NEW ISSUE

BOOK-ENTRY-ONLY

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

PRELIMINARY OFFICIAL STATEMENT

$10,000,000*

CITY OF FAYETTEVILLE, TENNESSEE

Electric System Revenue Refunding Bonds, Series 2016

OFFERED FOR SALE NOT SOONER THAN

Thursday, May 5, 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 26, 2016

*Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 26, 2016

NEW ISSUE Rating: Standard & Poor's: "A+"
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 Municipality, 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*
CITY OF FAYETTEVILLE, TENNESSEE
Electric System Revenue Refunding Bonds, Series 2016

Dated: Date of Delivery (assume May 27, 2016) Due: June 1 (as indicated below)

The $10,000,000* Electric System Revenue Refunding Bonds, Series 2016 (the "Bonds") shall be issued by the City of Fayetteville, Tennessee (the "City") as book-entry-only Bonds in denominations of $5,000 and authorized integral multiples thereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") except as otherwise described herein. 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 solely from and secured by a pledge of the income and revenues to be derived from the operation of the Issuer's electrical power distribution system (the "System") subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring the System, and on a parity and equality of lien with certain other revenue bonds of the Issuer as described herein. The owner of these Bonds shall have no recourse to the taxing power of the Issuer.

Bonds maturing June 1, 2024 and thereafter are subject to redemption prior to maturity on or after June 1, 2023.

Maturity (June 1)	Amount*	Interest Rate	Yield	CUSIPS **
2017	$ 50,000			
2018	55,000			
2019	55,000			
2020	55,000			
2021	830,000			
2022	860,000			
2023	895,000			
2024	925,000			
2025	1,505,000			
2026	1,550,000			
2027	1,590,000			
2028	1,630,000			

This cover page contains certain 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 City, subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Nashville, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon from John D. Hill, Jr., counsel to the City. 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

May __, 2016 *Preliminary, 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 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 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 (as defined herein), 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 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 or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations should not be relied upon as having been authorized by the Issuer 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 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 McGraw-Hill Companies, Inc., and are included solely for the convenience of the Bond holders. The City 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.

CITY OF FAYETTEVILLE, TENNESSEE

OFFICIALS

Honorable Jon Law	*Mayor*
Tonya Steelman	*Finance Director*
Scott Collins	*City Administrator*
John D. Hill, Jr.	*City Attorney*
Britt Dye	*Utilities CEO/General Manager*

COUNCIL MEMBERS

Danny Bryant
Anna Catherine Cowley
Violet Harry
Gwen Shelton
Dorothy Small
Michael Whisenant

FAYETTEVILLE PUBLIC UTILITIES BOARD MEMBERS

Janine Wilson, Chairman
William Hurd
Glenn Oldham
Paul Richardson
Micky Lawson
Michael Whisenant
Russ Dixon
Mayor Jon Law, Ex-Officio

REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

BOND COUNSEL

Bass, Berry & Sims PLC
Nashville, 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*.

Issuer	City of Fayetteville, Tennessee (the "City", "Municipality" or "Issuer") See APPENDIX B contained herein.
The Bonds.....	$10,000,000* Electric System Revenue Refunding Bonds, Series 2016 (the "Bonds").
Security.....	The Bonds will be issued pursuant to and secured by bond resolutions of the City and will be payable solely from the net revenues of the Systems, as further described herein.
Purpose	The Bonds are being issued for the purpose of providing funds for refunding all or a portion of the Fayetteville Public Utility System's outstanding Electric System Revenue Bonds, Series 2007, dated December 5, 2007 maturing June 1, 2021 and thereafter.
Optional Redemption	The Bonds are subject to optional redemption prior to maturity on or after June 1, 2023, at the redemption price of par plus accrued interest. See section entitled "SECURITIES OFFERED - Optional Redemption".
Tax Matters.....	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds is 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. Interest on the Bonds 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 opinion) included herein.
Bank Qualification	The Bonds have been designated or deemed 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+". See the section entitled "MISCELLANEOUS - Rating" for more information.
Registration and Paying Agent	Regions Bank, Nashville, Tennessee (the "Registration Agent").
Bond Counsel	Bass, Berry & Sims PLC, Nashville, Tennessee.
Financial Advisor	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled "MISCELLANEOUS - Financial Advisor; Related Parities; Others", herein.
Underwriter.....	_____.

*Preliminary, subject to change.

Book-Entry-Only.....The Bonds will be issued under the Book-Entry-Only System except as otherwise described herein. 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 9, Chapter 21, *Tennessee Code Annotated*, as supplemented and revised. See the section entitled 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 City 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"), if any, annual audited financial statements and other pertinent credit or event information, see the section entitled "MISCELLANEOUS-Continuing Disclosure."

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 omission of certain pricing and other information allowed to be omitted pursuant to Rule 15c2-12. For more information concerning the City, or the PRELIMINARY OFFICIAL STATEMENT, contact Jon Law, Mayor, 110 Elk Avenue South, Fayetteville, Tennessee 37334, Telephone: (931) 433-6154; or the City's Financial Advisor, Cumberland Securities Company, Inc., 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 Position	$42,138,006	$44,539,070	$46,423,411	$48,643,130	$51,859,215
Revenues	45,736,819	43,047,044	44,800,386	46,537,461	46,079,243
Expenditures	42,369,522	40,192,313	41,019,958	42,271,931	42,504,058
Other Financing Sources	(695,201)	(806,770)	(740,146)	(726,047)	(716,775)
Capital Contributions	403,294	522,292	255,069	272,633	340,768
Transfers Out	(674,326)	(685,912)	(750,579)	(801,136)	(811,562)
Adjustments	-	-	(295,053)	205,105	-
Ending Net Position	**$44,539,070**	**$46,423,411**	**$48,643,130**	**$51,859,215**	**$54,246,831**

Source: Comprehensive Annual Financial Report for Fayetteville Electric System, Fayetteville, Tennessee.

