioners appointed to the Board of Directors of the District for 4 year terms.

Name	Position	Term Ends
Terry Fletcher	President	February 21, 2018
Lynn Parker	Secretary	February 21, 2017
Carole Fuller	Commissioner	February 21, 2020

EMPLOYEES

General Manager. The General Manager of the District is employed by the Board and is the chief executive and administrative officer of the District with the responsibility of administering the day-to-day operations of the District. The General Manager of the District is Mr. Jeremy Jones, and he has served as General Manager of the District since 2012.

The District has 21 full-time employees. Currently, no employees are represented by unions, and the District knows of no attempt by the union to organize its employees. The breakdown of employment by job description is as follows:

Position	Number
General Manager	1
Office Manager	1
Office Clerks	3
Filter Plant Operators	5
Water Distribution Staff	11

WATER TREATMENT PLANT AND STORAGE FACILITIES

The District obtains its water from two different sources. A water treatment plant is located on the Holston River with a capacity of 3,500 gallons per minute. Another water treatment plant is located on Hord Creek with a capacity of 560 gallons per minute. All the pumps are electrically driven with no standby power source.

The District's storage facilities consist of seven ground level water tanks ranging in capacity from 150,000 to 2,000,000 gallons.

WATER DISTRIBUTION AND TRANSMISSION SYSTEM

The District's water distribution system consists of approximately 400 miles of lines throughout various areas and communities of Hawkins County. The oldest of these facilities was constructed in 1948, with more than 25% of the system having been constructed since 1990. The distribution and transmission system also presently consists of two booster pumping stations.

REGULATION

State and Local Regulation. The District is required by law to establish and maintain a set of rules and regulations regarding an adjustment of all complaints which may be made to the District concerning the availability of utility services to persons in need thereof, the quality of service performed, the adjustment of bills and all other complaints of any nature, with provisions relating to the manner of resolution of individual complaints, the types of complaints which may be resolved by salaried employees of the District, and those which may be resolved only by the Board. Such rules must be posted or otherwise available in the offices of the District for inspection by customers and members of the public. The District Act provides that the District may not contractually bind itself to issue bonds that would require a rate increase until the users of the system are given notice thereof. The District has complied with this requirement with respect to all current water and sewer user rates by publishing notice of same on all customers' bills. Pursuant to the District Act, rates charged and services provided by the District may be reviewed by the Utility Management Review Board.

Upon the filing with the Review Board of a petition signed by a least ten percent of the users within the authorized area of the District, the Review Board has authority to review the rates and services of the District (see the discussion under "THE DISTRICT" - Regulation - Review Board). In addition, the District is required to have its books and records audited annually by a certified public accountant, a public accountant, or by the Division of Local Government Audit of the Comptroller of the Treasury of the State. The Comptroller of the Treasury of the State, through the Division of Local Government Audit, makes a determination as to whether the annual audit of the District has been prepared in accordance with generally accepted governmental auditing standards and whether the audits meet the minimum standards prescribed by the Comptroller. The Comptroller has promulgated rules and regulations to assure that the books and records of utility district are kept in accordance with generally accepted accounting procedures and that audit standards prescribed by the Comptroller are met. The District must file a copy of the audit with the State Comptroller and with the County Mayor of Sumner County.

Rate Regulation. The District is required by the District Act to charge such rates as shall be sufficient to pay operation and maintenance expenses and to pay principal of and interest on all bond or notes secured by revenues of the System. The Board determines the rates paid by the District's customers. The District is required to publish within ninety days after the close of its fiscal year a statement showing the financial condition of the District and the earnings of the District. Any water and/or sewer user customer of the District may file with the Board a protest concerning the rates within thirty (30) days of the publication of the statement. The Board must then give notice of a hearing to determine the validity of the protest and whether the published rates are reasonable. After the Board makes its determination, the customer may seek review of the Board's action and the Review Board, as discussed below, with the right of judicial review by common law writ of certiorari to a court within the county of the District’s principal office.

Review Board. In 1987, the State legislature established a utility management review board (the "Review Board") for the purpose of advising utility district boards of commissioners throughout the State in the area of utility management. The Review Board consists of nine (9) members consisting of the State Commissioner of Environment, the State Comptroller of the Treasury, and seven (7) members appointed by the Governor, three (3) of whom shall be experienced utility district managers, three (3) of whom shall be experienced utility district commissioners. The Review Board is given the power, among other things, to review any decision of any utility district relating to rate changes upon petition of any customer of the district, to compel the adoption of and adherence to rules and regulations for the adjustment of customer complaints, hear customer protests of rates or appeal from a hearing before the Board of Commissioners of the District, to oversee operations of "financially distressed utility districts", including the power to compel rate increases sufficient to be in compliance with State law and all covenants with bondholders and compel consolidation with another utility. A "financially distressed utility district" is a district (i) which has failed to charge rates sufficient to pay the costs of operation and maintenance of the system, including depreciation and reserves therefore, as well as to pay all bonds and interest thereon secured by the revenues of the system, including reserves therefore, for a period of two (2) consecutive years, or (ii) which is in default on any outstanding indebtedness, or (iii) which has a retained earnings deficit. The Review Board may not take any action which would adversely impair the obligations of contract or the payment of outstanding bonds of the District. Any party to a proceeding before the Review Board may appeal to a local court seeking review of any action taken.

Licenses, Permits and Approval. In the opinions of the General Manager and Counsel to the District, the District has received all licenses, permits and approvals necessary for the operation of the System.

CUSTOMER HISTORY

For the most recent five fiscal years the number of customers has been as follows:

FY Ending June 30	Water
2015	7,814
2014	7,795
2013	7,794
2012	7,789
2011	7,783

WATER GALLONS PUMPED VERSES GALLONS SOLD

Fiscal Year	Pumped (gallons)	Sold (gallons)	Percentage Water Lost*	Sales
2011	761,647,000	22,161,600	30.31%	$3,040,283
2012	773,329,000	15,630,200	25.30%	$2,971,988
2013	737,901,000	22,663,000	29.10%	$3,543,560
2014	732,478,000	19,634,100	40.45%	$3,645,498
2015	688,112,000	40,350,800	31.43%	$3,772.317

*The Percentage Water Lost does not take into account any flushing, plant use, fire department use, leaks, etc.
Source: The District.

CURRENT RATES OF THE DISTRICT

The following rates were in effect as of September 1, 2012:

Minimum Bill	$23.85 minimum bill
All over 2,000 gallons	$ 6.70 per 1,000 gallons

LARGEST CUSTOMERS

For the fiscal year ending June 30, 2015, the largest users in the District are as follows:

	Customer	Usage (gallons)	Revenue
1.	Surgoinsville Utility	28,429,200	$117,268.45
2.	AFG Industries	9,263,400	63,126.44
3.	Holliston Mills	9,011,000	61,341.79
4.	New Canton Utilities	11,921,600	52,877.85
5.	Landings Apts.	4,141,000	42,920.38
6.	Church Hill Health & Rehab.	3,416,400	26,262.96
7.	Harvard Industries	3,838,000	26,231.01
8.	Fred Smith Trailer Park	2,589,400	19,178.13
9.	Hickory Hills Apts.	1,857,400	16,344.00
10.	Church Hill Sewer Plant	499,000	3,498.67
	TOTAL	**74,966,400**	**$429,049.68**

Source: The District.

UNFUNDED ACCRUED LIABILITY FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Employees of First Utility District of Hawkins County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 10 (ten) years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 10 (ten) years of service and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as First Utility District of Hawkins County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

For additional information on the funding status, trend information and actuarial status of the District's retirement programs, please refer to the appropriate Notes to Financial Statements located in the General Purpose Financial Statements of the District attached herein.

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FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE

Summary of Bonded Indebtedness

As of ____ __, 2016

PURPOSE	DUE DATE	INTEREST RATE(S)	OUTSTANDING as of June 30, 2015
$792,400 Waterworks Revenue Bonds, Series 2003 (RDA Loan)	2044	Fixed	$ 699,965
$9,100,000 Water Revenue Refunding & Impr. Bonds, Series 2008A (Subordinated)	June 1, 2037	Fixed	7,860,000
$3,400,000 Water Revenue Bonds, Series 2008B (Subordinated)	June 1, 2042	Fixed	3,400,000
TOTAL EXISTING DEBT			$ 11,959,965
PLUS: $10,000,000 Waterworks Revenue Refunding Bonds, Series 2016 (Subordinated)	June 1, 2042		$ 10,000,000
LESS: $9,100,000 Water Revenue Refunding & Impr. Bonds, Series 2008A (Subordinated)	June 1, 2037		$ (5,875,000)
LESS: $3,400,000 Water Revenue Bonds, Series 2008B (Subordinated)	June 1, 2042		$ (3,400,000)
TOTAL BONDED DEBT			**$ 12,684,965**

NOTES:

(1) The above figures do not include any short-term debt, if any. For more information, see the notes to the Financial Statements in the FINANCIAL STATEMENTS included herein.

FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE

Outstanding and Proposed Bonded Debt Service Requirements

As of June 30, 2015

F.Y. Ended 6/30	Total Senior Bonded Debt Service Requirements			Percent Senior Principal Repaid	Total Subordinated Bonded Debt Service Requirements (June 30, 2015)			Less: Refunded Obligations			Plus: Waterworks Revenue Refunding Bonds, Series 2016			Percent Total Principal Repaid	Total Senior & Subordinated Bonded Debt Service Requirements			Percent Total Principal Repaid
	Principal	Interest	TOTAL		Principal	Interest	TOTAL	Principal	Interest (3)	TOTAL	Principal	Interest (2)	TOTAL		Principal	Interest	TOTAL	
2016	$ 12,365	$ 31,498	$ 43,863	3.61%	$ 210,000	$ 503,570	$ 713,570	$ -	$ -	$ -	$ -	$ -	$ -	0.55%	$ 222,365	$ 535,068	$ 757,433	4.02%
2017	12,934	30,942	43,876		220,000	495,695	715,695	-	(426,535)	(426,535)	55,000	295,933	350,933		$ 287,934	$ 396,035	683,969	
2018	13,528	30,360	43,888		230,000	487,445	717,445	-	(426,535)	(426,535)	55,000	295,273	350,273		$ 298,528	$ 386,542	685,070	
2019	14,149	29,751	43,900		240,000	478,935	718,935	-	(426,535)	(426,535)	55,000	294,585	349,585		$ 309,149	$ 376,736	685,885	
2020	14,800	29,115	43,915	7.92%	250,000	469,935	719,935	-	(426,535)	(426,535)	55,000	293,843	348,843	2.20%	$ 319,800	$ 366,357	686,157	9.58%
2021	14,480	28,449	42,929		265,000	459,935	724,935	-	(426,535)	(426,535)	55,000	293,073	348,073		$ 334,480	$ 354,921	689,401	
2022	16,189	27,797	43,986		280,000	449,335	729,335	-	(426,535)	(426,535)	60,000	292,220	352,220		$ 356,189	$ 342,817	699,006	
2023	16,935	27,068	44,003		290,000	438,135	728,135	-	(426,535)	(426,535)	60,000	291,230	351,230		$ 366,935	$ 329,898	696,833	
2024	17,712	26,306	44,018		305,000	426,535	731,535	(305,000)	(426,535)	(731,535)	365,000	290,150	655,150		$ 382,712	$ 316,456	699,168	
2025	18,526	25,509	44,035	19.89%	320,000	414,335	734,335	(320,000)	(414,335)	(734,335)	375,000	283,215	658,215	11.35%	$ 393,526	$ 308,724	702,250	24.04%
2026	19,377	24,676	44,053		335,000	401,375	736,375	(335,000)	(401,375)	(736,375)	385,000	275,715	660,715		$ 404,377	$ 300,391	704,768	
2027	20,267	23,804	44,071		350,000	387,640	737,640	(350,000)	(387,640)	(737,640)	390,000	267,438	657,438		$ 410,267	$ 291,241	701,508	
2028	21,198	22,892	44,090		365,000	373,115	738,115	(365,000)	(373,115)	(738,115)	400,000	258,663	658,663		$ 421,198	$ 281,554	702,752	
2029	22,172	21,938	44,110		385,000	357,785	742,785	(385,000)	(357,785)	(742,785)	415,000	249,263	664,263		$ 437,172	$ 271,200	708,372	
2030	23,190	20,940	44,130	35.07%	405,000	340,845	745,845	(405,000)	(340,845)	(745,845)	435,000	238,888	673,888	31.60%	$ 458,190	$ 259,827	718,017	40.84%
2031	24,257	19,896	44,153		425,000	323,025	748,025	(425,000)	(323,025)	(748,025)	445,000	227,360	672,360		$ 469,257	$ 247,256	716,513	
2032	25,370	18,805	44,175		445,000	304,325	749,325	(445,000)	(304,325)	(749,325)	460,000	215,345	675,345		$ 485,370	$ 234,150	719,520	
2033	26,535	17,663	44,198		465,000	284,300	749,300	(465,000)	(284,300)	(749,300)	470,000	202,465	672,465		$ 496,535	$ 220,128	716,663	
2034	27,756	16,469	44,225		485,000	263,375	748,375	(485,000)	(263,375)	(748,375)	485,000	188,835	673,835		$ 512,756	$ 205,304	718,060	
2035	29,029	15,220	44,249	54.06%	505,000	241,550	746,550	(505,000)	(241,550)	(746,550)	495,000	174,285	669,285	55.15%	$ 524,029	$ 189,505	713,534	60.45%
2036	30,364	13,914	44,278		530,000	218,825	748,825	(530,000)	(218,825)	(748,825)	515,000	158,940	673,940		$ 545,364	$ 172,854	718,218	
2037	31,758	12,547	44,305		555,000	194,975	749,975	(555,000)	(194,975)	(749,975)	535,000	142,203	677,203		$ 566,758	$ 154,750	721,508	
2038	33,217	11,118	44,335		625,000	170,000	795,000	(625,000)	(170,000)	(795,000)	650,000	124,548	774,548		$ 683,217	$ 135,666	818,883	
2039	34,743	9,624	44,367		650,000	138,750	788,750	(650,000)	(138,750)	(788,750)	665,000	102,448	767,448		$ 699,743	$ 112,071	811,814	
2040	36,340	8,060	44,400	77.84%	675,000	106,250	781,250	(675,000)	(106,250)	(781,250)	680,000	78,840	758,840	85.60%	$ 716,340	$ 86,900	803,240	85.77%
2041	38,009	6,425	44,434		700,000	72,500	772,500	(700,000)	(72,500)	(772,500)	700,000	54,020	754,020		$ 738,009	$ 60,445	798,454	
2042	39,755	4,714	44,469		750,000	37,500	787,500	(750,000)	(37,500)	(787,500)	740,000	28,120	768,120	100.00%	$ 779,755	$ 32,834	812,589	
2043	41,581	2,925	44,506		-	-	-	-	-	-	-	-	-		$ 41,581	$ 2,925	44,506	
2044	23,429	1,054	24,483	98.23%	-	-	-	-	-	-	-	-	-		$ 23,429	$ 1,054	24,483	98.25%
	$ 699,965	$ 559,480	$ 1,259,445		$ 11,260,000	$ 8,839,990	$ 20,099,990	$(9,275,000)	$ (8,042,750)	$ (17,317,750)	$ 10,000,000	$ 5,616,893	$ 15,616,893		$ 12,684,965	$ 6,973,613	$ 19,658,578	

NOTES:

(1) The above figures do not include any short-term debt, if any. For more information, see the notes to the Financial Statements in the FINANCIAL STATEMENTS included herein.

(2) Estimated Interest Rates.

FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE

Five Year Summary of Revenues, Expenditures and Changes In Net Assets

For the Fiscal Year Ending June 30

	2011	2012	2013	2014	2015
OPERATING REVENUES:					
Water Sales and Service	$ 3,040,283	$ 2,971,988	$ 3,543,560	$ 3,645,498	$ 3,728,527
Late Fee Charges	65,200	60,030	70,411	74,309	72,795
Tap Fee Charges	32,250	18,000	21,750	18,000	26,250
Billing Charges to Outside Parties	51,423	51,941	52,279	52,294	52,267
Other Charges	48,151	60,029	53,538	52,671	58,067
Total Operating Revenues	$ 3,237,307	$ 3,161,988	$ 3,741,538	$ 3,842,772	$ 3,937,906
OPERATING EXPENSES:					
Salaries / Wages / Benefits	$ 1,409,355	$ 1,494,435	$ 1,483,875	$ 1,476,566	$ 1,560,218
Other Post-Employment Benefits	(2,623)	(4,813)	(30,066)	(62,955)	(38,538)
General Insurance	73,039	69,604	80,363	73,541	75,480
Utilities and Telephone	317,176	313,642	320,329	300,135	304,383
Repairs/Maintenance/Fuel	125,364	120,064	137,516	119,348	92,673
Water Distribution Materials & Supplies	368,783	501,306	356,570	377,287	350,610
Office Expense & Postage	70,199	71,435	63,917	70,336	89,691
Professional Fees	28,589	39,069	38,310	37,157	37,262
Sludge Removal	85,671	-	-	95,400	5,035
General & Administrative Expenses	102,470	85,523	106,390	101,592	100,001
Depreciation	467,856	478,653	467,670	480,302	469,497
Total Operating Expenses	$ 3,045,879	$ 3,168,918	$ 3,024,874	$ 3,068,709	$ 3,046,312
	$ 0.0888				
OPERATING INCOME	$ 191,428	$ (6,930)	$ 716,664	$ 774,063	$ 891,594
OTHER INCOME AND (EXPENSE):					
Interest Income	$ 25,341	$ 13,479	$ 11,515	$ 8,867	$ 7,676
Interest Expense	(576,030)	(569,168)	(561,927)	(555,546)	(546,799)
Other Income (Expenses)	$ -	$ -	$ 44,462	$ -	$ 7,687
TOTAL OTHER INCOME (EXPENSES)	$ (550,689)	$ (555,689)	$ (505,950)	$ (546,679)	$ (531,436)
NET INCOME	**$ (359,261)**	**$ (562,619)**	**$ 210,714**	**$ 227,384**	**$ 360,158**
Capital Contributions	433,325	-	-	-	-
Change in Net Assets	74,064	(562,619)	210,714	227,384	360,158
Net Assets, Beginning of Year	$ 8,363,798	$ 8,437,862	$ 7,875,243	$ 7,806,887	$ 8,034,271
Adjustments	-	-	(279,070)	-	(216,321)
Net Assets, End of Year	**$ 8,437,862**	**$ 7,875,243**	**$ 7,806,887**	**$ 8,034,271**	**$ 8,178,108**

Source: Comprehensive Annual Financial Report for First Utility District of Hawkins County, Tennessee

FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE

Historical Debt Service Coverage

	Fiscal Year Ending June 30,				
	2011	**2012**	**2013**	**2014**	**2015**
Operating Revenue	$ 3,237,307	$ 3,161,988	$ 3,741,538	$ 3,842,772	$ 3,937,906
Operating Expenses	$ (2,578,023)	$ (2,690,265)	$ (2,557,204)	$ (2,588,407)	$ (2,576,815)
Net Operating Revenue Before Interest Expense, Depreciation & Amortization	$ 659,284	$ 471,723	$ 1,184,334	$ 1,254,365	$ 1,361,091
Other Income Before Interest Expense, Depreciation & Amortization	$ 25,341	$ 13,479	$ 55,977	$ 8,867	$ 15,363
Income Available For Debt Service	$ 684,625	$ 485,202	$ 1,240,311	$ 1,263,232	$ 1,376,454
Actual Debt Service Requirements All Debt	755,906	758,348	756,912	752,037	754,923
Bond Coverage	0.91 x	0.64 x	1.64 x	1.68 x	1.82 x
Maximum Estimated Debt Service Requirements on Outstanding Senior Bonds Only	44,506	44,506	44,506	44,506	44,506
Bond Coverage	15.38 x	10.90 x	27.87 x	28.38 x	30.93 x
Maximum Estimated Debt Service Requirements (2038) on the Existing and Proposed Subordinated Bonds after paying outstanding Senior Bonds	774,548	774,548	774,548	774,548	774,548
Bond Coverage	0.83 x	0.57 x	1.54 x	1.57 x	1.72 x

Source: Annual Financial Reports for the District

For more information, see the notes to the Financial Statements in the FINANCIAL STATEMENTS included herein.

GENERAL INFORMATION
HAWKINS COUNTY

LOCATION

Hawkins County (the “County”) is situated in North East Tennessee. It is bordered by Sullivan, Washington, Green, Hamblen, Grainger and Hancock counties. The Town of Rogersville is the County seat. Other incorporated towns within the County are Bulls Gap, Church Hill, Kingsport (a portion is also located in Sullivan County) Mount Carmel, and Surgoinsville.

GENERAL

The land area of the County is approximately 480 square miles. The County is the site of numerous recreational facilities: The Ebbing and Flowing Springs, which is one of only two springs in the world that exhibits tidal characteristics. There are three parks, several historic districts and museums, and three golf courses. Hawkins County is also the home of the oldest Masonic Lodge in the State of Tennessee.

Kingsport is part of the Kingsport-Bristol Metropolitan Statistical Area (the “MSA”). According to the 2010 Census, the MSA has a population of 308,662. The cities in the MSA include Kingsport, Bristol, Tennessee and Bristol, Virginia. The Counties include Hawkins and Sullivan Counties in Tennessee. In 2004 the Tri-Cities MSA that included Johnson City was split into two MSAs, the Johnson City MSA and the Kingsport-Bristol MSA.

The City is also part of the Tri-Cities Combined Statistical Area (the “CSA”) of Northeast Tennessee and Southwest Virginia. According to the 2010 Census, the CSA has a population of 509,669. The CSA is unusual in that there is no dominant central city, but Johnson City is the lead city. Other major cities in the CSA include Johnson City, Elizabethton, Jonesborough and Bristol, Tennessee and Bristol, Virginia. According to the 2010 US Census the County had a population of 56,833 and Rogersville had a population of 4,240.

TRANSPORTATION

The County is served by the Norfolk/Southern and CSX Railroads. Highway transportation is provided by State highways 66 and 70 and Federal highway 11W. Interstate 181 is within ten miles of the County, Interstate 81 is fifteen miles from the County, and Interstate 40 is thirty-five miles from the County. There are forty-five motor freight companies with one terminal facility. The nearest navigable waterway, the Tennessee River in Knoxville, is sixty miles away.

EDUCATION

Hawkins County School System has seventeen schools with a fall 2014 enrollment of 7,169 and 475 teachers. The System consists of twelve elementary schools, three middle schools, two high schools with one adult education facility and an early childhood learning center. *Rogersville City School* was first built in 1923 and now serves grades 1-8 with a fall 2014 enrollment of 647 and 43 teachers.

Kingsport City Schools serves the residents of Kingsport including areas of Sullivan and Hawkins County. The City has thirteen school facilities: eight elementary schools, two middle schools and one high school, an alternative education facility and an early childhood learning center. The fall 2014 enrollment was 7,298 with 468 teachers.

Source: Tennessee Department of Education, Hawkins County Schools, Rogersville City School and Kingsport City Schools.

East Tennessee State University was founded in 1910 in the northeast corner of Tennessee. The 366-acre campus is located in southwest Johnson City, adjacent to the Veterans Administration and the Johnson City Medical Center Hospital. The university offers 74 majors of study in its undergraduate program, 30 degree fields in its master's programs and doctorates in education, education administration, and biomedical sciences. Fall 2014 enrollment was 13,822 students. Extended regional campuses are in Kingsport, Bristol, Elizabethton and Greeneville. In addition, the Quillen College of Medicine offers eight Doctor of Medicine degrees.

Source: East Tennessee State University and TN Higher Education Commission.

The Tennessee Technology Center at Elizabethton Kingsport Site. The Tennessee Technology Center at Elizabethton is part of a statewide system of 26 vocational-technical schools. The Tennessee Technology Center meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. The institution's primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective businesses and industries in the region. The Technology Center at Elizabethton serves the northeast region of the state including Carter, Hawkins, Johnson, Sullivan, Unicoi and Washington Counties. The Technology Center at Elizabethton began operations in 1963, and the main campus is located in Carter County. In October of 1999, the school opened an instructional site in Mountain City, offering Business Systems Technology, and later in Kingsport, offering classes in Practical Nursing. The fall 2013 enrollment was 977 students.

Source: Tennessee Technology Center at Elizabethton/Carter County and TN Higher Education Commission.

Northeast State Technical Community College was founded in 1966 as the Tri-Cities State Area Vocational-Technical. Northeast State is located at Blountville in Sullivan County, Tennessee, and had a fall 2014 enrollment of 5,865 students. The College is a comprehensive two-year community college under the governance of the Tennessee Board of Regents of the State University and Community College System of Tennessee. As a comprehensive community college, Northeast State provides university parallel programs designed for students desiring to transfer to another college or university. It also has career programs for students planning to enter the workforce immediately upon graduation and continuing education and community service programs for professional growth and personal enrichment. The College serves the citizens of Carter, Johnson, Sullivan, Unicoi, and Washington Counties and has educational sites located at Elizabethton, Mountain City, Gray, and Kingsport.

Source: Northeast State Technical Community College and TN Higher Education Commission.

Walters State Community College, a public two-year higher education institution founded in 1970, is located in Morristown, Tennessee. The college offers programs of study that lead to the Associate of Science, Associate of Arts, and Associate of Applied Science degrees. Fall 2014 enrollment was 6,031 students. There are four principal campuses in Hamblen, Sevier, Greene, and Claiborne counties.

Walters State serves ten predominantly rural East Tennessee counties in the mountains and foothills of the Great Smokies and Clinch Mountains. The primary service area includes the counties of Claiborne, Cocke, Grainger, Greene, Hamblen, Hancock, Hawkins, Jefferson, Sevier, and Union.

Source: Walter State Community College and TN Higher Education Commission.

HEALTHCARE

The Tri-Cities area has ten acute-care hospitals and many other healthcare facilities. Mountain States Health Alliance (the "MSHA") is based in nearby Johnson City and has two facilities in Kingsport, the Indian Path Medical Center and the Indian Path Pavilion. The national healthcare system Health South has the facility HealthSouth Rehabilitation Hospital in Kingsport. Wellmont Health System has several facilities in the area. Wellmont has two facilities in Kingsport: the Holston Valley Medical Center and the Wellmont Madison House. Bristol has four Wellmont facilities: the Bristol Regional Medical Center (an acute-care hospital), the Ridgeview Pavilion (a psychiatric facility), the Wellmont Hospice House and a Wellmont Wellness Center. In addition, the East Tennessee State University located in nearby Johnson City has a College of Medicine that brings specialties to the area normally not available in a community of this size.

Mountain States Health Alliance. Mountain States Health Alliance (the "MSHA") is a locally owned and managed healthcare system based in Johnson City. Formed after Johnson City Medical Center Hospital, Inc. acquired six Columbia/HCA hospitals in Northeast Tennessee on September 1, 1998, it received its official name in January 1999. Today, MSHA provides an integrated, comprehensive continuum of care to people in 28 counties in Tennessee, Virginia, Kentucky, and North Carolina. In addition to the six open hospitals, MSHA's integrated health care delivery system includes 21 primary/preventive care centers and 13 outpatient care sites, including First Assist Urgent Care, Medical Center North, Med-One of Tennessee, MedWorks, Same Day Surgery, Rehab Plus and Gray Physician Group.

Source: Mountain States Health Alliance and Johnson City Press.

Indian Path Medical Center. Located in Kingsport, Indian Path Medical Center has 330 inpatient beds and a full range of outpatient services. Services include an emergency department, a family-centered birthing center and a full range of behavioral and addiction services, plus geriatric psychiatric services, through Indian Path Pavilion. Indian Path is an integral member in Mountain States Health Alliance whose 14 facilities are all within a 30-mile radius of our facility.

Source: Mountain States Health Alliance.

Indian Path Pavilion. Indian Path Pavilion is a 48-bed provider of inpatient and outpatient mental health and chemical dependency services for individuals 18 and older. It is located in Kingsport and is a part of the Johnson City based Mountain States Health Alliance. Options provided for treatment include individual, family and group therapy. At Indian Path Pavilion, a team of professionals that includes clinicians, dietitians, psychiatric nurses, recreational therapists and other healthcare professionals under the leadership of a psychiatrist will assist the individual with finding the most beneficial level and intensity of treatment. The Pavilion offers a special Chemical Dependency Program by the region's only Addictionologist. Indian Path Pavilion emphasizes the practice of abstinence and the 12-step model for treating individuals who have significant problems with alcohol, drugs or other addictive behavior. All of the services provided at Indian Path Pavilion offer continued care with outpatient services.

Source: Mountain States Health Alliance.

Wellmont Health System. Founded in 1996, Wellmont Health System is a premier healthcare provider in the Tri-State region, with hospitals and healthcare facilities in Northeast Tennessee, Southwest Virginia and Southeast Kentucky. Wellmont is one of the region's largest employers and is based in Kingsport. Nearly 600 physicians deliver care at Wellmont facilities across Northeast Tennessee, Southwest Virginia and Southeast Kentucky. The not-for-profit healthcare system includes eight full-service hospitals, with four located in Tennessee. See "RECENT DEVELOPMENTS" for more information on recent developments of the health system.

Source: Wellmont Health System.

Hawkins County Memorial Hospital. Hawkins County Memorial Hospital is located in Rogersville and is part of the Wellmont Health System. The hospital opened in 1958 and has 50 beds with about 50 physicians and 160 nurses, technicians and support staff. The services provided include emergency care, physical and occupational therapies, surgery, intensive care, outpatient specialty clinics (including neurology services) and diagnostic imaging (including CT and nuclear medicine).

Source: Wellmont Health System.

Holston Valley Medical Center. Located in Kingsport, the Holston Valley Medical Centre has one of Tennessee's only six Level I trauma center that is equipped to care for the most critically injured patients. The 505-bdd facility also has a Level III neonatal intensive care unit to care for the sickest babies. It is part of the regional Wellmont Health System. The facility has more than 450 board-certified or board-eligible physicians. In 2005 and again in 2007, Solucient/Thomson Reuters recognized the physician-led hospital as a Top 100 Heart Hospital in the nation. In 2005 a $113 million renovation, called the Project Platinum, began. The construction provided a new intensive care unit, new operating suites, expanded emergency and radiology departments, additional parking areas and a new grand entrance drive and bridge to provide improved hospital access. See the "RECENT DEVELOPMENTS" for more information.

Source: Wellmont Health System.

Wellmont Madison House. Wellmont Madison House, located in Kingsport, provides assisted living and a therapeutic day program for frail elderly persons and mid-life adults with a chronic illness. Medical care in the home is provided 24 hours a day, seven days a week, through Wellmont Home Care. It is part of the regional Wellmont Health System.

Source: Wellmont Health System.

HealthSouth Rehabilitation Hospital. HealthSouth Rehabilitation Hospital of Kingsport is an acute inpatient rehabilitation hospital treating more than 1,000 patients annually from Southwest Virginia, Northeast Tennessee, Southeastern Kentucky and Northwestern North Carolina. The hospital offers care by physician specialists in physical medicine and rehabilitation, pulmonology, neurology, gastroenterology, ENT, internal medicine and family practice. HealthSouth is focused on helping patients achieve the best possible quality of life and strives for community reintegration of all patients. Inpatient treatment focuses on daily living activities so patients can return home with greater function and independence. Approximately 80 percent of patients return home. HealthSouth is one of the nation's largest healthcare services providers.

Source: Health South.

POWER PRODUCTION

John Sevier Fossil Plant. Tennessee Valley Authority's ("TVA") John Sevier Fossil Plant is on the Holston River near Rogersville in Hawkins County. Construction began in 1952 and was completed in 1957. John Sevier has four coal-fired generating units. The winter net dependable generating capacity is 712 megawatts. The plant consumes about 5,700 tons of coal a day.

Electricity is produced at John Sevier's four coal-fired units by the process of heating water in a boiler to produce steam. Under extremely high pressure, the steam flows into a turbine that spins a generator to make electricity. John Sevier generates five billion kilowatt-hours of electricity a year, enough to supply 350,000 homes. One of John Sevier's generating units set a continuous-run record in 2004, operating without any interruptions for repairs or maintenance for longer than ever before.

To reduce sulfur dioxide (SO_2) emissions from the plant, all four units use a blend of low-sulfur coal. To reduce nitrogen oxide (NO_X) emissions, all units have low-NO_X burners installed. By 2010, TVA will have spent about $6 billion on emissions controls at its fossil-fuel plants to ensure that the power supply is generated as cleanly as possible, consistent with efficiency.

TVA will build a $820 million natural gas power plant near the site of the John Sevier coal plant. North Carolina has sued TVA for coal emissions from the John Sevier plant, which TVA is currently appealing. The John Sevier plant is in danger of being closed in the future, so TVA has planned the new construction.

Source: Tennessee Valley Authority and Knoxville News Sentinel.

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MANUFACTURING AND COMMERCE

There are two industrial districts in the County; Phipps Bend Industrial District and Rogersville Industrial District. The following includes the largest employers in the county, their product, and the approximate level of employment:

Major Employers in Hawkins County and Kingsport[1]

Company	Location	Product	Employees
Eastman Chemical Company	Kingsport	Chemicals, Fibers, Plastics	6,762
Wellmont Health Systems[2]	Kingsport	Healthcare	2,730
Brock	Kingsport	Service Contractor	1,564
Hawkins County Schools	Rogersville	Education	1,195
Pals Sudden Service	Kingsport	Restaurant	1,060
Kingsport City Schools	Kingsport	Education	1,057
Holston Medical Group	Kingsport	Healthcare	795
City of Kingsport	Kingsport	Government	742
Wal-Mart	Kingsport	Retail	725
Jacobs	Kingsport	Engineering	672
BAE Systems	Kingsport	Chemicals & Explosives	650
Mountain States Health[3]	Kingsport	Healthcare	630
Barrette Outdoor Living	Bulls Gap	Wood & Vinyl Fencing	600
TRW Automotive	Rogersville	Steering Components	425
Hutchinson Sealing Systems	Church Hill	Rubber Sealants	389
Copper Standard Automotive	Surgoinsville	Automotive Tubing	350
Domtar	Kingsport	Paper	345
Bank of Tennessee	Kingsport	Bank	274
Baldor Dodge Reliance	Rogersville	Ball Bearings	249
Marriott Meadowview Conference	Kingsport	Hotel	200
Sam Dong, Inc.	Rogersville	Wire Magnetic Products	200
Silgan Plastic Closure Solutions	Kingsport	Plastic Closures	198
Kingsport Times-News	Kingsport	Newspaper	165
Walker Forge	Surgoinsville	Engines Components	158
Regions Financial Corp.	Kingsport	Bank	149
Holiston LLC	Church Hill	Hard Cloth	124

[1] Includes employment figures in the City of Kingsport, which is located in both Sullivan and Hawkins Counties.
[2] Wellmont Health Systems has about 6,762 total employees in the Tri-Cities area.
[3] Mountain States Health Alliance has about 8,610 total employees in the Tri-Cities area.
Source: Business Journal of the Tri-Cities and Comprehensive Annual Financial Reports of the City of Kingsport, Tennessee - 2015.