SUMMARY NOTICE OF SALE

$10,000,000*

CITY OF FAYETTEVILLE, TENNESSEE
Electric System Revenue Refunding Bonds, Series 2016

NOTICE IS HEREBY GIVEN that the Mayor of the City of Fayetteville, Tennessee (the "City") will receive electronic or written bids until **10:15 a.m. E.D.T.** on **Thursday , May 5, 2016** for the purchase of all, but not less than all, of the City's $10,000,000* Electric System 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 by the City's Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the City 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 9:30 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-only form (except as otherwise described in the Detailed Notice of Sale) and dated the date of issuance (assume May 27, 2016). The Bonds will mature on June 1 in the years 2017 through 2028, 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, 2023 at par plus accrued interest, in any. Bidders must bid not less than ninety-nine and one-quarter percent (99.25%) 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 City by Bass, Berry & Sims PLC, Bond Counsel, Nashville, 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 Mayor of the City 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 City's Financial Advisor, Cumberland Securities Company, Inc., 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.

CITY OF FAYETTEVILLE, TENNESSEE
By: Jon Law, Mayor

*Preliminary, subject to change.

DETAILED NOTICE OF SALE

$10,000,000*
CITY OF FAYETTEVILLE, TENNESSEE

Electric System Revenue Refunding Bonds, Series 2016

NOTICE IS HEREBY GIVEN that the Mayor of the City of Fayetteville, Tennessee (the "City") will receive electronic or written bids until **10:15 a.m. E.D.T.** on **Thursday, May 5, 2016** for the purchase of all, but not less than all, of the City's $10,000,000* Electric System 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 by the City's Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the City 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 9:30 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*
2017	$ 50,000
2018	55,000
2019	55,000
2020	55,000
2021	830,000
2022	860,000
2023	895,000
2024	925,000
2025	1,505,000
2026	1,550,000
2027	1,590,000
2028	1,630,000

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.

Registration and Depository Participation. 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-only system maintained by DTC (the "Book-Entry-Only

*Preliminary, subject to change.

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-Only 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 City 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 City, 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 City 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.

Security Pledged. The Bonds are payable solely from and secured by a pledge of the income and revenues to be derived from the operation of the Issuer's electrical power distribution system (the "System") subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring the System, and on a parity and equality of lien with certain other revenue bonds of the Issuer as described herein. The owner of these Bonds shall have no recourse to the taxing power of the Issuer.

Purpose. The Bonds are being issued for the purpose of providing funds for refunding all or a portion of the Fayetteville Public Utility System's outstanding Electric System Revenue Bonds, Series 2007, dated December 5, 2007 maturing June 1, 2021 and thereafter.

Optional Redemption. The Bonds maturing on June 1, 2024, and thereafter, will be subject to redemption prior to maturity at the option of the City on and after June 1, 2023 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 City 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 City 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-nine and one-quarter percent (99.25%) 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 City 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 Detailed Notice of Sale shall prevail. An electronic bid made through the facilities of ***PARITY***® shall be deemed an offer to purchase in response to this Detailed Notice of Sale and shall be binding upon the bidder as if made by a signed, written bid delivered to the City. The City 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 City's Financial Advisor, Cumberland Securities Company, Inc. at 865-988-1863. Any facsimile submission is made at the sole risk of the prospective bidder. The City 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 by facsimile to the City's Financial Advisor at 865-988-1863. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

The City 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 City to accept or reject "Bids for Bonds".

Unless all bids for the Bonds are rejected, the Bonds will be awarded by the Mayor of the City 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 Mayor shall determine in his sole discretion which of the bidders shall be awarded the Bonds.

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

Adjustment and/or Revision. While it is the City'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 Mayor 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 Mayor 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 City. Additionally, the Mayor reserves the right to change the dated date of the Bonds. The maximum adjustment will only be made if the maximum bid (including premium) is received.

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 City'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 City'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., Account No. 183302631, for further credit to Good Faith Trust Account.

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 City as liquidated damages.

In the event of the failure of the City 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 City 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 City.

In addition, within two hours of the award of the Bonds, the successful bidder shall furnish to the City 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 City 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 Bass, Berry & Sims PLC, Nashville, 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 City. 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 City 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 relating to the City by not later than twelve months after each of the City'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 (the "MSRB") through the operation of the Electronic Municipal Market Access system (the "EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). If the City 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 notices of material events will be filed by the City either with the MSRB and the SID. The specific nature of the information to be contained in the Annual Report or the notices of events will be summarized in the City's *Official Statement* to be prepared and distributed in connection with the sale of the 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 DTC, 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 City. The City 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 City 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 City will furnish the successful bidder at the expense of the City a reasonable number of copies of the *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 City 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*, this Detailed Notice of Sale and the Official Bid Form, may be obtained from the City's Financial Advisor, Cumberland Securities Company, Inc., Knoxville, Tennessee, 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.

CITY OF FAYETTEVILLE, TENNESSEE

By: Jon Law
Mayor

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BID FORM

The Honorable Jon Law, Mayor
110 Elk Avenue South
Fayetteville, Tennessee 37334

May 5, 2016

Dear Mayor Law:

For your legally issued, properly executed $10,000,000* Electric System Revenue Refunding Bonds, Series 2016 (the "Bonds") of City of Fayetteville, Tennessee, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of _____ _____ ($_____).

The Bonds shall be dated the date of issuance (assume May 27, 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:

YEAR (JUNE 1)	AMOUNT*	Rate
2017	$ 50,000	____
2018	55,000	____
2019	55,000	____
2020	55,000	____
2021	830,000	____
2022	860,000	____
2023	895,000	____
2024	925,000	____
2025	1,505,000	____
2026	1,550,000	____
2027	1,590,000	____
2028	1,630,000	____

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_____ @ _____%.

It is our understanding that the Bonds are offered for sale as "qualified tax-exempt obligations" subject to the final approving opinion of Bass, Berry & Sims PLC, Bond Counsel, Knoxville, Tennessee, whose opinion together with the executed Bonds, will be furnished by the City 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
City of Fayetteville, Tennessee, this
5th day of May, 2016.

_____
Jon Law, Mayor

Respectfully submitted,

_____

_____

Total interest cost from
May 27, 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.

*Preliminary, subject to change.

$10,000,000*
CITY OF FAYETTEVILLE, TENNESSEE
Electric System Revenue Refunding Bonds, Series 2016

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This PRELIMINARY OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto is furnished in connection with the offering by the City of Fayetteville, Tennessee (the "City", "Municipality" or "Issuer") of its $10,000,000* Electric System Revenue Refunding Bonds, Series 2016 (the "Bonds").

The Bonds are authorized to be issued pursuant to the provisions of Chapter 34, Title 7, and Chapter 21, Title 9, *Tennessee Code Annotated*, as amended, and other applicable provisions of the law and pursuant to resolutions (the "Resolution") adopted by the City Council of the City (the "Board") on April 12, 2016.

The Bonds are being issued for the purpose of refinancing, in whole or in part, (i) the City's Outstanding Debt, as described below, and (ii) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.

REFUNDING PLAN

The City is proposing to refinance the City's outstanding Electric System Revenue Bonds, Series 2007, dated December 5, 2007 maturing June 1, 2021 and thereafter (the "Series 2007 Bonds" or "Outstanding Debt").

As required by Title 9, Chapter 21, Part 9 of *Tennessee Code Annotated* as supplemented and revised, a plan of refunding (the "Plan") relating to the refunding of the Outstanding Debt was submitted to the Director of the Office of State and Local Finance for review.

DESCRIPTION OF THE BONDS

The Bonds will be initially dated and bear interest from the date of issuance (assume May 27, 2016). Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing December 1, 2016. The Bonds are issuable in registered book-entry 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 Mayor and shall be attested by the City Recorder. No Bond shall be valid until it has been authenticated by the manual signature of an authorized representative of the Registration Agent and the date of authentication noted thereon.

*Preliminary, subject to change.

SECURITY

The Bonds, and interest hereon, are payable solely from and secured by a pledge of the income and revenues to be derived from the operation of the System, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring the System on a complete parity and equality of lien with the Electric System Revenue Bonds, Series 2007, dated November 16, 2007 (the "2007 Bonds"), and the Electric System Revenue Bonds, Series 2009, dated August 28, 2009 (the "2009 Bonds"). **Neither the full faith and credit nor the taxing power of the Municipality shall be pledged or deemed to be pledged to the payment of the Bonds, but said Bonds shall be payable solely from and secured by the Net Revenues of the System, subject to the payment of certain costs.**

"Current Expenses" means and shall include but not be limited to, expenses for ordinary repairs, removals and replacements of the System, salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses (including legal, engineering, accounting and financial advisory fees and expenses and costs of other consulting or technical services not funded with proceeds of bonds, notes or other debt obligations), insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of the Utilities Board, any payments made by the Municipality or by the Utilities Board on behalf of the Municipality during any Fiscal Year to purchase electrical power for distribution and sale during or after the end of that Fiscal Year, and other payments made under any electrical power supply contract or commodity swap or other hedging mechanism, and any principal or interest payments made by the Municipality or by the Utilities Board on behalf of the Municipality during any Fiscal Year on bonds, notes or other obligations, including loan agreements, issued or entered into for the purpose of financing the purchase of electrical power, and to the extent so provided by the resolution authorizing such bonds, notes or obligations and to the extent not inconsistent with generally accepted accounting principles. Current Expenses do not include depreciation or obsolescence charges or reserves therefore, amortization of intangibles or other bookkeeping entries of a similar nature, on bonds, notes or other debt obligations of the System payable from Net Revenues of the System, costs or charges made therefor, capital additions, replacements, betterments, extensions or improvements to or retirement from the System which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and do not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the System, nor such property items, including taxes and fuels, which are capitalized pursuant to the then existing accounting practices of the Municipality or expenses of an Acquired System if revenues of the Acquired System are not included in Revenues at the election of the Municipality at the direction of the Utilities Board.

"Net Revenues" shall mean Revenues, 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.

"Revenues" shall mean all revenues, rentals, earnings and income of the System 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; and all amounts realized from the investment of money in the accounts and funds of the System, including money in any accounts and funds created by this resolution, and resolutions authorizing any Parity Bonds or bonds subordinate to the 2007 Bonds. The 2009 Bonds and Parity Bonds (together, the "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 refund any outstanding obligations payable from Revenues of the System) and at the election of the Utilities Board on behalf of the Municipality, shall not include any rates, fees, rentals or other charges or other income received by the Municipality 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.

"Utilities Board' means the Board of Public Utilities of the City of Fayetteville, Tennessee.