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The following is a list of the major sources of employment in Tri-Cities area (*Carter County*: Johnson City; *Hawkins County:* Kingsport, Bulls Gap, Surgionsville and Church Hill; *Sullivan County:* Bristol, Kingsport, Johnson City and Piney Flats; *Washington County:* Johnson City, Jonesborough, Gray, Telford and Midway; and in nearby Bristol, Virginia):

Major Employers in the Remaining Tri-Cities Area

Company	Location	Product	Employees
Mountain States Health Alliance*	Johnson City	Healthcare	8,610
East Tennessee State University	Johnson City	Education	2,370
Veterans Administration Hospital	Johnson City	Healthcare	2,200
Citigroup	Gray	Credit Card Programs	1,800
Sullivan County Schools	Blountville	Education	1,755
Advance Call Center Tech	Johnson City	Communications	1,300
Washington County School System	Johnson City	Education	1,200
DTR Tennessee	Midway	Manufacturing	1,147
AO Smith Water Products	Johnson City	Water Heaters	1,046
Frontier Health*	Gray	Rehabilitative Healthcare	1,025
City of Johnson City	Johnson City	Government	947
Johnson City School System	Johnson City	Education	850
Century Link	Bristol, TN	Telecommunications	770
Bristol Compressors	Bristol, VA	Manufacturing	738
Kelly Services	Johnson City	Personnel Supply Services	650
U.S. Solutions Group	Bristol, TN		620
Electro-Mechanical Corp.	Bristol, VA	Transformers	600
Line Power Federal Pacific	Bristol, VA	Manufacturing	600
Sprint Telecenters	Bristol, TN	Telecommunications	575
State of Franklin Healthcare	Johnson City	Healthcare	530
Mullican Flooring	Johnson City	Flooring	530
Universal Fibers	Bristol, VA	Manufacturing	525
Bell Helicopter	Bristol, TN	Aircraft Outfitting	450
TPI Corporation	Gray	Electric Heating Equip	443
Bristol School System	Bristol, TN	Education	412
Office Max	Bristol, VA	Retail	386
HSN	Piney Flats	Distribution	363
Shearer Foods	Bristol, VA	Food Manufacturing	350
Domtar	Kingsport	Paper	345
City of Bristol	Bristol, TN	Government	336
Robinette Company	Bristol, TN	Printed Roll Stock	327
NN Inc.	Johnson City	Rollers and Bearings	319
Wal-Mart	Bristol, TN	Retail	300
Strongwell Corporation	Bristol, VA	Manufacturing	295
Kennametal, Inc.	Johnson City	Carbide Alloys	250
Exide Battery Plant	Bristol, TN	Batteries	250
Lowe’s	Bristol, TN	Retail	250
Siemens Industry	Johnson City	Automation	250

Company	**Location**	**Product**	**Employees**
Federal Pacific Transformer Co	Bristol, VA	Transformers	249
Ball Metal Beverage Packaging	Bristol, VA	Can Ends	230
Assure Snack Foods	Bristol, VA	Food Manufacturing	225
Bristol Metals	Bristol, TN	Metal Fabricating	208
Modern Forge	Piney Flats	Manufacturing	200
Dentsply Tulsa Dental Products	Johnson City	Manufacturing	200
Powell Companies	Johnson City	Steel Erection	200
General Shale	Johnson City	Manufacturing	190
Dentsply Tulsa Dental Products	Johnson City	Manufacturing	189
Bristol Virginia Utilities	Bristol, VA	Public Utilities	183
Oldcastle Building Envelope	Midway	Aluminum Products	175
Pfizer	Bristol, TN	Pharmaceuticals	165
First Tennessee Bank	Johnson City	Bank	164
Koyo Corp. of USA	Telford	Bearings	160
Pepsi Beverage Co	Johnson City	Pepsi Products	152
Reinhart Food Service	Johnson City	Food Service	145
Seaman Corp.	Bristol, TN	Coated Fabric	138
Alemite LLC	Johnson City	Lubrication Systems	130
Borla Performance Industries, TN	Johnson City	Manufacturer	130
QEP Company & Harris Wood, LLC	Johnson City	Wood Flooring	130
Royal Moldings	Bristol, TN	Molded products	125
Microporous (Daramic LLC)	Piney Flats	Battery Separators	125
MINCO	Midway	Fused Silica Products	115
Industrial Electronics Services	Gray	Electronics	110
Clinical Management Concepts	Johnson City	Pharmacy	110
Manitowoc Walk-Ins (Kysor)	Piney Flats	Walk-In Coolers	110
Aurora Hardwoods	Piney Flats	Hardwood	106
Johnson Eye Clinic	Johnson City	Healthcare	100

** Includes employees from multiple areas in the Tri-Cities area.*

Source: Business Journal of the Tri-Cities, Comprehensive Annual Financial Reports of the City of Kingsport, Tennessee, Johnson City / Washington County Economic Development Board - 2015.

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EMPLOYMENT INFORMATION

As of December 2015, the unemployment rate of Kingsport stood at 5.4%, representing 21,590 persons employed out of a workforce of 22,830. As of December 2015, the unemployment rate in Hawkins County stood at 5.8%, representing 22,710 persons employed out of a workforce of 24,110.

The unemployment rate for December 2015 in the Kingsport-Bristol MSA stood at 5.1%, representing 132,810 persons employed out of a workforce of 139,950. The unemployment rate for December 2015 in the Tri-Cities CSA stood at 5.4%, representing 217,050 persons employed out of a workforce of 229,330.

Unemployment

	Annual Average **2010**	Annual Average **2011**	Annual Average **2012**	Annual Average **2013**	Annual Average **2014**
National	9.6%	8.9%	8.1%	7.4%	6.2%
Tennessee	9.7%	9.2%	8.0%	8.2%	6.7%
Kingsport	**9.4%**	**8.4%**	**7.6%**	**8.0%**	**6.5%**
Index vs. National	98	94	94	108	105
Index vs. State	97	91	95	98	97
Hawkins County	**9.3%**	**8.9%**	**7.9%**	**8.0%**	**7.3%**
Index vs. National	97	100	98	108	118
Index vs. State	96	97	99	98	109
Kingsport-Bristol MSA	**8.8%**	**8.1%**	**7.3%**	**7.5%**	**6.5%**
Index vs. National	92	91	90	101	105
Index vs. State	91	88	91	91	97
Tri-Cities CSA	**8.8%**	**8.2%**	**7.3%**	**7.6%**	**6.7%**
Index vs. National	92	92	90	103	108
Index vs. State	91	89	91	93	100

Source: Tennessee Department of Employment Security, CPS Labor Force Estimates Summary.

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ECONOMIC DATA

Per Capita Personal Income

	2010	2011	2012	2013	2014
National	$40,277	$42,453	$44,266	$44,438	$46,049
Tennessee	$35,601	$37,323	$39,137	$39,312	$40,457
Hawkins County	**$27,273**	**$28,704**	**$29,734**	**$29,195**	**$29,830**
Index vs. National	68	68	67	66	65
Index vs. State	77	77	76	74	74
Kingsport-Bristol MSA	**$31,758**	**$34,008**	**$35,261**	**$34,969**	**$35,912**
Index vs. National	79	80	80	79	78
Index vs. State	89	91	90	89	89
Tri-Cities CSA	**$31,594**	**$33,615**	**$34,726**	**$34,541**	**$35,456**
Index vs. National	78	79	78	78	77
Index vs. State	89	90	89	88	88

Source: University of Tennessee, Center for Business and Economic Research.

Social and Economic Characteristics

	National	Tennessee	Hawkins County	Kingsport
Median Value Owner Occupied Housing	$175,700	$139,900	$109,500	$134,000
% High School Graduates or Higher Persons 25 Years Old and Older	86.30%	84.90%	81.3%	87.7%
% Persons with Income Below Poverty Level	14.80%	18.30%	19.6%	19.9%
Median Household Income	$53,482	$44,621	$37,432	$38,333

Source: U.S. Census Bureau State & County QuickFacts - 2014.

PARKS AND RECREATION

Cherokee Dam and Reservoir. Tennessee Valley Authority's ("TVA") Cherokee Dam is located on the Holston River in Jefferson City, 52 miles upstream from the point at which the Holston and French Broad Rivers converge to form the Tennessee. Cherokee Reservoir spans Jefferson, Grainger, Hamblen and Hawkins Counties. The Reservoir attracts millions of recreational visitors each year to its public access areas, fishing areas, camping sites, county and municipal parks, commercial boat docks and resorts, a state park, and a state wildlife management area. Cherokee was built to generate hydroelectric power during the World War II emergency, but it also plays an important role as one of the chain of TVA reservoirs that over the years have prevented billions of dollars of flood damage in areas downstream. The deep waters of Cherokee Reservoir lose oxygen during the summer months, and the water that generates power is drawn out of these depths. In order to increase oxygen levels for aquatic life below the reservoir, TVA injects oxygen through miles of perforated hoses suspended above the reservoir bottom. TVA also uses huge, slow-turning fans just above the dam to push oxygenated surface water into the depths of the reservoir.

Source: Tennessee Valley Authority.

Fort Patrick Henry Dam and Reservoir. Tennessee Valley Authority's ("TVA") Fort Patrick Henry Dam is located in Kingsport on the South Fork Holston River. Fort Patrick Henry Reservoir extends 10 miles in Sullivan County upstream from the Dam to Boone Dam. Fort Patrick Henry Reservoir is a popular site for fishing, particularly rainbow trout, bluegill, bass, and crappie. Warrior's Path State Park is located on the reservoir.

Source: Tennessee Valley Authority.

Warriors' Path State Park. Warriors' Path State Park is located in Kingsport in Sullivan County. It was named for the park's proximity to the ancient war and trading path used by the Cherokee. The 950-acre area was acquired from the Tennessee Valley Authority is 1952, to serve the people who live in or visit this section of Northeast Tennessee. It is situated on the shores of TVA's Patrick Henry Reservoir on the Holston River. The park offers boating, fishing, many hiking trails, campsites, picnic facilities and a swimming pool.

Source: Tennessee State Parks.

RECENT DEVELOPMENTS

AGC Glass. Weak demand for solar glass has caused AGC Glass North America to permanently close its Blue Ridge Plant in Kingsport in late 2012. The company's Corporate Services Center next to the plant will continue to operate with more than 125 workers.

Contour Industries. Contour Industries expanded into a new 57,680-square-foot building with 50 new jobs in 2010. Contour has been located in the Phipps Bend Industrial District since 1989 and manufactures glass products.

Eastman Chemical Company. Eastman Chemical Company is located in Kingsport on the Sullivan County side. In 2013 the company began a $1.6 billion expansion that will bring in 300 new jobs. The seven-year project is expected to be finished on the 100th anniversary of Eastman in 2020. The project will include safety and environmental projects, increased warehouse capacity, building renovations and expansion of its corporate campus. In 2011 the company purchased Sterling Chemicals Inc. for $100 million in cash. The assets bought, a plasticizer and acetic acid manufacturing facility, are located in Texas. In 2009 the company slashed costs by more than $200 million by cutting up to 300 jobs in response to the current economic turmoil. Eastman is the largest manufacturing employer in Tennessee.

Source: Knoxville News Sentinel and Johnson City Press.

APPENDIX C

SUMMARY OF BOND RESOLUTION

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTIONS

On March 10, 2008 the Board of Commissioners (the “Board”) of The First Utility District of Hawkins County, Tennessee (the "District") adopted a resolution (the "2008 Bond Resolution") authorizing the issuance of the Series 2008A Bonds and the Series 2008B Bonds payable from the Net Revenues derived from the operation of the water procurement, treatment, storage and distribution system of the District.

On July 13, 2015 and March 14, 2016, the Board adopted resolutions (collectively, the "2016 Bond Resolution") authorizing the issuance of the Series 2016 Bonds for the purpose of refunding (i) the Series 2008A Bonds maturing June 1, 2024 through June 1, 2037, inclusive, and (ii) the Series 2008B Bonds, also payable from the Net Revenues derived from the operation of the water procurement, treatment, storage and distribution system of the District on a parity with the Series 2008A Bonds (to the extent not refunded by the Series 2016 Bonds).

The following briefly summarizes certain terms and provisions of the 2008 Bond Resolution and 2016 Bond Resolution (together the “Bond Resolutions”). This summary is not considered a complete explanation of the terms and provisions of the Bond Resolutions, as amended and supplemented. Reference is made to the Bond Resolutions for a complete statement of the terms, provisions and conditions of the Bond Resolutions.

In addition, in connection with the issuance of insurance policies relating the Series 2008A Bonds and Series 2008B Bonds, the District entered into an agreement with Assured Guaranty Corp. (“Assured Guaranty”) with respect to the Series 2008A Bonds and Series 2008B Bonds that granted certain rights to Assured Guaranty, so long as Assured Guaranty is not in default under the its policies.

Assured Guaranty shall be deemed to be the holder of all of the Series 2008A Bonds (to the extent not refunded by the Series 2016 Bonds) for purposes of (a) exercising all remedies and directing the District or the Registration Agent to take actions or for any other purposes following an event of default under the Resolution, and (b) granting any consent, direction or approval or taking any action permitted by or required under the Resolution, as the case may be, to be granted or taken by the holders of the Series 2008A Bonds (to the extent not refunded by the Series 2016 Bonds). With respect to amendments or supplements to the Resolution, which require the consent of the Bondholders, Assured Guaranty's prior written consent is required. Upon the occurrence and continuance of an event of default, Assured Guaranty shall be entitled to control and direct the enforcement of all rights and remedies granted to the Series 2008A Bondholders or the District or the Registration Agent for the benefit of the Bondholders. Assured Guaranty also shall be entitled to approve all waivers of events of default and any reorganization or liquidation plan with respect to the District. In addition, in the event of any reorganization or liquidation, Assured Guaranty shall have the right to vote on behalf of all Bondholders who hold the Series 2008A Bonds guaranteed by Assured Guaranty (to the extent not refunded by the Series 2016 Bonds), absent a default by Assured Guaranty under the Policy.

Assured Guaranty is a third-party beneficiary of the 2008 Bond Resolution and may enforce any such right, remedy or claim conferred, given or granted to the Bondholders of the Series 2008A Bonds (to the extent not refunded by the Series 2016 Bonds) under the 2008 Bond Resolution.

Definitions

The following terms shall have the following meanings in the Bond Resolutions unless the text expressly or by necessary implication requires otherwise:

"Acquired System" shall mean any water procurement, treatment, storage or distribution system acquired by the District pursuant to the Act and/or any sewer treatment and/or transmission facilities hereafter constructed, acquired or otherwise established by the District pursuant to the Act;

"Act" shall mean Tennessee Code Annotated Sections 7-82-101 et seq., as amended from time to time;

"Balloon Indebtedness" shall mean any bonds, notes or other indebtedness of the District, other than Short-Term Indebtedness, 25% or more of the initial principal amount of which matures (or must be redeemed at the option of the holder) during any twelve month period, if such 25% or more is not to be amortized to below 25% by mandatory redemption prior to the beginning of such twelve month period;

"Bond Fund" shall mean the Bond and Interest Sinking Fund established pursuant to the Bond Resolutions;

"Bonds" means the Series 2016 Bonds, the Outstanding Parity Bonds and any Parity Bonds hereafter issued;

“*Bond Resolutions*” mean the 2008 Bond Resolution and the 2016 Bond Resolution;

"Capital Appreciation Bonds" shall mean bonds which bear interest at a stated interest rate of 0.0% per annum, have a value on any applicable date equal to the Compound Accreted Value thereof on that date, and are payable only at maturity or earlier redemption;

"Code" means the Internal Revenue Code of 1986, as amended, and any lawful regulations promulgated or proposed thereunder;

"Compound Accreted Value" shall mean the value at any applicable date of any Capital Appreciation Bonds computed as the original principal amount thereof for each maturity date plus an amount equal to interest on said principal amount (computed on the basis of a 360-day year of twelve 30-day months) compounded semiannually on such dates as shall be established by the resolution authorizing Capital Appreciation Bonds, from the dated date to said applicable date at an interest rate which will produce at maturity the Maturity Amount for such maturity date;

"Credit Facility" means any municipal bond insurance policy, letter of credit, surety bond, line of credit, guarantee, or other agreement under which any person other than the District provides additional security for any Bonds and guarantees timely payment of or purchase price equal to the principal of and interest on all or a portion of any Bond and shall include any Reserve Fund Credit Facility;

"Current Expenses" means expenses incurred by the District in the operation of the System, determined in accordance with generally accepted accounting principles, including the reasonable and necessary costs of operating, maintaining, repairing and insuring the System, the cost of producing potable water, salaries and wages, cost of material and supplies, and insurance premiums, but shall exclude depreciation, amortization and interest on any bonds, notes or other obligations of the District and in-lieu of tax payments;

"Debt Service Requirement" means the total principal, Maturity Amounts and interest coming due, whether at maturity or upon mandatory redemption (less any amount of interest that is capitalized and payable with the proceeds of debt on deposit with the District or any paying agent for the Bonds or other obligations of the District), for any period of 12 consecutive calendar months for which such a determination is made, provided:

> (1) The Debt Service Requirement with respect to Variable Rate Indebtedness shall be determined as if the variable rate in effect at all times during future periods equaled the greater of (1) the average of the actual variable rate which was in effect (weighted according to the length of the period during which each such variable rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (2) the current average annual fixed rate of interest on securities of similar quality having a similar maturity date, as certified by a Financial Adviser;
>
> (2) The Debt Service Requirement with respect to any Hedged Obligations, the interest on such Hedged Obligations during any Hedge Period and for so long as the

provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the District on such Hedged Obligations pursuant to their terms and (y) the amount of Hedge Payments payable by the District under the related Hedge Agreement and subtracting (z) the amount of Hedge Receipts payable by the provider of the related Hedge Agreement at the rate specified in the related Hedge Agreement; provided, however, that to the extent that the provider of any Hedge Agreement is in default thereunder, the amount of interest payable by the District on the related Hedged Obligations shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts that are not fixed throughout the Hedge Period (i.e., which are variable), payable or receivable for any future period, such Hedge Payments or Hedge Receipts for any period of calculation (the "Determination Period") shall be computed by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the greater of (i) the average of the actual variables which were in effect (weighted according to the length of the period during which each such variable was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (ii) the Bond Buyer Thirty-Year Revenue Bond Index; and

(3) For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness and Short-Term Indebtedness, at the option of the District, (i) the actual principal and interest on such Balloon Indebtedness and Short Term Indebtedness shall be included in the Debt Service Requirement, subject to the other assumptions contained the Bond Resolutions, or (ii) such Balloon Indebtedness and Short Term Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of 20 years at an assumed interest rate (which shall be the interest rate certified by a Financial Adviser to be the interest rate at which the District could reasonably expect to borrow the same amount by issuing bonds with the same priority of lien as such Balloon Indebtedness and Short Term Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness is in excess of 20 years from the date of issuance, then such Balloon Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of years equal to the number of years from the date of issuance of such Balloon Indebtedness to maturity and at the interest rate applicable to such Balloon Indebtedness; provided further that subsection (ii) of this paragraph, and the proviso following, shall not be applicable for purposes of determining the District's Debt Service Requirement for purposes of the Bond Resolutions unless the District has a written commitment from a bank, underwriting firm or other financial institution with a Rating in one of two highest categories of at least one Rating Agency

(ignoring any gradations within a Rating Category) to refinance at least 90% of the principal amount of such Balloon Indebtedness or Short-Term Indebtedness coming due in the relevant Fiscal Year;

"Defeasance Obligations" shall mean direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations which at the time of the purchase thereof are permitted investments under Tennessee law for the purposes described in the Bond Resolutions, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof;

"Financial Adviser" means, with respect to the Series 2016 Bonds, Cumberland Securities Company, Inc.