PARITY OF PLEDGE

As provided in the Resolution, the punctual payment of principal of, premium, if any, and interest on the Bonds shall be secured equally and ratably by said revenues without priority by reason of series, number or time of sale or delivery. The Municipality has covenanted in the Resolution 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 this Bond, the issue of which it is a part, and any bonds hereafter issued on a parity herewith, as each payment becomes due. See "Additional Bonds" and APPENDIX C – "Summary of Certain Provisions of the Electric Resolution".

RATE COVENANT

While the Bonds and all prior and additional parity bonds remain outstanding and unpaid, the Issuer have covenanted and agreed that it will permit no free service to be furnished to any consumer or user whatsoever, and that the charges for all services supplied through the medium of the System to all consumers shall be reasonable and just, taking into account and consideration the costs and value of the System, the cost of maintaining, operating, repairing, and insuring the System, and the amount necessary for the payment of principal of and interest on the Bonds and all parity bonds payable from such revenues. The Issuer have further covenanted that there shall be charged against all users of the services of the System such rates and amounts as shall be fully adequate to meet the requirements of the resolutions pursuant to which the Bonds and all parity bonds were issued. Rates and fees for electricity provided by the System are established by the Issuer, as hereinafter defined, in accordance with the contract between the Issuer and the Tennessee Valley Authority. (See APPENDIX B - "Source of Electric Power".)

DEBT SERVICE RESERVE FUND

The Resolution provides that the Issuer will establish a Fayetteville Electric System Bond Debt Service Reserve Fund (the "Reserve Fund") equal to the least of (a) the Maximum Annual Debt Service Requirement on the Bonds; (b) 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, or (c) 10% of the stated principal amount of the Bonds, as from time to time interpreted under the Code. Monies in the Reserve Fund shall be used solely for the purpose of paying principal at maturity or interest on the Series 2007 Bonds, 2009 Bonds and any Parity Bonds for the payment of which sufficient funds shall not be available in the Bond Fund. Whenever it becomes necessary to use monies in the Reserve Fund, the payments required above shall be continued or resumed until such Reserve Fund is restored to the required minimum amount. Upon the issuance of the Bonds, the Municipality will have deposited $1,824,375.00 to the Reserve Fund for the Series 2007

Bonds and the 2009 Bonds. See "Appendix C – Summary of the Bond Resolution" for more information.

ADDITIONAL BONDS

The Issuer has covenanted in the Bond Resolution that it will incur no indebtedness payable from the revenues of the System having priority over the Bonds.

Additional bonds may be issued on a parity with the Bonds and the 2007 Bonds and the 2009 Bonds. See "Summary of Certain Provisions of the Electric Resolution" for more information.

QUALIFIED TAX-EXEMPT OBLIGATIONS

Under the Internal Revenue Code of 1986, as amended (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 City 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.

OPTIONAL REDEMPTION

Bonds maturing June 1, 2024, and thereafter, shall be subject to redemption prior to maturity at the option of the City on June 1, 2023 and thereafter, as a whole or in part, at any time, at the redemption price of par plus accrued interest to the redemption date. If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be designated by the City, in its discretion. If less than all the principal amount of the Bonds of a maturity shall be called for redemption, the interests within the maturity to be redeemed shall be selected as follows:

(i) if the Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the amount of the interest of each DTC Participant in 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

(ii) 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.

MANDATORY REDEMPTION

The bidders have the option of creating term bonds pursuant to the Detailed Notice of Sale. If term bonds are created, then the following provisions will apply. Subject to the credit hereinafter provided, the City shall redeem Bonds maturing June 1, 20__, and June 1, 20__ on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest

thereon to the date of redemption. The Bonds to be so redeemed shall be selected in the same manner as is described above relating to partial optional redemption.

The dates of redemption and principal amount of Bonds to be redeemed on said dates are as follows:

Maturity	Redemption Date	Principal Amount of Bonds Redeemed

*Final Maturity

At its option, to be exercised on or before the forty-fifth (45) day next preceding any such redemption date, the City may (i) deliver to the Registration Agent for cancellation Bonds of the maturity to be redeemed, in any aggregate principal amount desired, and/or (ii) receive a credit in respect of its redemption obligation for any Bonds of the maturity to be redeemed which prior to said date have been purchased or redeemed (otherwise than through the operation of this section) and canceled by the Registration Agent and not theretofore applied as a credit against any redemption obligation. Each Bond so delivered or previously purchased or redeemed shall be credited by the Registration Agent at 100% of the principal amount thereof on the obligation of the City on such payment date and any excess shall be credited on future redemption obligations in chronological order, and the principal amount of Bonds to be redeemed by operation shall be accordingly reduced. The City shall on or before the forty-fifth (45) day next preceding each payment date furnish the Registration Agent with its certificate indicating whether or not and to what extent the provisions of clauses (i) and (ii) of this subsection are to be availed of with respect to such payment and confirm that funds for the balance of the next succeeding prescribed payment will be paid on or before the next succeeding payment date.

NOTICE OF REDEMPTION

Notice of call for redemption, whether optional or mandatory, shall be given by the Registration Agent on behalf of the City 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 City 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 City pursuant to written instructions from an authorized representative of the City (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 City 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, if applicable, or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain outstanding.

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BASIC DOCUMENTATION

REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the City 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, except as described below. However, if the winning bidder certifies to the City that it intends to hold the Bonds for its own account and has no present intent to reoffer the Bonds, then the use of the Book-Entry System is not required.

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 that (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 City determines to discontinue the Book-Entry-Only System, the Book-Entry-Only System shall be discontinued. Upon the occurrence of the event described above, the City will attempt to locate another qualified securities depository, and if no qualified securities depository is available, 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 City believes to be reliable, but the City, the Bond Counsel, the Registration Agent, the Financial Advisor 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 City, the Bond Counsel, the Registration Agent, the Financial Advisor 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."

DISPOSITION OF BOND PROCEEDS

The proceeds of the sale of the Bonds shall be applied by the City as follows:

(a) A portion of the proceeds from the sale of the Bonds shall be used to pay costs of issuance, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, bond insurance premiums, if any, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds.

(b) The remainder of the proceeds from the sale of the Bonds, together with such other Municipality funds as may be identified by the Mayor and, if applicable, investment earnings on the foregoing, shall be applied to the refunding of the Outstanding Debt.

DISCHARGE AND SATISFACTION OF BONDS

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

1. 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;

2. 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);

3. By delivering such Bonds to the Registration Agent for cancellation by it;

and if the City shall also pay or cause to be paid all other sums payable hereunder by the City 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 City to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void; and if the City 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 City 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 City, 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 claims against the City, including claims in litigation, which, in the opinion of the City, would have a material adverse effect on the financial position of the System. There are no suits threatened or pending challenging the legality or validity of the Bonds or the right of the City to sell or issue the Bonds.

TAX MATTERS

Federal

General. Bass, Berry & Sims PLC, Nashville, Tennessee, is Bond Counsel for the Bonds. Their opinion under existing law, relying on certain statements by the City and assuming compliance by the City 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,
- 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 Internal Revenue Code of 1986, as amended (the "Code"), imposes requirements on the Bonds that the City 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 City 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 City 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 "Proposed Legislation and Other Matters" 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 City 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 City 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 City's Mayor and City Recorder 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 City 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 City's Mayor and City Recorder acting in his official capacity, evidencing delivery of and payment for the Bonds; (iii)

a signature identification and incumbency certificate, signed by the City's Mayor and City Recorder 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 City 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 Bass, Berry & Sims PLC, Knoxville, 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+".

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 ratings 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 May 5, 2016. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated April 26, 2016.

The successful bidder for the Bonds was an account led by _____, _____, _____ (the "Underwriters") who contracted with the City, 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 City 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 City to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the City, including without limitation any of the City's financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the City, any of its affiliates or contractors 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 Finaincial 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 City 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 or filing 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 City 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 City and will be compensated and/or reimbursed for such distribution and other such services.

Bond Counsel. From time to time, Bass, Berry & Sims PLC has represented the Bank on legal matters unrelated to the City 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 City's Dissemination Agent. If the City 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 on principal or interest payments of the Issuer. Additionally, no agreements or legal proceedings of the Issuer relating to securities have been declared invalid or unenforceable.

ADDITIONAL DEBT

The Electric System has not authorized any additional debt. However, the System has ongoing capital needs that may or may not require the issuance of additional debt.

CONTINUING DISCLOSURE

The City 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 relating to the City and the Electric System by not later than twelve

months after the end of each fiscal year commencing with the fiscal year ending June 30, 2016 (the "Annual Reports"), 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 City. The Annual Reports (and audited financial statements if filed separately) and notices described above will be filed by the City 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 Reports 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").

Five-Year History of Filing. While it is believed that all appropriate filings were made with respect to the ratings of the City'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 City has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

Content of Annual Report. The City's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the City for the fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the City'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. Residential and General Power Resale Rates of the System as shown on page B-4;

2. The Top Ten Customers as shown on page B-6.

3. Schedule of Bonded Indebtedness as shown on page B-9;

4. Bonded Debt Service Requirements as shown on page B-10;

5. Electric System Schedule of Revenues, Expenses and Changes in Retained Earnings as shown on page B-11; and

6. Historical Coverage of Maximum Annual Debt Service Requirement as of the end of such fiscal year as shown on page B-12.

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 City, 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 City 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 City 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 City 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 City'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 City 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 City 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 City. 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 City 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 City 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 City 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 City 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 City 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 OF ISSUER

On behalf of the City, 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.

/s/_____
Mayor

ATTEST:

/s/_____
City Recorder

APPENDIX A

FORM OF LEGAL OPINION

(Form of Opinion of Bond Counsel)

BASS, BERRY & SIMS PLC
150 THIRD AVENUE SOUTH, SUITE 2800
NASHVILLE, TENNESSEE 37201

(closing date)

Re: City of Fayetteville, Tennessee Electric System Revenue Refunding Bonds, Series 2016

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Fayetteville, Tennessee (the "Issuer") of $_____ Electric System Revenue Refunding Bonds, Series 2016, dated the date hereof (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we deemed 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 and others furnished to us without undertaking to verify such facts by independent investigation.

Based on the foregoing, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and are valid and binding obligations of the Issuer.

2. The resolution of the Board of Mayor and Aldermen of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

3. The Bonds shall be payable from and secured by a pledge of the revenues to be derived from the operation of the Issuer's electric transmission and distribution system (the "System") on a parity and complete equality of lien with respect to such revenues with the Issuer's outstanding Electric System Revenue Bonds, Series 2007, dated December 5, 2007 and Electric System Revenue Bonds, Series 2009, dated August 28, 2009 and subject to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring the System. We express no opinion as to the sufficiency of such revenues for the payment of principal of, premium, if any, or interest on the Bonds. The owners of the Bonds shall have no recourse to the power of taxation of the Issuer.