"Financial Guaranty Agreement" shall mean any Financial Guaranty Agreement authorized in the Bond Resolutions to be executed in connection with a Reserve Fund Credit Facility;

"Fiscal Year" means the twelve-month period commencing July 1 of each year and ending June 30 of the following year;

"Governing Body" means the Board of Commissioners of the District;

"Gross Earnings" means all revenues, rentals, earnings and income of the District from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the System; proceeds from the sale of property; proceeds of insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; Hedge Receipts and Termination Payments made to the District pursuant to a Hedge Agreement; and all amounts realized from the investment of funds of the System, including money in any accounts and funds created by the Bond Resolutions and resolutions authorizing any Parity Bonds or subordinate lien bonds (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to defease any outstanding obligations of the District); provided, however, at the election of the Governing Body, the term "Gross Earnings" as used in the Bond Resolutions shall not include any revenues, rentals, earnings or other income received by the District from the operation of an Acquired System, and any bonds or other obligations issued in connection with such Acquired System shall not be payable from or secured by Net Revenues or be deemed to be Parity Bonds;

"Hedge Agreement" means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the District determines is to be used, or is intended to be used, to manage or reduce the cost of any Bonds, to convert any element of any Bonds from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty;

"Hedged Obligations" means any Bonds for which the District shall have entered into a Hedge Agreement;

"Hedge Payments" means amounts payable by the District pursuant to any Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments;

"Hedge Period" means the period during which a Hedge Agreement is in effect;

"Hedge Receipts" means amounts payable by any provider of a Hedge Agreement pursuant to such Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments;

"Loan Agreement" shall mean any agreement or contract entered into by the District whereby a third party agrees to advance funds to the District and the District agrees to repay those fund with interest;

"Maturity Amount" shall mean the Compound Accreted Value on the stated maturity date of a Capital Appreciation Bond;

"Maximum Annual Debt Service Requirement" means the maximum annual Debt Service Requirement for any Fiscal Year of the District;

"Net Revenues" shall mean Gross Earnings, excluding any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets, less Current Expenses;

“*Outstanding 2008A Bonds*” and “*Outstanding Parity Bonds*” shall mean the outstanding Series 2008A Bonds not refunded by the Series 2016 Bonds.

"Parity Bonds" means the Outstanding 2008A Bonds, and any bonds, notes, Loan Agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness and Variable Rate Indebtedness, issued or entered into by the District on a parity with the Outstanding 2008A Bonds and Series 2016 bonds authorized in accordance with the restrictive provisions of the Bond Resolutions including bonds or other obligations secured by a pledge of and/or lien on an Acquired System and the revenues derived from the operation of such Acquired System (provided such pledge and lien are subject only to normal and customary expenses of operating, maintaining, repairing and insuring any such System), so long as the Acquired System is not being operated separately from the System as is permitted in the Bond Resolutions or the revenues from such Acquired System are not excluded from Gross Earnings;

"Prior Lien Bonds" means the District's outstanding Waterworks Revenue Bond, Series 2003, dated March 8, 2006;

"Project" means the construction of improvements and extensions to the System;

"Rating" means a rating in one of the categories by a Rating Agency, disregarding pluses, minuses, and numerical gradations;

"Rating Agencies" or *"Rating Agency"* means Fitch, Moody's, and Standard & Poor's or any successors thereto and any other nationally recognized credit rating agency;

“*Refunded Bonds*” or “*Refunded Obligations*” mean the District’s outstanding Series 2008A Bonds maturing June 1, 2024 through June 1, 2037, and the Series 2008B Bonds.

"Reserve Fund" shall mean the Debt Service Reserve Fund established pursuant to the Bond Resolutions;

"Reserve Fund Credit Facility" means a municipal bond insurance policy, surety bond, letter of credit, line of credit, guarantee or other agreement provided by a Reserve Fund Credit Facility Issuer which provides for payment of amounts equal to all or any portion of the Reserve Fund Requirement in the event of an insufficiency of moneys in the Bond Fund to pay when due principal of and interest on all or a portion of the Bonds;

"Reserve Fund Credit Facility Issuer" means the issuer of a Reserve Fund Credit Facility rated in the highest rating category by each Rating Agency that rates such Reserve Fund Credit Facility Issuer;

"Reserve Fund Requirement" means the least of (a) 10% of the stated principal amount of the Bonds; (b) the Maximum Annual Debt Service Requirement on the Bonds during the term of the Bonds; or (c) 125% of the average annual principal and interest requirement, when due, on a Fiscal Year basis, including principal payable by reason of the mandatory redemption provisions of any Bonds, on the Bonds during the term thereof; provided, however, with respect to Variable Rate Indebtedness, it shall be assumed that such Variable Rate Indebtedness bears interest through maturity at that rate which the original purchaser of such Variable Rate Indebtedness certifies as of the date of issuance thereof would have borne had such Variable Rate Indebtedness borne a fixed, constant rate of interest;

"Revenue Fund" shall have the meaning ascribed in the Bond Resolutions;

"Series 2008A Bonds" mean the District's Waterworks Revenue Refunding and Improvement Bonds, Series 2008A issued June 18, 2008;

"Series 2008B Bonds" mean the District's Waterworks Revenue Bonds, Series 2008B issued July 15, 2008;

"*Series 2016 Bonds*" mean the District's Waterworks Revenue Refunding Bonds, Series 2016, authorized to be issued under the 2016 Bond Resolution;

"Short-Term Indebtedness" means bonds, notes, Loan Agreements or other debt obligations, including Variable Rate Indebtedness, maturing five years or less from their date of issuance, issued by the District as Parity Bonds in accordance with the restrictive provisions of the Bond Resolutions;

"State" means the State of Tennessee;

"System" means the complete water procurement, treatment, storage and distribution system of the District, together with and including all properties of every nature hereafter owned by the District, including all improvements and extensions made by the District while the Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles; provided, however, at the election of the Governing Body, an Acquired System may be included within the System as defined in the Bond Resolutions and become a part thereof or, at the election of the Governing Body, not become a part of the System but be operated as a separate and independent system by the Governing Body with the continuing right, upon the election of the Governing Body, to incorporate such separately Acquired System within the System;

"Termination Payments" means an amount payable by or to the District upon termination of a Hedge Agreement;

"2008 Bond Resolution" means the Resolution adopted by the Board of Commissioners of the District on March 10, 2008, authorizing the Series 2008A Bonds and Series 2008B Bonds;

"2016 Bond Resolution" means the Resolutions adopted by the Board of Commissioners of the District on July 13, 2015 and March 14, 2016, authorizing the Series 2016 Bonds; and

"Variable Rate Indebtedness" means any Parity Bonds, the interest rate on which is subject to periodic adjustment, at intervals, at such times and in such manner as shall be determined by resolution authorizing such Parity Bonds; provided that if the interest rate shall have been fixed for the remainder of the term thereof, it shall no longer be Variable Rate Indebtedness.

Source of Payment; Equality of Lien; Pledge of Net Revenues

The Series 2016 Bonds shall be payable solely from and secured by a pledge of the Net Revenues, subject to the prior lien of the Prior Lien Bond with respect to such Net Revenues. The punctual payment of principal of and premium, if any, and interest on the Series 2016 Bonds, the Outstanding Parity Bonds and any Parity Bonds hereafter issued shall be secured equally and ratably by the Net Revenues without priority by reason of series, number or time of sale or delivery, subject to the prior lien of the Prior Lien Bond with respect to such Net Revenues. The Series 2016 Bonds do not constitute a debt of the State of Tennessee, or any political subdivision thereof, or municipal corporation therein, other than the District, and no holder of the Series 2016 Bonds shall have recourse to the taxing power of any such entities.

Statutory Mortgage Lien.

For the further protection of the registered owners of the Series 2016 Bonds, the Outstanding Parity Bonds and any Parity Bonds hereafter issued, a statutory lien in the nature of a mortgage lien upon the System is granted and created by the Act, which is recognized as valid and binding upon the District and is a lien upon the System. The System shall remain subject to such statutory mortgage lien until the payment in full of the principal and interest on the Bonds.

Application of Revenues.

From and after the delivery of any of the Series 2016 Bonds under the Bond Resolutions, and as long as any of the Series 2016 Bonds, the Outstanding Parity Bonds and any Parity Bonds hereafter issued shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of all such bonds, after application of the Gross Earnings as required by the 2003 Resolution, the Gross Earnings of the System shall be deposited as collected by the District in the Revenue Fund (the "Revenue Fund"), administered and controlled by the District. The funds so deposited in the Revenue Fund created under the Bond Resolutions shall be used only as follows:

(a) The money in the Revenue Fund shall be used first from month to month for the payment of Current Expenses.

(b) The money remaining in the Revenue Fund shall next be used to make deposits into a separate and special fund, to be known as the "Bond and Interest Sinking Fund" (the "Bond Fund") to be kept separate and apart from all other funds of the District and used to pay principal of and interest on the Bonds as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly until the Bonds are paid in full or discharged and satisfied pursuant to the Bond Resolutions, beginning in the month next following delivery of the Series 2016 Bonds. For the period commencing with the month next following the delivery of any Bonds, to and including the month of the next interest payment date for such Bonds, each monthly deposit as to interest shall be an amount that, together with all other monthly deposits of approximately equal amounts during such period and amounts otherwise in said Fund, will be equal to interest due on such Bonds on the next interest payment date, and for each six month period thereafter, each monthly deposit as to interest for such Bonds shall be an equal to not less than one-sixth (1/6th) of the interest coming due on such Bonds on the next interest payment date net of any interest earnings on such amounts. For the period commencing with the month next following the delivery of any Bonds to and including the month of the next principal payment for such Bonds, each monthly deposit as to principal shall be an amount that, together with all other monthly deposits during such period and amounts otherwise in said Fund, will be equal to the principal due on such Bonds on the next principal payment date (provided that, in the event that the next principal payment date is more than 12 months following the month next following delivery of such Bonds, monthly deposits to the Bond Fund in respect of principal shall begin in the month which is 12 months prior to the month of the next principal payment date), and for each twelve-month period thereafter, each monthly deposit as to principal for such Bonds shall be an amount equal to not less than one-twelfth (1/12th) of the principal amount or Maturity Amount, as the case may be, coming due on such Bonds, whether by maturity or mandatory redemption, on the next principal payment date net of any interest earnings on such amounts. Each deposit as to interest may take into account expected Hedge Payments related to such interest payments. No further deposit shall be required as to any Bonds when the Bond Fund balance is equal to or greater than the amount needed to pay interest on the next interest payment date, the total of the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period, and any related Hedge Payments. Notwithstanding the foregoing, deposits for payment of interest and principal on Variable Rate Indebtedness shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness, and if interest is not paid semi-annually and/or principal is not paid annually with respect to any Bonds, the deposits may be adjusted by the District as provided in the resolution authorizing the issuance of such Bonds. Money in the Bond Fund shall be used and is expressly pledged for the purpose of paying principal of and interest on the Bonds and making any Hedge Payments.

(c) The next available money in the Revenue Fund shall be paid to any Reserve Fund Credit Facility Issuer or Issuers (pro rata, if more than one) to the extent needed to reimburse the Reserve Fund Credit Facility Issuer for amounts advanced by the Reserve Fund Credit Facility Issuer or Issuers under the Reserve Fund Credit Facility, including any amounts payable under any Financial Guaranty Agreement, together with reasonable related expenses incurred by the Reserve Fund Credit Facility Issuer and interest as provided in the Financial Guaranty Agreement.

(d) To the extent the Reserve Fund Requirement for the Bonds is not fully satisfied by a Reserve Fund Credit Facility or Facilities or funds of the District, or a combination thereof, the next available money in the Revenue Fund shall be used to make deposits into a separate and special fund, to be known and designated as the "Debt Service Reserve Fund" (the "Reserve Fund") to be kept separate and apart from all other funds of the District. No deposit shall be required to be made to the Reserve Fund unless the amount in the Reserve Fund, together with the Reserve Fund Credit Facility or Facilities, if any, becomes less than the Reserve Fund Requirement. In the event deposits to the Reserve Fund shall be required pursuant to the preceding sentence, said deposits shall be payable monthly as hereafter provided and each deposit shall be in a minimum amount equal to 1/24th of the difference between the Reserve Fund Requirement and the amount in said Fund, together with the Reserve Fund Credit Facility or Facilities, if any, immediately following the occurrence of such deficiency, so that any deficiency in said Fund shall be replenished over a period of not greater than twenty-four (24) consecutive months; provided, any monthly payments in excess of said minimum payments shall be a credit against the next ensuing payment or payments. Any deposits required to be made shall be made monthly at the same time as deposits are made to the Bond Fund, commencing the first month in which the amount in the Fund, together with the Reserve Fund Credit Facility or Facilities, if any, is less than the Reserve Fund Requirement. All deposits to the Reserve Fund shall be made from the first money in the Revenue Fund thereafter received which shall not then be required to pay Current Expenses, be transferred into the Bond Fund, or to be paid to the Reserve Fund Credit Facility Issuer or Issuers as above provided. Money in the Reserve Fund shall be used solely for the purpose of paying principal of or interest on the Bonds for the payment of which funds are not available in the Bond Fund. Funds in excess of the Reserve Fund Requirement may be released to be used by the District for legally permissible purposes.

At the option of the District, the District may satisfy the Reserve Fund Requirement, or a portion thereof, by providing for the benefit of owners of the Bonds a Reserve Fund Credit Facility or Facilities, at any time, in an amount not greater than the Reserve Fund Requirement applicable to the Bonds and release an equal amount of funds on deposit in the Reserve Fund to be used by the District for legally permissible purposes. In the event any Reserve Fund Credit Facility Issuer, or any successor thereto, shall cease to have a rating required for a Reserve Fund Credit Facility Issuer or any Reserve Fund Credit Facility becomes unenforceable for any reason, within 90 days from the date the District receives notice of either of said events, the District shall either substitute a new Reserve Fund Credit Facility or Facilities or commence funding the Reserve Fund from Net Revenues as required by the preceding paragraph hereof, or a combination thereof. At any time during the term hereof, the District shall have the right and option to substitute a new Reserve Fund Credit Facility or Facilities for any Reserve Fund Credit Facility or Facilities previously delivered, upon notice to the Registration Agent and the Reserve Fund Credit Facility Issuer or Issuers and delivery of a Reserve Fund Credit Facility or Facilities in substitution therefor. In the event of the issuance of Parity Bonds pursuant to the restrictive provisions of the Bond Resolutions or the substitution of a Reserve Fund Credit Facility or Facilities for less than the full amount of the Reserve Fund Requirement, the District shall satisfy the Reserve Fund Requirement by depositing funds to the Reserve Fund or obtaining a Reserve Fund Credit Facility or Facilities, or any combination thereof, in an aggregate amount equal to the Reserve Fund Requirement for the Bonds taking into account any funds then held therein or the amount of any Reserve Fund Credit Facility or Facilities then in effect. The President is authorized to act for the District in determining whether to provide the Reserve Fund Credit Facility for the Bonds.

In the event of the necessity of a withdrawal of funds from the Reserve Fund during a time when the Reserve Fund Requirement is being satisfied by a Reserve Fund Credit Facility or Facilities and funds of the District, the funds shall be disbursed completely before any demand is made on the Reserve Fund Credit Facility. In the event all or a portion of the Reserve Fund Requirement is satisfied by more than one Reserve Fund Credit Facility, any demand for payment shall be pro rata between or among the Reserve Fund Credit Facilities. If a disbursement is made by demand on a Reserve Fund Credit Facility, the District, from Revenues after payment of Current Expenses and required deposits to the Bond Fund, shall reimburse the Reserve Fund Credit Facility Issuer for all amounts advanced under the Reserve Fund Credit Facility (pro rata, if more than one Reserve Fund Credit Facility), including all amounts payable under any Financial Guaranty Agreement or Agreements, and then replenish the Reserve Fund as provided the Bond Resolutions.

In the event the Reserve Fund Requirement, or any part thereof, shall be satisfied with a Reserve Fund Credit Facility or Facilities, notwithstanding the terms of the Bond Resolutions regarding discharge and satisfaction, the terms, covenants, liability and liens provided or created in the Bond Resolutions or in any resolution supplemental hereto shall remain in full force and effect and said terms, covenants, liability and liens shall not terminate until all amounts payable under any Financial Guaranty Agreement have been paid in full and all obligations thereunder performed in full. If the District shall fail to pay when due all amounts payable under any Financial

Guaranty Agreement, the Reserve Fund Credit Facility Issuer shall be entitled to exercise any and all remedies available at law or under the Bond Resolutions other than remedies that would adversely affect owners of Bonds.

It shall be the responsibility of the Registration Agent to maintain adequate records, verified with the Reserve Fund Credit Facility Issuer or Issuers, as to the amount available to be drawn at any given time under the Reserve Fund Credit Facility or Facilities and as to the amounts paid and owing to the Reserve Fund Credit Facility Issuer or Issuers under the terms of any Financial Guaranty Agreement and to provide notice to the Reserve Fund Credit Facility Issuer at least two days before any payment is due. The Reserve Fund Credit Facility Issuer shall receive notice of the resignation or removal of the Registration Agent and the appointment of a successor thereto.

The District has elected to fund the Reserve Fund with legally available funds of the District.