4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is 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, it should be noted that for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. Except as

set forth in this Paragraph 4 and in Paragraph 6 below, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

6. The Bonds are "qualified tax-exempt" obligations within the meaning of Section 265 of the Code.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolution authorizing the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

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

Yours truly,

16767245.1

APPENDIX B

SUPPLEMENTAL INFORMATION STATEMENT

THE CITY OF FAYETTEVILLE'S ELECTRIC SYSTEM

HISTORY AND ORGANIZATION

The City of Fayetteville (the "City") acquired the electrical distribution system (the "System") serving the City and its environs by purchase from Tennessee Electric Power Company in 1939. Lincoln County Electric Membership Cooperative was created in 1935 to provide electric service to areas of Lincoln County not previously provided electric service. In 1963 the properties of the cooperative were acquired by the City and merged into those of the City System. Today Fayetteville Public Utilities' ("FPU") Electric Department serves most of Lincoln County and a few customers in Franklin, Giles, Moore and Marshall Counties in Tennessee and Limestone and Madison Counties in Alabama. The System's total customers count as of June 30, 2015 was 18,028. The System employs 56 equivalent full time people and maintains 1,929.00 miles of line.

ELECTRIC POWER BOARD MEMBERS

A seven member Board of Public Utilities (the "Board") that is appointed by the Board of Mayor and Aldermen governs the System. Members of the Board as of June 30, 2015 are as follows:

Member	Term Expires	Occupation
Ms. Janine Wilson – Chairman	July 1, 2016	Educator
Mr. William Hurd – Vice Chairman	July 1, 2015	Retired Procurement Specialist
Mr. Glenn Oldham – Secretary/Treasurer	July 1, 2016	Insurance
Mr. Micky Lawson	July 1, 2017	Merchant
Mr. Paul Richardson	July 1, 2017	Insurance/Real Estate
Ms. Linda Schoenrock	July 1, 2015	Owner, WholeFood Farmacy
Mr. Michael Whisenant	Indefinite	Project Manager – G-Squared

Mr. Britt Dye – CEO/General Manager

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THE ELECTRIC DISTRIBUTION SYSTEM

SERVICE AREA

The System's service area encompasses approximately 571 square miles in Lincoln County, Tennessee, including approximately 10.86 square miles within the limits of the Municipality. The System is the exclusive distributor of electric power within this service area.

TRANSMISSION SYSTEM

Wholesale power is purchased from the Tennessee Valley Authority at four delivery points at 161 kV deliveries and one 46kV delivery point. The Hamilton, Kelso, McBurg, and Park City Substations have a 161 kV source and the Petersburg Substation is normally served by TVA's 46 kV subtransmission. The Blanche, Elk River, Flintville, Industrial, and Kelso Substations are fed from FPU's 46 kV subtransmission system. The Brogan Substation is fed at 13 kV from Hamilton Substation but can be fed at 46 kV. Petersburg Substation also can be fed from FPU's 46 kV sub transmission. The 46 kV sub transmission system consists of approximately 90 pole line miles and feeds seven 46 / 13.2 kV substations.

DISTRIBUTION SYSTEM

The System's distribution system serves approximately 18,028 residential, commercial, and industrial customers located within the City of Fayetteville and most of Lincoln County. The 12.47 / 24.94 kV distribution system consists of approximately 1,790 pole line miles of overhead conductor and approximately 139 miles of underground conductors. Numerous circuits from the ten distribution substations provide for continuity of service via multiple inter-connections through the County. The ten substations are continuously monitored by an automated Supervisory Control and Data Acquisition system (SCADA).

SOURCE OF ELECTRIC POWER

Since its inception as a municipal system in 1939 (and as a cooperative in the rural areas since 1935) the System has purchased all of its energy requirements from Tennessee Valley Authority Pursuant to the standard contract (the "Power Contract"). The most recent renewal of the purchase contract was made effective July 1, 1976 for a period of 20 years. In 1999 a rolling ten year contract was executed. The contract is subject to earlier termination by either party on not less than ten year's prior written notice. Under the Power Contract, TVA agrees to supply the amount of electric power required for service to the System's customers and the System agrees to purchase all of its electric power from TVA.

The cost and availability of power to the System may be affected by, among other things, factors relating to TVA's nuclear program, fuel supply, environmental considerations such as future legislation regulating the mining of coal, the construction and financing of future generating and transmission facilities and other factors relating to TVA's ability to supply the power demands of its customers, including the System. The power sold to the System is supplied from the entire TVA system and not one specific generating facility.

The Power Contract provides that TVA shall make every reasonable effort to increase the generating capacity of its system and to provide the transmission facilities required to deliver the output thereof so as to be in a position to supply additional power when and to the extent needed by the System. Neither TVA nor the System is liable for breach of contract if the availability or use of power is interrupted or curtailed or if either party is prevented from performing under the Power Contract by circumstances reasonably beyond its control. The amount of power supplied by TVA and the contractual obligation to supply such power are limited by the capacity of the TVA's generating and transmission facilities.

The Power Contract provides that the System may sell power to all customers in its service area, except certain Federal installations and large customers that TVA may serve directly.

The Power Contract specifies the wholesale purchase rates and the monthly resale rates to be adhered to by the System, which may be revised periodically by TVA, through the publication of an Adjustment Addendum, to cover increased costs to TVA. (SEE "ELECTRIC RATES" below.)

THE TENNESSEE VALLEY AUTHORITY

The Tennessee Valley Authority Act of 1933, as amended, established TVA as a wholly owned corporate agency and instrumentality of the United States of America. The Acts' objective is the development of the resources of the Tennessee Valley and adjacent areas in order to strengthen the regional and national economy and the national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and the Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) ample supply of power within an area of 80,000 square miles; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. All powers of TVA are vested in its board, the Consolidated Appropriations Act, 2005, amended the TVA Act restructuring the TVA Board from 3 full-time members to 9 part-time members, at least 7 of whom must be legal residents of the TVA service area. TVA Board members are appointed by the President of the United States by and with the advice and consent of the U.S. Senate. After an initial phase-in period, TVA Board members serve 5-year terms, and at least one member’s term ends each year.

TVA has a fuel cost tracker, which provides for monthly adjustments to TVA’s wholesale power rates for changes in the cost of fuel used to generate electric power.

ELECTRIC RATES

The System has agreed to adhere to resale rates in accordance with the Power Contract with TVA and specifically as provided by the current residential rate schedule effective October 2012, the current general service rate schedule effective October 2013, and the current manufacturing service rate schedule effective April 2011. (SEE “RESIDENTIAL AND GENERAL POWER RESALE RATES OF THE SYSTEM”). The Power Contract provides further that if the resale rates set forth therein do not provide sufficient revenues for the operation and maintenance of the System on a self-supporting, financially sound basis, including debt service, the Board of Public Utilities and TVA will agree to changes in rates to provide increased

revenues. Similarly, if the rates and charges produce excess revenues, the parties will agree to rate reductions. Since the date of the Power Contract, TVA by use of Adjustment Addendum has adjusted the wholesale and resale rates from time to time through publication. The System is not otherwise subject to rate regulation under existing law, and the Fayetteville Public Utilities Board of Directors is not aware of any pending legislation to make its electric rates subject to regulation.

RESIDENTIAL AND GENERAL POWER RATES

The following schedule outlines the retail electric rates charged by the System as of June 30, 2015:

I. <u>Residential Rates:</u>

Customer Charge:	$21.10 per month
Energy Charge:	7.135 cents per kWh
TVA Total Monthly Fuel Cost:	2.262 cents per kWh

II. <u>General Service Rates:</u>

Usage Under 50 kW:

Customer Charge:	$35.15 per month
Energy Charge:	8.177 cents per kWh
TVA Total Monthly Fuel Cost:	2.227 cents per kWh

Usage Over 50 kW But Not More Than 1,000 kW:

Customer Charge:	$175.00 per delivery point per month
Demand Charge:	First 50 kW - $1.00 per kW
	Over 50 kW - $15.01 per kW
Energy Charge:	First 15,000 kWh – 8.164 cents per kWh
	Additional kWh – 4.219 cents per kWh
TVA total Monthly Fuel Cost:	First 15,000 kWh at 2.227 cents per kWh
	Additional kWh – 2.188 cents per kWh

Usage Over 1,000 kW But not More Than 5,000 kW:

Customer Charge:	$400.00 per delivery point per month
Demand Charge:	First 1,000 kW - $15.87 per kW
	Excess over 1,000 kW - $18.11 kW
Energy Charge:	3.996 cents per kWh per month
TVA Total Monthly Fuel Cost:	2.188 cents per kWh

III. <u>MANUFACTURING RATES:</u>

Usage Over 5,001 kW and/or kWh Usage Under 15,000 kW:

Customer Charge:	$1,850.00 per delivery point per month
Demand Charge:	Contract Demand - $19.65 per kW
	Excess of Contract - $19.65 per kW
Energy Charge:	1.872 cents per kWh per month
TVA Total Monthly Fuel Cost:	2.175 cents per kWh

Source: Audited Financial Statements, Fayetteville Public Utilities

OPERATING AND FINANCIAL HISTORY

OPERATING HISTORY

The following tables present information relating to the number of meters in service, operating revenues of the System, and data on the largest industrial customers. Unless otherwise stated, such information is presented for the fiscal years ended June 30 in the years shown.

NUMBERS OF METERS IN SERVICE

	2011	2012	2013	2014	2015
Residential	15,497	15,752	15,514	15,505	15,604
General Power – 50kW	2,160	2,206	2,179	2,173	2,177
General Power – Over 50kW	211	206	204	199	190
Street and Athletic	13	14	14	14	14
Outdoor Lighting	29	34	30	34	43
Total	**17,910**	**18,212**	**17,941**	**17,925**	**18,028**

Source: System Officials

HISTORICAL ELECTRIC SYSTEM USE

The following table shows historical figures for the population of Lincoln County, the System's average number of customers, electric load and electric sales.

Year	Population	Number of Meters	Peak System Demand (kW)	Sales kWh
2011	33,397	17,910	106,137	447,769,391
2012	33,472	18,212	104,810	420,137,961
2013	33,633	17,941	103,941	425,169,605
2014	33,637	17,925	116,102	444,002,237
2015	33,637	18,028	113,471	442,354,190

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TEN LARGEST ELECTRIC CUSTOMERS IN 2015

The ten largest customers in the System in order of total kWh sales generated are listed below. These ten top electric customers represent 17% of the total electric sales dollars and 23% of the total kWh demand.

Name	Annual Sales (Dollars)	Annual (kWh) Usage	Annual kW Usage
Goodman	$2,022,653.98	28,881,571	58,390
Copperweld	2,048,420.99	28,446,155	64,481
Frito-Lay	1,478,427.58	22,441,261	38,332
Lincoln Medical Center	539,939.45	6,246,240	10,473
Wal-Mart	436,136.16	4,393,440	9,227
C & S Plastics	373,149.23	3,789,760	8,974
Lincoln Co. High School	284,255.70	2,864,700	7,231
Franke Food Service Sys	211,733.29	2,164,200	4,969
Donalson Care Center	165,651.97	1,716,600	4,020
Fay Middle/High School	159,561.12	1,447,800	4,722
TOTALS	**$7,719,929.47**	**102,391,727**	**210,819**

BROADBAND TELECOMMUNICATIONS NETWORK REVENUE BONDS, SERIES 2000

The City of Fayetteville, through the Fayetteville Electric System ("FPU"), began in May, 2000 construction of a Broadband Telecommunications Network (the "Broadband Networks") which provides broadband video services, local area telecommunications networking, wide area telecommunications networking, fiber optic transport, high speed broadband data and Internet access and utility management services to residents of the City of Fayetteville and surrounding areas.