(e) Termination Payments received in connection with a Hedge Agreement shall be deposited to the Revenue Fund, and Termination Payments required of the District in connection with a Hedge Agreement shall be paid as a subordinate lien obligation pursuant to subsection (f) hereof.

(f) The next available money in the Revenue Fund shall be used for the purpose of the payment of principal of and interest on (including reasonable reserves therefor) any bonds or other obligations payable from revenues of the System, but junior and subordinate to the Bonds, and may thereafter be used by the District for any legally permissible purpose, as the Governing Body shall determine.

(g) Money on deposit in the Funds described above on may be invested by the District in such investments as shall be permitted by applicable law, as determined by an authorized representative of the District, all such investments to mature not later than the date on which the money so invested shall be required for the purpose for which the respective Fund was created. All income derived from such investments shall be regarded as revenues of the System and shall be deposited in the Revenue Fund. Such investments shall at any time necessary be liquidated and the proceeds thereof applied to the purpose for which the respective Fund was created; provided, however, that in no event shall moneys in the Reserve Fund be invested in instruments that mature more than two years from the date the money is so invested. The District is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described above.

(h) The Revenue Fund, the Bond Fund, and the Reserve Fund (except to the extent funded with a Reserve Fund Credit Facility or Facilities) shall be held and maintained by the

District and, when not invested, kept on deposit with a bank or financial institution regulated by and the deposits of which are insured by the Federal Deposit Insurance Corporation or similar federal agency. All moneys in such Funds so deposited shall at all times be secured to the extent and in the manner required by applicable State law.

Charges for Services Supplied by the System

While the Bonds remain outstanding and unpaid, the District covenants and agrees that it will permit no free service to be furnished to any consumer or user whatsoever; that the charges for all services supplied through the medium of the System to all consumers and users shall be reasonable and just, taking into account and consideration the cost and value of the System and the cost of maintaining, operating, repairing and insuring the System, a proper and necessary allowance for the depreciation thereof, and the amounts necessary for the payment of principal of and interest on all obligations payable from revenues of the System; and that there shall be charged against all users of the services of the System such rates and amounts as shall be fully adequate to comply with the covenants of the Bond Resolutions.

The District covenants that the System will be operated on a fully metered basis and that the District will bill customers of the System on a monthly basis and, to the extent permitted by applicable law or regulation, will discontinue service to any customer whose bill remains unpaid 60 days following the mailing of such bill, until such bill, service charges and penalties shall have been paid in full.

Covenants Regarding the Operation of the System.

The District covenants and agrees with the owners of the Bonds so long as any of the Bonds shall remain outstanding:

(a) The District shall maintain the System in good condition and operate the System in an efficient manner and at reasonable cost and conduct all activities associated therewith or incident thereto.

(b) The District shall maintain insurance on the properties of the System of a kind and in an amount which would normally be carried by private companies engaged in a similar type and size of business, provided, the District shall not be required to insure beyond the limits of immunity provided by Sections 29-20-101 et seq., Tennessee Code Annotated, or other applicable law. The proceeds of any such insurance, except public liability insurance, shall be used to replace the part or parts of the System damaged or destroyed, or, if not so used, shall be placed in the Revenue Fund.

(c) The District will cause to be kept proper books and accounts adapted to the System, will cause the books and accounts to be audited at the end of each Fiscal Year by a recognized independent certified public accountant or a film of such accountant or accountants and, upon written request, will make available to any registered owner of the Bonds the balance sheet and the profit and loss statement of the District as certified by such accountant or accountants. Each such audit, in addition to whatever matters may be thought proper by the accountant or accountants to be included therein, shall include the following:

(1) A statement in detail of the revenues and expenditures of the System and the excess of revenues over expenditures for the Fiscal Year;

(2) A statement showing beginning and ending balances of each Fund described the Bond Resolutions;

(3) A balance sheet as of the end of the Fiscal Year;

(4) The accountant's comments regarding the manner in which the District has carried out the requirements of the Bond Resolutions and the accountant's recommendations with respect to any change or improvement in the operation of the System;

(5) A list of insurance policies in force at the end of the Fiscal Year, setting out as to each policy the amount of the policy, the risks covered, the name of the insurer and the expiration date of the policy;

(6) The number and classifications of customer service connections to the System as of the end of the Fiscal Year;

(7) The disposition of any Bond proceeds during the Fiscal Year;

(8) A statement as to all breaches or defaults under the Bond Resolutions by the District of which the accountant or accountants have knowledge or, in the alternative, a statement that they have no knowledge of any such breach or default.

All expenses incurred in the making of the audits required by this subsection shall be regarded and paid as Current Expenses. The District further agrees to cause copies of such audits to be furnished to the registered owner of any of the Bonds, at the written request thereof, within 180 days after the close of each Fiscal Year. The registered owner of any of the Bonds shall have at all reasonable times the right to inspect the System and the records, accounts and data of the District relating thereto. If the District fails to provide the audits and reports required by this subsection, the registered owner or owners of twenty-five percent (25%) in principal amount of the Bonds may cause such audits and reports to be prepared at the expense of the District.

(d) The District will faithfully and punctually perform all duties with reference to the System required by the constitution and laws of the State, including the making and collecting of reasonable and sufficient rates for services rendered by the System as above provided, and will apply the revenues of the System to the purposes and Funds specified in the Bond Resolutions.

(e) The District shall continuously own, control, operate, and maintain the System in an efficient and economical manner and on a revenue producing basis and shall at all times prescribe, fix, maintain, and collect rates, fees, and other charges for the services and facilities furnished by the System fully sufficient at all times:

(1) for 100% of the Current Expenses and for the accumulation in the Revenue Fund of a reasonable reserve therefor, in an amount, if any, as shall be determined from time to time by the District; and

(2) such that Net Revenues in each Fiscal Year:

(A) will equal at least 120% of the Debt Service Requirement on all Bonds, and 100% of the Debt Service Requirement on all other bonds, including the 2003 Bond, or other obligations then outstanding for such Fiscal Year;

(B) will enable the District to make all required payments, if any, into the Reserve Fund and on any Credit Facility or Hedge Agreement;

(C) will enable the District to accumulate an amount, which, in the judgment of the District, is adequate to meet the costs of major renewals, replacements, repairs, additions, betterments, and improvements to the System, necessary to keep the same in good operating condition or as is required by any governmental agency having jurisdiction over the System;

(D) will remedy all deficiencies in required payments into any of the funds and accounts mentioned in the Bond Resolutions from prior Fiscal Years; and

(E) will permit the District to comply with the terms of any agreement that the Authority has entered into to purchase or sell water;

(f) The District will not sell, lease, mortgage, or in any manner dispose of the

System, or any part thereof, including any and all extensions and additions that may be made thereto, or any facility necessary for the operation thereof; provided, however, the use of any of the System facilities may at any time be permanently abandoned or any of the System facilities sold at fair market value, provided that:

> (1) The District is in full compliance with all covenants and undertakings in connection with all bonds, notes and other obligations then outstanding and payable from the revenues of the System and any required reserve funds for such bonds, notes and other obligations have been fully established and contributions thereto are current;
>
> (2) Any sale proceeds will be applied either (A) to redemption of Bonds in accordance with the provisions governing repayment of Bonds in advance of maturity, or (B) to the purchase of Bonds at the market price thereof so long as such price does not exceed the amount at which the Bonds could be redeemed on such date or the next optional redemption date as set forth in the Bond Resolutions or in the resolutions authorizing the Parity Bonds, or (C) to the construction or acquisition of facilities in replacement of the facilities so disposed of or other facilities constituting capital improvements to the System, or (D) the deposit to a replacement fund to be used to make capital improvements to the System;
>
> (3) The abandonment, sale or disposition is for the purpose of disposing of facilities which are no longer necessary or no longer useful to the operation of the System and the operation of the System or revenue producing capacity of the System is not materially impaired by such abandonment, sale or disposition or any facilities acquired in replacement thereof are of equivalent or greater value; and
>
> (4) The District shall have received an opinion of nationally recognized bond counsel to the effect that such sale, lease, mortgage or other disposition will not jeopardize the exclusion from federal income taxation of interest on any Bonds then outstanding intended to be excludable from gross income for federal income tax purposes.

Nothing in the Bond Resolutions is intended to prohibit the lease purchase of equipment or facilities of the System hereafter to be put in service or to prohibit the transfer or exchange of service areas to provide for more efficient operation of the System so long as the District is in full compliance with the covenants set forth in the Bond Resolutions immediately following such transfer or exchange.

(g) Prior to the beginning of each Fiscal Year, the Governing Body shall prepare, or cause to be prepared, and adopted an annual budget of estimated revenues, Current Expenses, and capital expenditures for the System for the ensuing Fiscal Year in compliance with the rate covenant set forth in subsection (e) above, and will undertake to operate the System within such budget to the best of its ability. Copies of such budgets and amendments thereto will be made available to any registered owner of a Bond upon written request. The District covenants that Current Expenses and capital expenditures incurred in any Fiscal Year will not exceed the reasonable and necessary amounts therefor and that the District will not expend any amounts or incur any obligations therefor in excess of the amounts provided for Current Expenses and capital expenditures in the budget except upon resolution of the Governing Body.

(h) All officers or employees of the District or persons other than banks or other financial institutions having custody of funds of the District shall be under fidelity bond at all times in reasonable and customary amounts.

(i) The District will not construct, finance or grant a franchise for the development or operation of facilities that compete for service with the services to be provided by the System or consent to the provision of any such services in the area currently served by the District by any other public or private entity and will take all steps necessary and proper, including appropriate legal action to prevent any such entity from providing such service; provided, nothing in the Bond Resolutions shall prohibit the transfer or exchange of service areas to provide for more efficient operation of the System so long as the District is in full compliance with the covenants set forth in the Bond Resolutions immediately following such transfer or exchange.

(j) For the purpose of assuring the efficient, impartial and non-political operation of the System for the benefit of the District and the owners of the Bonds from time to time outstanding, the complete and independent control and operation of the System shall continue to be vested in the Governing Body, subject, however, to the obligation and duty on the part of the Governing Body to carry out and perform faithfully all of the covenants and agreements contained in the Bond Resolutions. It is agreed with the owners from time to time of the Bonds and made a part of the contract rights which will vest in such owners at the time of delivery of the Bonds that the System will be so operated by the Governing Body.

(k) The District shall not enter into a Hedge Agreement with any entity, other than an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under the related Hedge Agreement are absolutely and unconditionally guaranteed or insured or collateralized by an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated at least as high as the second highest Rating category of at least two Rating Agencies (ignoring any gradations within a Rating category). For purposes of this section, a potential hedge provider's qualification with the requirements of the preceding sentence shall be determined only at the time the District enters into a Hedge Agreement with such entity and will not be redetermined with respect to that Hedge Agreement.

Federal Tax Covenant.

The District recognizes that the purchasers and holders of the Series 2008A Bonds will have accepted them on, and paid therefor a price that reflects, the understanding that interest thereon is excluded from gross income for purposes of federal income taxation under laws in force on the date of delivery of the Series 2016 Bonds. Accordingly, the District agrees that it shall take no action that may render the interest on any of said Series 2016 Bonds subject to federal income taxation. It is the reasonable expectation of the Governing Body that the proceeds of the Series 2016 Bonds will not be used in a manner which will cause the Series 2016 Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Internal Revenue Code of 1986, as amended (the "Code"), including any lawful regulations promulgated or proposed thereunder, and to this end the said proceeds of the Series 2016 Bonds and other related funds established for the purposes set out in the Bond Resolutions, shall be used and spent expeditiously for the purposes described in the Bond Resolutions. The Governing Body further covenants and represents that in the event it shall be required by Section 148(f) of the Code to pay any investment proceeds of the Series 2016 Bonds to the United States government, it will make such payments as and when required by said Section and will take such other actions as shall be necessary or permitted to prevent the interest on the Series 2016 Bonds from becoming subject to inclusion in the gross income for purposes of federal income taxation.

Remedies of Bond Owners.

Any registered owner of any of the Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction enforce and compel performance of all duties imposed upon the District by the provisions of the Bond Resolutions, including the making and collecting of sufficient rates, the proper application of and accounting for revenues of the System, and the performance of all duties imposed by the terms of the Bond Resolutions.

If any default be made in the payment of principal of, premium, if any, or interest on the Bonds, then upon the filing of suit by any registered owner of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer the System in behalf of the District with power to charge and collect rates sufficient to provide for the payment of all bonds and obligations outstanding against the System and for the payment of Current Expenses, and to apply the income and revenues thereof in conformity with the provisions of the Bond Resolutions.

Prohibition of Prior Lien; Parity Bonds.

The District will issue no other bonds or obligations of any kind or nature payable from or enjoying a lien on the revenues of the System having priority over the Bonds. Additional bonds, notes, Loan Agreements or obligations may hereafter be issued on a parity with the Bonds under the following conditions but not otherwise:

(a) Any portion (including any maturities or portions thereof whether or not in chronological order and any amounts subject to mandatory redemption) or all of a series of the Bonds may be refunded at maturity, upon redemption in accordance with their terms, or upon payment, or prepayment or upon redemption with the consent of the owners of such Bonds, and the refunding bonds so issued shall constitute Parity Bonds secured on a parity with the Bonds thereafter outstanding, if all of the following conditions are satisfied:

(1) the District shall have obtained a report from a Financial Adviser demonstrating that the refunding is expected to reduce the total debt service payments on the Bonds, including payments on related Credit Facilities and Hedge Agreements; and

(2) the requirements of subsections (b)(2) and (4) below are met with respect to such refunding.

(b) Parity Bonds (including refunding Parity Bonds which do not meet the requirements of (a)) may also be issued on a parity with outstanding Bonds, and the Parity Bonds so issued shall be secured on a parity with such outstanding Bonds, if all of the following conditions are satisfied:

(1) There shall have been procured and filed with the District a report by a Financial Adviser or a certificate by the general manager of the District, or his designee, to the effect that the historical Net Revenues for either (i) a period of 12 consecutive months of the most recent 18 consecutive months prior to the issuance of the proposed Parity Bonds or (ii) the most recent audited Fiscal Year, were equal to at least 120% of maximum Annual Debt Service Requirement on all Bonds and 100% of maximum annual debt service on subordinated bonds or notes, which will be outstanding immediately after the issuance of the proposed Parity Bonds, in the then current and each succeeding Fiscal Year, provided, however, (x) the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to 100% of the increased annual amount attributable to any revision in the schedule of rates, fees, and charges for the services and facilities furnished by the System, imposed prior to the date of delivery of the proposed Parity Bonds and not fully reflected in the historical related Net Revenues actually received during such historical period used; and (y) if the District has a contract to purchase or otherwise acquire an Acquired System that will become part of the System, the historical Net Revenues may be adjusted to include the historical Net Revenues from the Acquired System.

(2) The District shall have received, at or before issuance of the Parity Bonds, a report from a Financial Adviser or a certificate of the general manager of the District, or his designee, to the effect that (x) the payments required to be made into the Bond Fund have been made and the balance in the Bond Fund is not less than the balance required as of the date of issuance of the proposed Parity Bonds; and (y) the Reserve Fund is funded to the Reserve Fund Requirement and will be funded to the Reserve Fund Requirement immediately following the issuance of the proposed Parity Bonds.

(3) The resolution authorizing the proposed Parity Bonds must require the proceeds of such proposed Parity Bonds to be used to make capital improvements to or capital acquisitions for the System, to fund interest on the proposed Parity Bonds, to refund other obligations issued for such purposes (whether or not such refunding Parity Bonds satisfy the requirements of (a)), for any other legal purpose under applicable law as evidenced by an opinion of Bond Counsel, and/or to pay expenses incidental thereto and to the issuance of the proposed Parity Bonds.

(4) The Secretary of the Governing Body shall have certified, by written certificate dated as of the date of issuance of the Parity Bonds, that the District is in compliance with all requirements of the Bond Resolutions.

(c) Notwithstanding the foregoing, the Series 2016 Bonds may be issued in one or more series on a parity of lien with each other without regard to the above provisions.

(d) All the provisions and covenants of the Bond Resolutions relating to negotiability and registration of Bonds, creation and investment of funds and the application of revenues, the operation of the System and charges for services of the System, the remedies of owners of the Bonds, the issuance of additional bonds, modification of the Bond Resolutions, the defeasance of Bonds, and such other provisions hereof as are appropriate may be incorporated by reference into supplemental resolutions authorizing additional bonds, and said provisions, when so incorporated, shall be equally applicable to the additional bonds issued pursuant to the terms of this Section in all respects and with like force and effect as though said provisions were recited in full in said supplemental resolutions and shall continue to be applicable so long as any such bonds remain outstanding.

Discharge and Satisfaction of Bonds.

If the District shall pay and discharge the indebtedness evidenced by all or any portion of the Bonds in any one or more of the following ways:

(a) By paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;

(b) By depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers ("an Agent"; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay premium, if any, and interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving of such notice);

(c) By delivering such Bonds to the Registration Agent, for cancellation by it;

and if the District shall also pay or cause to be paid all other sums payable under the Resolution by the District with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such Escrow Agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest and redemption premiums, if any, on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the District to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the District shall pay and discharge the indebtedness evidenced by any of the Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations deposited as aforesaid.

Except as otherwise provided in this Section, neither Defeasance Obligations nor moneys deposited with the Registration Agent pursuant to this Section nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the District as received by the Registration Agent and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the District, as received by the Registration Agent.

Modification of Resolution.

(a) The Bond Resolutions may be amended without the consent of or notice to the registered owners of the Bonds for the purpose of curing any ambiguity or formal defect or omission in the Bond Resolutions; provided such amendment shall not adversely affect the registered owners, without taking into account any bond insurance policy.

(b) In addition to the amendments to the Bond Resolutions without the consent of registered owners as referred to in subsection (a) above, the registered owners of a majority in aggregate principal amount of the Bonds at any time outstanding (not including in any case any Bonds which may then be held or owned by or for the account of the District but including such refunding bonds as may have been issued for the purpose of refunding any of such Bonds if such refunding bonds shall not then be owned by the District) shall have the right from time to time to consent to and approve the adoption by the Governing Body of a resolution or resolutions modifying any of the terms or provisions contained in the Bond Resolutions; provided, however, that the Bond Resolutions may not be so modified or amended in such manner, without the consent of 100% of the registered owners of the Bonds, as to:

(1) Make any change in the maturities or redemption dates of the Bonds;

(2) Make any change in the rates of interest borne by the Bonds;

(3) Reduce the amount of the principal payments or redemption premiums payable on the Bonds;

(4) Modify the terms of payment of principal of or interest on the Bonds or impose any conditions with respect to such payments;

(5) Affect the rights of the registered owners of less than all of the Bonds then outstanding;

(6) Reduce the percentage of the principal amount of the Bonds the consent of the registered owners of which is required to effect a further modification.

Whenever the District shall propose to amend or modify the Bond Resolutions under the provisions of this Section, it shall cause notice of the proposed amendment to be mailed by first-class mail, postage prepaid, to the owner of each Bond then outstanding. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy of the proposed amendatory resolution is on file in the office of the District for public inspection.

Whenever at any time within one year from the date of mailing of said notice there shall be filed with the Secretary an instrument or instruments executed by the registered owners of at least a majority in aggregate principal amount of the Bonds then outstanding as in this Section defined, which instrument or instruments shall refer to the proposed amendatory resolution described in said notice and shall specifically consent to and approve the adoption thereof, thereupon, but not otherwise, the District may adopt such amendatory resolution and such resolution shall become effective and binding upon the owners of all Bonds.

If the registered owners of at least a majority in aggregate principal amount of the Bonds outstanding as in this section defined, at the time of the adoption of such amendatory resolution, or the predecessors in title of such owners, shall have consented to and approved the adoption thereof as provided in the Bond Resolutions, no registered owner of any Bonds, whether or not such owner shall have consented to or shall have revoked any consent as in this Section provided, shall have any right or interest to object to the adoption of such amendatory resolution or to object to any of the terms or provisions therein contained or to the operation thereof or to enjoin or restrain the District from taking any action pursuant to the provisions thereof.

Any consent given by the registered owner of a Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the publication of the notice above provided for and shall be conclusive and binding upon all future registered owners of the same Bond during such period. Such consent may be revoked at any time after six months from the date of publication of such notice by the registered owner who gave such consent or by a successor in title by filing notice of such revocation at the District office, but such revocation shall not be effective if the registered owners of a majority in aggregate principal amount of the Bonds outstanding as in this Section defined shall have, prior to the attempted revocation, consented to and approved the amendatory resolution referred to in such revocation.

The fact and date of the execution of any instrument under the provisions of this Section may be proved by the certificate of any officer in any jurisdiction who by the laws thereof is authorized to take acknowledgments of deeds within such jurisdiction, that the person signing such instrument acknowledged before him the execution thereof, or may be proved by an affidavit of a witness to such execution sworn to before such officer.

The amount (number(s)) of the Bonds owned by any person executing such instrument and the date of the ownership of the same shall be proved by reference to the Bond registration records maintained by the Registration Agent, which records shall constitute conclusive proof of the ownership thereof.

<u>Resolution a Contract.</u>

The provisions of the Bond Resolutions shall constitute a contract between the District and the registered owners of the Bonds, and after the issuance of the Series 2016 Bonds, no change, variation or alteration of any kind in the provisions of the Bond Resolutions shall be made in any manner, except as provided in the Bond Resolutions or until such time as the Bonds shall have been paid in full or discharged pursuant to the Bond Resolutions.

APPENDIX D

GENERAL PURPOSE FINANCIAL STATEMENTS

OF

FIRST UTILITY DISTRICT OF HAWKINS COUNTY, TENNESSEE

FOR THE FISCAL YEAR ENDED

June 30, 2015

The General Purpose Financial Statements are extracted from the Financial Statements with Report of Certified Public Accountants of the District for the fiscal year ended June 30, 2015, which is available upon request from the District.

FIRST UTILITY DISTRICT OF HAWKINS COUNTY

CHURCH HILL, TENNESSEE

FINANCIAL STATEMENTS
June 30, 2015

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June 30, 2015

DAVID M. ELLIS
Certified Public Accountant

Member, American Institute of
Certified Public Accountants
Member, Tennessee Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
First Utility District of Hawkins County
Church Hill, Tennessee

Report on the Financial Statements

I have audited the accompanying financial statements of First Utility District of Hawkins County as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the First Utility District of Hawkins County, as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Changes in Accounting Principles

As described in Note 10, the District has adopted the provisions of Governmental Accounting Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has an effective date of June 30, 2015. My opinion is not modified with respect to this matter.

Emphasis of Matter

I draw attention to Note 10 to the financial statements, which describes a restatement to the beginning net position totaling $216,332. This restatement was necessary because of the transitional requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* My opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 7 and the schedule of funding progress – OPEB obligations/retirement plan, the schedule of changes in net position liability (asset) and related ratios based on participation in the public employee pension plan of TCRS and schedule of contributions based on participation in the public employee pension plan of TCRS on pages 32 to 34 be presented to supplement the financial statements.. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the Untied States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the financial statements, and other knowledge I obtained during my audit of the financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the First Utility District of Hawkins County's financial statements. The supplementary information on pages 35 through 40 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* I have also issued my report dated February 26, 2016, on my consideration of the First Utility District of Hawkins County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government*

Auditing Standards in considering First Utility District of Hawkins County's internal control over financial reporting and compliance.

David M Ellis

David M. Ellis, CPA
Greeneville, Tennessee
February 26, 2016

As management of the First Utility District of Hawkins County (i.e., the Utility), we offer readers of the First Utility District of Hawkins County's financial statements this narrative overview and analysis of the Utility's financial position and activities for the year ended, June 30, 2015. We encourage the readers to read the information presented here in conjunction with the financial statements which follow this narrative. This discussion and analysis, as well as the basic financial statements which it accompanies, is the responsibility of the management of the Utility.

Financial Highlights

Key financial highlights for the year ended June 30, 2015 are as follows:

- The Utility's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $8,178,108 (net position) for the year ended June 30, 2015.
- As of June 30, 2015, total net position was comprised of the following:
  - Net investment in capital assets-$4,594,624. This included utility, plant, and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - Net position-restricted of $1,198,932 is restricted by constraints imposed from outside the Utility such as debt covenants and other constraints.
  - Unrestricted net position of $2,384,552 represents the portion available to maintain the Utility's continuing obligations to its customers and creditors.
- During the current year, the Utility implemented GASB Statement No. 68 relating to requirements under pension plan reporting.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Utility's basic financial statements. The First Utility District of Hawkins County's basic financial statements comprise four components: 1) statement of net position 2) statement of revenues, expenses, and changes in net position 3) statement of cash flows and 4) notes to the basic financial statements. The report also contains other supplementary information and required supplementary information in addition to the basic financial statements themselves.

Statement of Net Position

The Statement of Net Position includes all assets and deferred outflows of resources and liabilities and deferred inflows of resources of the Utility, with the difference between the two reported as net position.

Statement of Revenues, Expenses, & Changes in Net Position

The Statement of Revenues, Expenses, & Changes in Net Position presents the revenues earned and expenses incurred by the Utility for the year ended, June 30, 2015.

Statement of Cash Flows

The Statement of Cash Flows presents the changes in the Utility's cash and cash equivalents for the year ended June 30, 2015, summarized by operating, capital and noncapital financing, and investing activities. The statement is prepared using the direct method of reporting cash flows and therefore, presents gross rather than net amounts for the year's activities.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of the Utility

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be summarized and used to discuss the changing financial position of the Utility. Condensed financial information is as follows:

Summary of Net Position	06/30/15	06/30/14	Change
Assets & Deferred Outflows For Resources			
Current Assets	$ 2,884,003	$ 2,380,307	$ 503,696
Restricted Assets	1,198,932	1,177,921	21,011
Capital Assets, Net	16,512,198	16,962,771	(450,573)
Deferred Outflows of Resources	49,445	-	49,445
Total Assets & Deferred Outflows Of Resources	20,644,578	20,520,999	123,579
Liabilities & Deferred Inflows Of Resources			
Non-Current Liabilities	11,710,269	11,969,745	(259,476)
Current Liabilities	533,363	516,983	16,380
Deferred Inflows of Resources	222,838	-	222,838
Total Liabilities & Deferred Inflows Of Resources	12,466,470	12,486,728	(20,258)
Net Position			
Net Investment In Capital Assets	4,594,624	4,834,803	(240,179)
Restricted Net Position	1,198,932	1,176,858	22,074
Unrestricted Net Position	2,384,552	2,022,610	361,942
Total Net Position	**$ 8,178,108**	**$ 8,034,271**	**$ 143,837**

Summary of Change in Net Position	**6/30/2015**	**6/30/2014**	**Change**
Revenue			
Water Sales	$ 3,728,527	$ 3,645,498	$ 83,029
Other Water Services	209,379	197,274	12,105
Pension Income	7,676	-	7,676
Interest Income/Earnings/Investments	7,687	8,867	(1,180)
Total Revenue	3,953,269	3,851,639	101,630
Expenses			
Salaries & Benefits	1,560,218	1,476,566	83,652
Other Post-Employment Benefits	(38,538)	(62,955)	24,417
General Insurance	75,480	73,541	1,939
Utilities	304,383	300,135	4,248
Repairs & Maintenance	92,673	119,348	(26,675)
Distribution Supplies/Materials	350,610	377,287	(26,677)
Other Operating Expenses	226,954	209,085	17,869
Sludge Removal	5,035	95,400	(90,365)
Interest Expense	546,799	555,546	(8,747)
Depreciation	469,497	480,302	(10,805)
Total Expenses	3,593,111	3,624,255	(31,144)
Change in Net Position Before Capital Contributi	360,158	227,384	132,774
Capital Contributions	-	-	-
Change in Net Position	**360,158**	**227,384**	**132,774**
Beginning Net Position, Restated (1)	7,817,950	7,806,887	11,063
Ending Net Position	**$ 8,178,108**	**$ 8,034,271**	**$ 143,837**

(1)-Beginning Net Position Restated Under
GASB Statement No. 68

The Utility's overall financial performance changed during the current year as indicated by the net position change. Overall factors contributing to the change in net position are as follows:

- Water revenues of the Utility increased 2.28% in the current year and there were no changes in the rate structure.
- Overall expenses of the Utility decreased less than 1% in comparison to the previous year. Primary changes in expenses related to decreased cost in distribution materials and supplies, repairs and maintenance, and sludge removal.

Capital Assets, Net

The Utility's investment in capital assets, net of accumulated depreciation was $16,512,198 at June 30, 2015.

Long-Term Debt

As of June 30, 2015 the Utility had three outstanding debt issues totaling $11,960,979 versus total debt in the prior year of $12,172,800. The Utility had no new debt issues in the current year.

Net Position

As of June 30, 2015, the Utility had net position of $8,178,108 with $4,594,624 being net investment in capital assets, restricted net position totaling $1,198,932 and unrestricted net position of $2,384,552.

Economic Outlook and Other Factors

The First Utility District of Hawkins County provides water services and sales to the eastern end of Hawkins County adjoining the metropolitan area of Kingsport, Tennessee. This area encompasses the municipalities of Church Hill and Mount Carmel, Tennessee. The eastern end of the county has experienced growth in population prior to economic changes in previous years. No anticipated changes are projected with respect to Utility operations within the coming year.

Contacting the Utility's Financial Management

This financial report is designed to provide the Commissioners, grantors, customers, and creditors with a general overview of the First Utility District of Hawkins County's accountability for the financial resources it manages. If you have questions about this report or need additional information, contact the First Utility District of Hawkins County in Church Hill, Tennessee.

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
STATEMENT OF NET POSITION
June 30, 2015

ASSETS		
Current Assets		
Cash & Cash Equivalents	$	2,152,429
Accounts Receivable (net)		366,054
Interest Receivable		1,386
Prepaid Insurance		154,383
Inventories		195,559
Net Pension Asset		14,192
Total Current Assets		2,884,003
Restricted Assets		
Cash & Cash Equivalents		1,198,932
Total Restricted Assets		1,198,932
Capital Assets Not Being Depreciated		
Land		442,184
Construction in Progress		-
Capital Assets Being Depreciated		22,450,334
Less: Accumulated Depreciation		(6,380,320)
Capital Assets, Net		16,512,198
Total Assets		**20,595,133**
Deferred Outflows Of Resources		
Deferred Outflows Relating To Pension Plan		49,445
Total Deferred Outflows Of Resources		**49,445**
LIABILITIES		
Current Liabilities		
Payable from Non-Restricted Assets		
Accounts Payable/Accrued Expenses		191,124
Compensated Absences Payable		47,688
Payable from Restricted Assets		
Revenue Bonds Payable - current		222,379
Accrued Interest Payable		44,126
Customer Deposits		28,046
Total Current Liabilities		533,363
Noncurrent Liabilities		
Revenue Bonds Payable		11,695,195
Net Other - Post-Employment Benefit Obligations		15,074
Total Noncurrent Liabilities		11,710,269
Total Liabilities		**12,243,632**
Deferred Inflows Of Resources		
Deferred Inflows Relating To Pension Plan		222,838
Total Deferred Inflows Of Resources		**222,838**

The accompanying notes to financial statements are an integral part of this statement.

NET POSTION		
Net Investment In Capital Assets		4,594,624
Restricted		
Debt Service		990,530
Insurance		180,356
Customer Deposits		28,046
Unrestricted		2,384,552
Total Net Position	**$**	**8,178,108**

The accompanying notes to financial statements are an integral part of this statement.

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET POSITION
For the Year Ended June 30, 2015

OPERATING REVENUE	
Water Sales & Service	$ 3,728,527
Late Fee Charges	72,795
Tap Fee Charges	26,250
Billing Charges to Outside Parties	52,267
Other Charges	58,067
Total Operating Revenue	**3,937,906**
OPERATING EXPENSE	
Salaries/Wages/Benefits	1,560,218
Other Post-Employment Benefits	(38,538)
General Insurance	75,480
Utilities & Telephone	304,383
Repairs/Maintenance/Fuel	92,673
Water Distribution Materials & Supplies	350,610
Office Expense & Postage	89,691
Professional Fees	37,262
Sludge Removal	5,035
General & Administrative Expenses	100,001
Depreciation	469,497
Total Operating Expense	**3,046,312**
Income (Loss) from Operations	**891,594**
NONOPERATING REVENUE (EXPENSE)	
Pension Income	7,676
Interest Income & Earnings on Investments	7,687
Interest Expense	(546,799)
Total Nonoperating Revenue (Expense)	**(531,436)**
Income Before Contributions	**360,158**
Capital Grants	-
Change In Net Position	**360,158**
Net Position - Beginning	**7,817,950**
Net Position - Ending	**$ 8,178,108**

The accompanying notes to financial statements are an integral part of this statement.

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

Cash Flows from Operating Activities		
Cash Received from Customers	$	3,921,181
Other Operating Receipts		
Payments to Suppliers		(1,487,524)
Payments to Employees		(1,147,652)
Net Cash Provided by (Used for) Operating Activities		**1,286,005**
Cash Flows from Capital & Related Financing Activities		
Purchases of Capital Assets		(18,924)
Principal Paid on Capital Debt		(210,394)
Interest Paid on Capital Debt		(546,799)
Net OPEB Obligation		(38,538)
Net Cash Provided by (Used for) Capital & Related Financing Activities		**(814,655)**
Cash Flow from Investing Activities		
Pension Income		7,676
Interest Income/Earnings on Short-Term Investments		7,687
(Increase) in Certificates of Deposit/Restricted Cash/Investments		(22,074)
Net Cash Provided by (Used for) Investing Activities		**(6,711)**
Net Increase (Decrease) in Cash & Cash Equivalents		**464,639**
Cash & Cash Equivalents - Beginning		**1,687,790**
Cash & Cash Equivalents - Ending	**$**	**2,152,429**
Reconciliation of Income from Operations to Net Cash Provided by (Used for) Operating Activities		
Income (Loss) from Operations		891,594
Adjustments to Reconcile Income from Operations to Net Cash Provided by (Used for) Operating Activities		
Depreciation		469,497
2014 Pension Contribution		33,220
(Increase) Decrease in:		-
Accounts Receivable		(15,625)
Inventory		(21,479)
Prepaid Items		13,302
Net Pension Asset		(263,734)
Deferred Outflows Relating To Pensions		(49,445)
Increase (Decrease) in:		
Trade Accounts Payable & Accrued Expenses		6,227
Deferred Inflows Relating To Pensions		222,838
Customer Deposits		(390)
Net Cash Provided by (Used for) Operating Activities	**$**	**1,286,005**

The accompanying notes to financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The First Utility District of Hawkins County (the Utility) is a public utility located in Church Hill, Tennessee. The Utility is governed by a Board of Commissioners with these three individuals being appointed by the County Mayor of Hawkins County, Tennessee. The Utility has separate legal standing and is fiscally independent. The Utility provides water sales and services to rural Hawkins County, Tennessee and to the residents of Church Hill and Mount Carmel, Tennessee. In addition to providing water sales and service, the Utility also performs the billing and collection functions for sewer departments of the Cities of Church Hill and Mount Carmel, Tennessee at a rate of $1.00 per customer. As of June 30, 2015, the Utility had approximately 7,814 water customers.

B. Basis of Presentation

The Utility is an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through uses charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources management focus," and the "accrual basis of accounting." Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Impact Of Recently Issued Accounting Pronouncements

During the fiscal year ended June 30, 2015, the Utility implemented GASB Statements No. 67, Financial Reporting for Pension Plans-An Amendment to GASB Statement No. 25, and No. 68, Accounting and Financial Reporting for Pensions-An Amendment to GASB Statement No. 27. The requirements of these new standards and their effect on the financial statements are more fully explained in Notes 10, 13, and 14 to the basic financial statements. In addition, during the fiscal year ended June 30, 2015, the Utility implemented GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date- an Amendment of GASB Statement No. 68. This requires the Utility to record pension contributions after the measurement date to be recorded as a deferred outflow of resources.

E. Deposits and Investments

The Utility's cash and cash equivalents are considered to be cash on hand, demand and time deposits, with original maturities of three months or less from the date of acquisition. For the purpose of the Statement of Net Position, "cash on hand and in banks" includes all demand, savings accounts, and certificates of deposits of the Utility. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposits with an original maturity of three months or less which are not restricted for other purposes.

Legal Provisions – Deposits

All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for the purposes of credit risk disclosure. For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105% of the uninsured amount of the deposits the collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the Utility.

Legal Provisions – Investments

The Utility has no formal investment policies; however, Tennessee Code Section 7-82-108 provides the requirements as to authorized investments for utility Districts. In order to provide a safe temporary medium for investment of idle funds, Utility districts are authorized to invest in bonds, notes or treasury bills of the US Governments and obligations guaranteed by the US Government or any of its agencies. Certificates of deposit and other evidences of deposit at state and federally chartered savings and loan associations are also listed as authorized investments. The investments listed above may have a maturity of not greater than four years from the date of investment unless such maturity is approved by the director of local finance. Utility districts are also authorized to invest in obligations of the US Government or its agencies under a repurchase agreement provided that the state director of local finance approves the repurchase agreements as an authorized investment. In addition, the proceeds for bonds, notes and other obligations issued by utility districts and reserves held in connection therewith, may be invested in obligations which are rated in either of the two highest rate categories by a nationally recognized rating agency of such obligations and are a direct general obligation of a state of the United States, or a political subdivision instrumentality thereof, having general taxing powers; and having a final maturity date of the investment not to exceed forty-eight months.

The Utility had no investments at June 30, 2015.

F. Assets, Deferred Inflows/Outflow of Resources, Liabilities, & Net Position

Restricted Assets

Restricted assets include cash and investments that are restricted as to their use. The primary restricted assets are related to debt service, construction projects, customer meter deposits, and insurance accounts.

Accounts Receivable & Concentration of Credit Risk

Receivables consist of all revenue earned at year-end and not yet received. Allowance for uncollectible accounts receivable are based on customers whose accounts are ninety days delinquent. The major receivables for the utility are utility billings for water service, interest receivable, billing services to outside parties, and capital grants receivable.

Inventories

Inventories of materials and supplies used for the Utility system are recorded at the lower of cost or market value on a first-in first-out cost flow assumption.

Prepaid Insurance/Contracts

Prepaid items represent general and liability insurance premiums paid during the year whose policy period does not coincide with the fiscal year. The insurance premiums are amortized over the policy terms. Also included in prepaid insurance is bond premium insurance which was paid in connection with prior bond issues. These premiums are amortized over the life of the bonds.

Capital Assets

Capital assets are stated at cost which includes labor, materials, interest capitalized during the construction period, and purchased services. Any capital asset retirements are removed from the accounts at cost, together with the related accumulated depreciation. Any gains or losses resulting from retirements are recorded as nonoperating revenues or expenses. Buildings, vehicles, equipment, utility plant, and lines owned by the Utility are depreciated utilizing the straight-line basis over their estimated useful lives. Expenditures which materially increase utility plant lives are capitalized, while costs of maintenance and repairs are charged to expense as incurred. Estimated useful lives of capital assets are as follows:

Buildings	7-40 years
Plant & Lines	20-50 years
Plant Equipment	7-15 years
General Equipment	5-10 years
Vehicles	5 years

Land and Construction in Progress are not depreciated. Once the construction in progress is completed, this cost is transferred to the appropriate category and is depreciated. The Utility capitalizes net interest costs on debt as part of the construction cost when material. There was $0 in capitalized interest for the year.

Long-Term Debt

All long-term debt is reported as liabilities in the basic financial statements. The long-term debt consists of bonds and net other post-employment benefit obligations. Bond premiums and discounts are deferred and amortized over the life of the bonds.

Compensated Absences

The Utility's policy regarding vacation time permits employees to accumulate earned but unused vacation leave for up to eighty hours. The liability for these compensated absences is recorded as current liability in the basic financial statements based on historical trends of payment. The Utility provides no sick leave to its employees. All compensated absences are considered current.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources relating to pensions, and pensions expense, information about the fiduciary net position of the Utility's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Utility's fiduciary net position have been determined on the same basis as they are reported by TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and paid in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Customer Deposits

In previous years, the Utility used to charge a deposit for water service. Presently, the Utility charges a non-refundable service fee in lieu of a deposit. The deposits listed as liabilities in the basic financial statements represent customers who still have service and paid a deposit for this service. These deposits are refunded to the customer upon termination of service.

Deferred Inflows/Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element of deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. For the year ended, June 30, 2015, the Utility had deferred outflows and deferred inflows of resources relating to pensions. Refer to note 14 to the basic financial statements.

Net Position

Governmental accounting standards require that the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources be reported as net position. Net position classified as net investment in in capital assets, restricted or unrestricted. When the Utility incurs an expense for which it may use either restricted or unrestricted net position, it uses restricted net position first.

Net position that is invested in utility plant and equipment, net of related debt consists of utility plant assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds and notes payable attributable to the acquisition or construction of those assets. Restricted net position relates to positions that have external constraints placed on them by creditors, grantors, or laws or regulations of other governments, or imposed by law through constitutional provision of enabling legislation. Unrestricted net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

G. Revenues & Expenses

Revenues

The customers of the Utility are billed at the end of the month for water purchased and consumed during the month. In addition, customers are assessed a late penalty charge if payment for these services are not made by the due date on the monthly billing statement. The Utility also charges a fee for new taps installed, new service fees, and re-connection or turn-on fees. In addition to water service and sales, the Utility earns revenue in the form of fee for providing sewer billing and collection functions to the city sewer departments of Church Hill and Mount Carmel, Tennessee at the rate of $1.00 per customer.

Nonoperating Revenue & Expenses

Nonoperating revenues and expenses consist of interest/investment earnings, interest expense, and miscellaneous revenues and expenses.

Capital Contributions

Capital contributions represent capital grants received from outside agencies for the purpose of water system improvements.

H. Use of Estimates

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

NOTE 2 – DEPOSITS & INVESTMENTS

Cash includes cash on hand, demand deposits, savings accounts, and certificates of deposit. Cash presented in the Statement of Net Position as of June 30, 2015 is shown below:

Unrestricted Accounts		
Cash on Hand	$	1,847
Cash - Demand Accounts		1,622,002
Cash - Certificates of Deposit		528,580
Restricted Accounts		
Cash - Demand Accounts		299,079
Cash - Certificates of Deposit		899,853
Total Cash	**$**	**3,351,361**
Restricted Cash		
Debt Service		990,530
Insurance		180,356
Customer Deposits		28,046
Total Restricted Cash	**$**	**1,198,932**

At June 30, 2015, the carrying amount of the Utility's deposits, excluding cash on hand of $1,847, was $3,349,514 and the bank balances were $3,344,394. The $5,120 difference represents deposits in transit, outstanding checks, and other reconciling items.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in event of a bank failure, the Utility's deposits were covered by federal depository insurance or by collateral pledged by the financial institutions trust department or agent in the Utility's name to secure deposit balances in excess of F.D.I.C. coverage. At June 30, 2015, the Utility's deposits were all covered by either F.D.I.C. insurance, S.I.P.C. insurance, or securities pledged as collateral.

Interest Rate Risk

The Utility has no formal investment policy; however Tennessee Code Section 7-82-108 for utility districts provides that a utility's investments may have a maturity of not greater than four years from the date of the investment unless such maturity is approved by the Tennessee Director of Local Finance. All deposit accounts had a maturity of one year or less.

NOTE 3 – RECEIVABLES

Receivables consisted of the following at June 30, 2015 as shown below:

Receivables	Amounts
Receivables Due from Customers	$ 391,136
Billing Service Receivable/Other Receivable	4,359
Interest Receivable	1,386
Gross Receivables	**396,881**
Less: Allowance for Doubtful Accounts	(29,441)
Net Receivables	**367,440**
Total Receivables	**$367,440**

NOTE 4 – CAPITAL ASSETS, NET

Capital asset activity for the year ended, June 30, 2015 is shown below:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets Not Being Depreciated				
Land & Land Improvements	$ 442,184	$ -	$ -	$ 442,184
Construction in Progress	-	-	-	-
Total Capital Assets Not Being Depreciated	442,184	-	-	442,184
Capital Assets Being Depreciated				
Buildings & Improvements	1,469,482	-	-	1,469,482
Operating Plant/Lines	19,873,154	9,120	-	19,882,274
Office Equipment	274,783	9,804	-	284,587
Machinery & Equipment	535,555	-	-	535,555
Vehicles	278,436	-	-	278,436
Total Capital Assets Being Depreciated	22,431,410	18,924	-	22,450,334
Less: Accumulated Depreciation for:				
Buildings & Improvements	(577,023)	(36,027)	-	(613,050)
Operating Plant/Lines	(4,431,821)	(406,822)	-	(4,838,643)
Office Equipment	(175,459)	(21,191)	-	(196,650)
Machinery & Equipment	(448,084)	(5,457)	-	(453,541)
Vehicles	(278,436)	-	-	(278,436)
Total Accumulated Depreciation	(5,910,823)	(469,497)	-	(6,380,320)
Total Capital Assets (net)	**$ 16,962,771**	**$ (450,573)**	**$ -**	**$ 16,512,198**

Total depreciation expense for the year was $469,497.

NOTE 5 – LONG-TERM DEBT

A summary of the Utility's long-term debt activity for the year ended, June 30, 2015 is presented as follows:

Total Debt Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within 1 Year
Waterworks Revenue & Refunding Bond - Series A	$ 8,060,000	$ -	$ 200,000	$ 7,860,000	$ 210,000
Waterworks Revenue Bond	712,800	-	11,821	700,979	12,379
Waterworks Revenue Bond - Series B	3,400,000	-	-	3,400,000	-
Unamortized Bond Discount	(67,191)	-	(2,399)	(64,792)	-
Unamortized Bond Premium	22,359	-	972	21,387	-
Total Outstanding Debt	**$ 12,127,968**	**$ -**	**$ 210,394**	**$ 11,917,574**	**$ 222,379**

A recap of the issues shown is as follows:

- Waterworks Revenue Refunding & Improvement Bonds-Series A – Issued on 6/18/2008 with an average rate of 4.357% for $9,100,000. See Note 6 for additional information.
- Rural Development – Waterworks Revenue Bonds Series 2003 – Issued in 2006 at 4.50% for the construction of water lines and a water tank. The issue is paid in monthly installments as to principal and interest in the amount of $3,638.
- Waterworks Revenue Bonds-Series B – Issued in July, 2008 for $3,400,000 with an average interest rate of 5.00%. See Note 7 for additional information.

Annual debt service requirements to maturity at June 30, 2015 are as follows:

Year Ending June 30	**Principal**	**Interest**	**Total**
2016	$ 222,379	$ 537,971	$ 760,350
2017	232,934	529,540	762,474
2018	243,528	520,697	764,225
2019	254,149	511,566	765,715
2020	264,800	501,914	766,714
2021-2025	1,544,842	2,337,332	3,882,174
2026-2030	1,946,204	1,988,647	3,934,851
2031-2035	2,457,947	1,516,914	3,974,861
2036-2040	3,201,422	882,708	4,084,130
2041-2044	1,592,774	121,953	1,714,727
Total	**$ 11,960,979**	**$ 9,449,242**	**$ 21,410,221**

An analysis of total long-term debt including post-employment benefits (see note 15) is presented as follows:

	Bonds (net)	**Other Post-Employment Benefits**	**Total**
Balance July 1, 2014	$ 12,127,968	$ 53,612	$ 12,181,580
Additions	-	-	-
Deductions	(210,394)	(38,538)	(248,932)
Balance June 30, 2015	**$ 11,917,574**	**$ 15,074**	**$ 11,932,648**

A recap of total non-current liabilities is as follows:

Non-Current Liabilities	Amount
Total Outstanding Bond Issues	$ 11,960,979
OPEB Obligations (net)	15,074
Add: Unamortized Premium Debt	21,387
Less: Unamortized Bond Discounts	(64,792)
Less: Current Year Maturities of Bonded Debt Issue	(222,379)
Total Non-Current Liabilities	**$ 11,710,269**

NOTE 6 – WATERWORKS REVENUE REFUNDING & IMPROVEMENT BONDS-SERIES 2008A

In 2008, the Utility issued $9,100,000 in Waterworks Revenue Refunding & Improvement Bonds with an average interest rate of 4.357%. These bonds were issued for the purpose of currently refunding three previous outstanding debt obligations in order to remove restrictive debt covenants, retiring short-term bond anticipation notes, and to provide additional funds for the construction of the new water treatment plant presently under construction.

The 2008A bonds are payable from and secured by a pledge of net revenues, subject to the prior pledge of such net revenues in favor of the Utility's Waterworks Revenue Bonds, Series 2003 and on parity and equality of lien with respect to such net revenues with the Utility's Waterworks Revenue Bonds, Series 2008B. Bond payments as to principal are due annually and semi-annually for interest. See Note 7 for information regarding the Series 2008 B issue.

NOTE 7 – WATERWORKS REVENUE BOND-SERIES 2008B

In prior years, the Utility issued $3,400,000 in Waterworks Revenue Bonds Series-B for the purpose of financing the construction of improvements and extensions to the water procurement, treatment, storage, and distribution system. These bonds are secured by a pledge of the net revenues as defined in the bond resolution subject to the prior pledge of such net revenues in favor of the Utility's Waterworks Revenue Bond Series 2003 and on parity and equality of lien with respect to the Utility's Waterworks Revenue Refunding and Improvements Bonds Series 2008A.

The 2008 Series B Bonds require interest payments only through 6/1/2037 and principal payments begin 6/1/2038. This is the scheduled time period for pay-off on the 2008 Series A Bonds.

NOTE 8 – BOND COVENANTS

With respect to the 2008 Series A and B issues and the 2003 Water Revenue Bond issues, the bond issues contained certain provisions with respect to reserve and/or sinking fund requirements. As part of the requirements on the 2008 Series A and B issues, with the Series A issue taking place in June, 2008 and the Series B taking place in July, 2008, the Utility deposited $110,720 into the Bond and Interest Sinking Fund as part of the bond requirements. In addition, the 2008 Series A and B issues requires a debt service reserve account to be established based on 100% of the maximum periodic debt service amount which totals $795,000 for both issues combined or $583,056 for the Series A issue and $211,944 for the Series B issue. As of June 30, 2014, the funds for the debt service reserve account and related sinking fund accounts are presented below:

Cash in Banks - Sinking Fund	$ 116,530
Certificates of Deposit - Debt Service Reserve	874,000
Total Debt Service Reserves/Funds	**$990,530**

As part of the 2008 Series A and B issue, the Utility is subject to additional covenants under the bond documents. A copy of the bond covenants may be obtained by contacting the management of the First Utility District of Hawkins County.

Based on these covenants, the Utility is required to meet certain requirements as summarized by the following:

- The Utility shall maintain and operate the system in an economical and efficient manner and on a revenue producing basis. It shall at all times prescribe, fix, maintain and collect rates, fees and other charges for the services furnished by the Utility fully sufficient at all times:
    - For 100% of the current expenses and for accumulation in the revenue fund of a reasonable reserve therefore, in an amount, if any, as shall be determined from time to time by the Utility
    - Such that net revenues in each fiscal year will equal at least 120% of the debt service requirement on all 2008 Bonds, and 100% of the debt service requirements on all other bonds, including the 2003 bonds, or other obligations outstanding for such fiscal year

The definition of net revenues for this purpose means gross earnings, excluding profits and losses on the sales or other dispositions not in the ordinary course of business, of investments or fixed or capital assets, less current expenses. Current expenses are defined as all expenses incurred by the Utility in the operation of the System excluding depreciation, amortization and interest on any bonds, notes or other obligations of the Utility. Debt service requirement is defined as total principal and interest payments on all debt within the next 12 months.

Based on the covenants for debt service requirement, the information is as shown below:

	Amounts
Operating Revenue	$ 3,937,906
Less: Operating Expense	(3,046,312)
Add: Depreciation	469,497
Income Available for Debt Service	**1,361,091**
Long-Term Debt Service Requirement	
2008 Series A Bonds	546,694
2008 Series B Bonds	170,000
Total L-T Debt Service Requirement	**716,694**
Required on 2008 Bonds (120%)	860,033
2003 Bonds (100%)	43,656
Minimum Required Income	903,689
Income Available for Debt Service	1,361,091
Difference	**$ (457,402)** *

* At June 30, 2015, the Utility based on the above calculations, was in compliance with the requirement relating to the 120% and 100% computation under the 2008 Series A and B issues as income available for debt service (as computed) was above the minimum required income. In addition, the Utility was in compliance with funds reserved for debt service.

2003 Waterworks Revenue Bonds - The Utility maintains a bond and interest sinking fund account for the Waterworks Revenue Bonds in sufficient amounts to cover the annual debt service requirements or $43,656 per year. As of June 30, 2015, the Utility had restricted cash accounts in the amount of $45,294 for bond principal and interest requirements.

NOTE 9 – INTEREST EXPENSE

For the year ending June 30, 2015, the Utility incurred the following interest expense relating to debt issues:

Total Interest Expense Pd/Accrued (net of premiums & discount)	$ 546,799
Less: Capitalized Interest Cost to Construction Project	-
Interest Expense (net)	**$ 546,799**

NOTE 10 – GASB STATEMENT 68 IMPLEMENTATION ADJUSTMENT

GASB Statement No. 68 requires net pension assets and or liabilities to be recorded on the Statement of Net Position. During the year of implementation, beginning net position on the Statement of Revenues, Expenses, and Changes in Net Position was restated as follows:

Beginning Net Position As Previously Reported	**$ 8,034,272**
Beginning Net Pension Liability	(249,542)
Prior Year Pension Contributions	33,220
Beginning Net Position-Restated	**$ 7,817,950**

NOTE 11 – NET POSITION

Net Position as of June 30, 2015 is as follows:

Investment in Capital Assets, net	$ 16,512,198
Related Debt Used to Acquire Capital Assets	(11,917,574)
Net Investment In Capital Assets	4,594,624
Restricted Net Position	1,198,932
Unrestricted Net Position	2,384,552
Total Net Position	**$8,178,108**

NOTE 12 – SALARIES/WAGES & BENEFITS

A recap of salaries, wages, and benefits paid for the year ending June 30, 2015 is as follows:

Salaries & Wages	$ 1,145,235
Health & Other Benefit Insurance	328,679
Payroll Taxes	86,304
Total Salaries, Wages, & Benefits	**$1,560,218**

NOTE 13 – RETIREMENT PLAN

Plan Description- Employees of the First Utility District of Hawkins County are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The

TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the members' highest five consecutive year average compensation and the members' years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Members and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAS) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms- At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive Employees for Beneficiaries Currently Receiving Benefits	5
Inactive Employees Entitled To But Not Yet Receiving Benefits	3
Active Employees	21
	29

Contributions- Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. First Utility District of Hawkins County makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for First Utility District of Hawkins County were $49,445 based on a rate of 5% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept First Utility District of Hawkins County's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

First Utility District of Hawkins County's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions- The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging at 4.25 percent
Investment Rate Of Return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	**Long-Term Expected Real Rate of Return**	**Target Allocation**
U.S. Equity	6.46%	33%
Developed Market International Equity	6.26%	17%
Emerging Market Internation Equity	6.40%	5%
Private Equity And Strategic Lending	4.61%	8%
U.S. Fixed Income	0.98%	29%
Real Estate	4.73%	7%
Short-term Securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from First Utility District of Hawkins County will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments that was applied to all periods of projected benefit payments to determine the total pension liability.

Changes In The Net Pension Liability (Asset)

	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability (Asset)**
Balance at June 30, 2013	**$ 2,657,892**	**$ 2,408,350**	**$ 249,542**
Changes For The Year:			
Service Cost	72,022		72,022
Interest	200,980		200,980
Differences Between Expected & Actual Experience	(53,284)		(53,284)
Contributions-Employer		33,220	(33,220)
Contributions-Employee		51,746	(51,746)
Net Investment Income		399,357	(399,357)
Benefit Payments, Including Refunds of Employee Contributions	(100,383)	(100,383)	-
Administrative Expense		(871)	871
Net Changes	**119,335**	**383,069**	**(263,734)**
Balance at June 30, 2014	**$ 2,777,227**	**$ 2,791,419**	**$ (14,192)**

Sensitivity of the net pension liability (assets) to changes in the discount rate- The following represents the net pension liability (assets) of the Utility calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
First Utility District of Hawkins County's Net Pension Liability (Asset)	$ 372,888	$ (14,192)	$ (332,280)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension income-For the year ended June 30, 2015, First Utility District of Hawkins County recognized pension income of $7,676.

At June 30, 2015, the Utility reported a payable of $3,996 for the outstanding amount of required contributions to the pension plan.

NOTE 14 – DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

For the year ended June 30, 2015, First Utility of Hawkins County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences Between Expected And Actual Experience	$ -	$ 47,364
Net Difference Between Projected And Actual Earnings On Pension Plan Investments		175,474
Contributions Subsequent To The Measurement Date Of June 30, 2014(1)	49,445	-
Total	**$ 49,445**	**$ 222,838**

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset0 in the following measurement period.

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

Year Ended June 30th:		Deferred Inflows Of Resources
2016	$	(49,788)
2017	$	(49,788)
2018	$	(49,788)
2019	$	(49,788)
2020	$	(5,920)
Thereafter	$	(17,760)

In the table shown above, positive amounts will increase pension expense while negative amount will decrease pension expense

Payable To The Pension Plan

At June 30, 2015, the Utility reported a payable of $3,996 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

NOTE 15 – POST-EMPLOYMENT HEALTH CARE PLAN

The First Utility District of Hawkins County participates in the state-administered Local Government Group Insurance Plan and Medicare Supplement Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by TCA 8-27-207 (local governments) and TCA 8-27-701 (Medicare Supplement). In previous fiscal years, prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://tennessee.gov/financial/act/cafr.html.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state does not provide a subsidy for local government participants.

Annual OPEB Cost & Net OPEB Obligation	Local Government Plan
ARC	$ 130,000
OPEB Cost	
Interest on the NOO	4,543
Adjustment to the ARC	(4,426)
Annual OPEB Cost	117
Amount of Contribution	(67,162)
Increase (Decrease) in NOO	(62,955)
OPEB Obligation (net) - Beginning	**116,567**
OPEB Obligation (net) - Ending	**$ 53,612**

Fiscal Year Ending	Plan	Annual OPEB Cost	Percentage of Annual OPEB Contributed	Net OPEB Obligation at Year End
06/30/11	Local Gov't Plan	154,359	800.30%	148,446
06/30/12	Local Gov't Plan	(365)	100.00%	143,633
06/30/13	Local Gov't Plan	(353)	100.00%	113,567
06/30/14	Local Gov't Plan	117	100.00%	50,612

Funded Status & Funding Progress

The funded status of the plan as of July 1, 2013 was as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a) / (c))
Local Government Group Plan:						
07/01/10	$ -	$ 1,383,000	$ 1,383,000	0.00%	$ 1,011,009	136.79%
07/01/11	$ -	$ 1,327,000	$ 1,327,000	0.00%	$ 1,101,421	120.48%
07/01/13	$ -	$ 1,314,000	$ 1,314,000	0.00%	$ 1,034,917	126.97%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods & Assumptions
Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2013, actuarial valuation for the Local Government plan, the Projected Unit Credit actuarial cost method was used and the actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent initially. The rate decreased to 8.75 percent in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021. The annual healthcare premium trend rate for the Medicare Supplement plan was 6.50 percent initially. The rate reduced to 6.25 percent for fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2018. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

NOTE 16 – RISK MANAGEMENT

The First Utility District of Hawkins County is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the Utility carries commercial insurance. With regards to risk management, there were no settlement amounts which exceeded insurance coverage for the current year or the three prior years.

NOTE 17 – RELATED PARTY TRANSACTIONS

In the prior year, the Board of Commissioners approved a contract with Appalachian Environmental Resources to perform services relating to sludge removal at the water filtration plant. Mr. Lynn Parker, a commissioner, is a 10% owner of this Company which was disclosed and he did not vote on this matter. The Utility paid $5,035 in the current year for sludge removal by this Company and this Company has been utilized in previous years prior to Mr. Parker's appointment as a commissioner.

NOTE 18 – CONTINGENCIES

Litigation
As of June 30, 2015, based on correspondence from legal counsel and management, there was no pending or threatened litigation nor any unasserted claims or assessments against the Utility.

NOTE 19 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 26, 2016, which is the date the financial statements were available to be issued.

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
- OPEB OBLIGATIONS-
For the Year Ended June 30, 2015

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a) / (c))
OPEB Obligations						
Local Government Group Plan:						
07/01/10	$ -	$ 1,383,000	$ 1,383,000	0.00%	$ 1,011,009	136.79%
07/01/11	$ -	$ 1,327,000	$ 1,327,000	0.00%	$ 1,101,421	120.48%
07/01/11	$ -	$ 1,314,000	$ 1,314,000	0.00%	$ 1,034,817	126.98%

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) & RELATED RATIOS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
For The Last Fiscal Year Ending
June 30

		2014
Total Pension Liability		
Service Cost	$	72,022
Interest		200,980
Changes In Benefit Terms		-
Differences Between Actual & Expected Experience		(53,284)
Changes Of Assumptions		-
Benefit Payments, Including Refunds Of Employee Contributions		(100,383)
Net Change In Total Pension Liability		119,335
Total Pension Liability-Beginning		2,657,892
Total Pension Liability-Ending-(A)	$	2,777,227
Plan Fiduciary Net Position		
Contributions-employer	$	33,220
Contributions-Employee		51,746
Net Investment Income		399,357
Benefit Payments, Including Refunds Of Employee Contributions		(100,383)
Administrative Expenses		(871)
Net Change In Plan Fiduciary Net Position		383,069
Plan Fiduciary Net Position-Beginning		2,408,350
Plan Fiduciary Net Position-Ending-(B)	$	2,791,419
Net Pension Liability (Asset)-Ending (A)-(B)	$	(14,192)
Plan Fiduciary Net Position As A % Of Total Pension Liability		100.51%
Covered -Employee Payroll	$	1,034,917
Net Pension Liability (Asset) As A % Of Covered-Employee Payroll		1.37%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
Last Fiscal Year ending June 30

	2014	2015
Actuarially determined contribution	$ 33,220	$ 49,445
Contributions in relation to the actuarially determined contribution	33,220	49,445
Contribution deficiency (excess)	$ -	$ -
Covered – employee payroll	$ 1,034,917	$ 1,134,435
Contributions as a percentage covered – employee payroll	3.21%	4.36%

*This schedule is first required for the fiscal year ended June 30, 2015. Subsequent years will include additional disclosures for comparative purposes.

NOTES TO SCHEDULE

Valuation Date

Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	20 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
SCHEDULE OF UTILITY RATES IN FORCE, CUSTOMERS, & COMMISSIONERS
For the Year Ended June 30, 2015

UTILITY RATES

Minimum Bill	$23.85/month
Excess Over 2,000 Gallons	$6.70/1,000 Gallons

Total number of customers at year end:	7,814

COMMISSIONERS	TERM
Terry Fletcher, President - Church Hill, Tennessee	February 21, 2018
Carole G. Fuller - Mt. Carmel, Tennessee	February 21, 2016
Lynn Parker, Secretary - Church Hill, Tennessee	February 21, 2017

AWWA Free Water Audit Software:
Reporting Worksheet

WAS v5.0
American Water Works Association.
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? Click to access definition
+ Click to add a comment

Water Audit Report for: First Utility District of Hawkins County (TN0000109)
Reporting Year: 2015 7/2014 - 6/2015

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED <---------- Enter grading in column 'E' and 'J' ---------->

Master Meter and Supply Error Adjustments

							Pcnt:		Value:	
Volume from own sources:	+ ?	9	688.112	MG/Yr	+ ?	2	1.00%	● ○		MG/Yr
Water imported:	+ ?	n/a	0.000	MG/Yr	+ ?			● ○		MG/Yr
Water exported:	+ ?	9	40.351	MG/Yr	+ ?	2	1.00%	● ○		MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: 641.348 MG/Yr

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

					Pcnt:		Value:	
Billed metered:	+ ?	7	399.815	MG/Yr				
Billed unmetered:	+ ?	n/a	0.000	MG/Yr				
Unbilled metered:	+ ?	n/a	0.000	MG/Yr				
Unbilled unmetered:	+ ?		8.017	MG/Yr	1.25%	● ○	365.000	MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: ? 407.832 MG/Yr

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption) 233.516 MG/Yr

Apparent Losses

					Pcnt:		Value:	
Unauthorized consumption:	+ ?		1.603	MG/Yr	0.25%	● ○		MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:	+ ?	4	21.043	MG/Yr	5.00%	● ○		MG/Yr
Systematic data handling errors:	+ ?	7	1.000	MG/Yr	0.25%	● ○		MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: ? 23.646 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? 209.870 MG/Yr

WATER LOSSES: 233.516 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: ? 241.533 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ?	7	510.0	miles
Number of active AND inactive service connections:	+ ?	8	8,000	
Service connection density:	?		16	conn./mile main

Are customer meters typically located at the curbstop or property line? Yes

Average length of customer service line: + ? 10 0.0 ft (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: + ? 5 100.0 psi

COST DATA

Total annual cost of operating water system:	+ ?	10	$2,289,119	$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ?	10	$6.70	$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+ ?	10	$702.11	$/Million gallons ☐ Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 80 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Customer metering inaccuracies
2: Billed metered
3: Volume from own sources

AWWA Free Water Audit Software:
System Attributes and Performance Indicators

Water Audit Report for: First Utlity District of Hawkins County (TN0000109)
Reporting Year: 2015 | 7/2014 - 6/2015

***** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 80 out of 100 *****

System Attributes:

	Apparent Losses:	23.646	MG/Yr
+	Real Losses:	209.870	MG/Yr
=	**Water Losses:**	**233.516**	MG/Yr
?	Unavoidable Annual Real Losses (UARL):	144.51	MG/Yr
	Annual cost of Apparent Losses:	$158,427	
	Annual cost of Real Losses:	$147,352	Valued at **Variable Production Cost** Return to Reporting Worksheet to change this assumpiton

Performance Indicators:

Financial:	Non-revenue water as percent by volume of Water Supplied:	37.7%	
	Non-revenue water as percent by cost of operating system:	13.6%	Real Losses valued at Variable Production Cost
Operational Efficiency:	Apparent Losses per service connection per day:	8.10	gallons/connection/day
	Real Losses per service connection per day:	N/A	gallons/connection/day
	Real Losses per length of main per day*:	1,127.42	gallons/mile/day
	Real Losses per service connection per day per psi pressure:	N/A	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL):	209.87	million gallons/year
? Infrastructure Leakage Index (ILI) [CARL/UARL]:	1.45	

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2015

	Principal	Interest	Total
WATERWORKS REVENUE & REFUNDING BONDS - Series 2008 A			
Fiscal Year Ending June 30:			
2016	$ 210,000	$ 336,694	$ 546,694
2017	220,000	328,818	548,818
2018	230,000	320,569	550,569
2019	240,000	312,059	552,059
2020	250,000	303,058	553,058
2021	265,000	293,059	558,059
2022	280,000	282,459	562,459
2023	290,000	271,259	561,259
2024	305,000	259,659	564,659
2025	320,000	247,458	567,458
2026	335,000	234,499	569,499
2027	350,000	220,764	570,764
2028	365,000	206,239	571,239
2029	385,000	190,908	575,908
2030	405,000	174,161	579,161
2031	425,000	156,544	581,544
2032	445,000	138,056	583,056
2033	465,000	117,475	582,475
2034	485,000	95,969	580,969
2035	505,000	73,537	578,537
2036	530,000	50,181	580,181
2037	555,000	25,669	580,669
Total Series 2008 A	7,860,000	4,639,094	12,499,094
WATER REVENUE BONDS - Series 2003			
Fiscal Year Ending June 30:			
2016	12,379	31,277	43,656
2017	12,934	30,722	43,656
2018	13,528	30,128	43,656
2019	14,149	29,507	43,656
2020	14,800	28,856	43,656
2021	15,480	28,176	43,656
2022	16,189	27,467	43,656
2023	16,935	26,721	43,656
2024	17,712	25,944	43,656
2025	18,526	25,130	43,656
2026	19,377	24,279	43,656
2027	20,267	23,389	43,656
2028	21,198	22,458	43,656
2029	22,172	21,484	43,656
2030	23,190	20,466	43,656
2031	24,257	19,399	43,656
2032	25,370	18,286	43,656

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2015

	Principal	Interest	Total
2033	$ 26,535	$ 17,121	$ 43,656
2034	27,756	15,900	43,656
2035	29,029	14,627	43,656
2036	30,364	13,292	43,656
2037	31,758	11,898	43,656
2038	33,217	10,439	43,656
2039	34,743	8,913	43,656
2040	36,340	7,316	43,656
2041	38,009	5,647	43,656
2042	39,755	3,901	43,656
2043	41,581	2,075	43,656
2044	23,429	330	23,759
Total Series 2003	700,979	545,148	1,246,127
WATERWORKS REVENUE BOND - Series B			
Fiscal Year Ending June 30:			
2016	-	170,000	170,000
2017	-	170,000	170,000
2018	-	170,000	170,000
2019	-	170,000	170,000
2020	-	170,000	170,000
2021	-	170,000	170,000
2022	-	170,000	170,000
2023	-	170,000	170,000
2024	-	170,000	170,000
2025	-	170,000	170,000
2026	-	170,000	170,000
2027	-	170,000	170,000
2028	-	170,000	170,000
2029	-	170,000	170,000
2030	-	170,000	170,000
2031	-	170,000	170,000
2032	-	170,000	170,000
2033	-	170,000	170,000
2034	-	170,000	170,000
2035	-	170,000	170,000
2036	-	170,000	170,000
2037	-	170,000	170,000
2038	625,000	170,000	795,000
2039	650,000	138,750	788,750
2040	675,000	106,250	781,250
2041	700,000	72,500	772,500
2042	750,000	37,500	787,500
Total Series 2003	$ 3,400,000	$ 4,265,000	$ 7,665,000
TOTAL DEBT SERVICE	**$ 11,960,979**	**$ 9,449,242**	**$ 21,410,221**

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL & STATE AWARDS
For the Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor	Number	Contract Number	Expenditures
FEDERAL AWARDS:			
			$ -
STATE AWARDS:			
			$ -
Total Federal and State Awards			$ -

Basis of Presentation:

Note 1: The accompanying Schedule of Expenditures of Federal Awards & State Financial Assistance summarizes the expenditures of First Utility District of Hawkins County under programs of the federal and state governments for the year ended June 30, 2015. The schedule is presented using the accrual basis of accounting.

DAVID M. ELLIS
Certified Public Accountant

Member, American Institute of Certified Public Accountants

Member, Tennessee Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners of
First Utility District of Hawkins County
Church Hill, Tennessee

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of First Utility District of Hawkins County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the First Utility District of Hawkins County's basic financial statements, and have issued my report thereon dated February 26, 2016.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered First Utility District of Hawkins County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of First Utility District of Hawkins County's internal control. Accordingly, I do not express an opinion on the effectiveness of First Utility District of Hawkins County's internal control.

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Leighton House • 132 Depot Street West • Greeneville, Tennessee 37743
(423) 787-0855 • Fax (423) 639-0124

Compliance and Other Matters

As part of obtaining reasonable assurance about whether First Utility District of Hawkins County's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing* Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

David M Ellis

David M. Ellis, CPA
Greeneville, TN
February 26, 2016

FIRST UTILITY DISTRICT OF HAWKINS COUNTY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST
For the Fiscal Year Ended June 30, 2015

Financial Statement Findings

Finding Number[1]	Finding Title	Status

[1] Note: There were no prior year financial statement findings reported.

Compliance Findings

Finding Number[1]	Finding Title	Status

[1] Note: There were no prior year financial statement findings reported.