Tennessee Code Annotated Sections *7-52-601* et seq. (the "Broadband Act") requires generally that FPU operate and finance the Broadband Network separately from the Electric System. In particular, the Broadband Act requires FPU to maintain a separate accounting and record-keeping system for the Broadband Network. Furthermore, the Broadband Act prohibits FPU from subsidizing the Broadband Network with revenues of the Electric System. However, the Broadband Act does permit revenues of the Electric System to be loaned to the Broadband Network at an interest rate not less than the rate of interest being earned by the Electric System on its invested funds.

In order to finance construction and equipping of the Broadband Network, and pursuant to a resolution adopted by the City's Board of Mayor and Aldermen on March 29, 2000 (the "Broadband Network Resolution"), the City authorized and sold its $5,560,000 Broadband Telecommunications Network Revenue Bonds, Series 2000, dated April 1, 2000 (the "Broadband Network Bonds"). On December 20, 2011, the City fully refunded the Broadband Network Bonds with its $2,660,000 General Obligation Bonds, Series 2011 (the "Series 2011 Broadband Network Bonds"). Debt service on the Series 2011 Broadband Network Bonds payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City and additionally payable from, although not secured by, revenues of the City's Broadband Network.

Fayetteville Public Utilities' Electric Department, in conjunction with the Tennessee Valley Authority - which has contracted to supply electricity to Fayetteville Public Utilities and contractually requires that Electric Department revenues be used solely in relation to the Electric Department - has concluded that the Electric Department will be the beneficial user of 28.87% of the Broadband Network. Accordingly, the Electric Department is required to make 28.87% (the "Beneficial Use Percentage") of the required monthly deposit to the debt service sinking fund established with respect to the Series 2011 Broadband Network Bonds. These deposits to the Broadband Network sinking fund will be considered "current expenses" of the Electric Department and will therefore, under the terms of the Resolution, be made prior to the payment of debt service on the Bonds, or any other debt obligations of the Electric Department. The benefit of the Broadband Network to the Electric Department, and therefore the Beneficial Use Percentage, is subject to review and change by FPU and the Tennessee Valley Authority. However, the City cannot predict if or when FPU and or the Tennessee Valley Authority will review the Beneficial Use Percentage or whether such a review would result in an increase or a reduction in the Beneficial Use Percentage.

The City's total debt service obligation (principal and interest) with respect to the Series 2011 Broadband Network Bonds is $1,786,265. The Series 2011 Broadband Network Bonds mature each April 1 until 2020. The maximum annual debt service obligation with respect to the Series 2011 Broadband Network Bonds is $357,965.

PENSION

Substantially all employees of FPU, (including the gas and water departments, effective January 1, 2004, as described below) are participants in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a defined benefit pension plan qualified under section 401 and tax-exempt under section 501(a) of the Internal Revenue Code.

All employees age 21 years and older with one year of completed service are eligible to participate. Benefits are determined by a formula using the member's high five-year average base salary, years of service and benefit rate of 1.7%. Employees become eligible to retire with an unreduced benefit at the age of 62. A reduced retirement benefit is available to all employees terminating employment prior to normal retirement. Disability benefits are available to active employees who become totally disabled. Employees become fully vested after five years of service or age 55.

Effective January 1, 1999, the System adopted an amendment to the plan requiring no employee contribution. FPU is required to contribute an actuarially determined normal cost annually, a past service adjustment cost which provides for crediting retirement benefits for past service on a uniform basis for all participants, and a past service cost which provides a cost-of-living adjustment for retirement benefits paid as annuities to participants.

The plan (a master multiple-employer plan) does not make separate measurements of assets and pension benefit obligation for individual employers. Information concerning the plan's total net assets available for benefits, total pension benefit obligation and ten-year historical trend data is disclosed at the NRECA level.

FPU also has a defined contribution plan, under section 401(k) of the Internal Revenue Code, covering all employees who have completed six months of service. Under the Plan, FPU matches employee contributions up to 1.25% of the employee's base pay. The employee must contribute 1.25% of their base pay in order to receive FPU's matching contribution. After-tax voluntary employee contributions are permitted by the Plan up to limits imposed by the Internal Revenue Code.

PERSONNEL

The average number of employees in the System for the following years is as follows:

2011	59
2012	58
2013	57
2014	56
2015	56

CAPITAL IMPROVEMENTS PROGRAM

In an effort to meet System demands and customer requirements as well as maintaining the existing system, the following capital improvements and additions are planned for the next 3 years:

2015-2016	$12,104,646
2016-2017	$6,769,245
2017-2018	$2,983,145

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FAYETTEVILLE ELECTRIC SYSTEM

OF THE CITY OF FAYETTEVILLE, TENNESSEE

SUMMARY OF BONDED INDEBTEDNESS

Purpose	Due Date	Interest Rate(s)	Outstanding
$9,950,000 Electric System Revenue Bonds, Series 2007	2028	Fixed	$ 9,950,000
$12,525,000 Electric System Revenue Bonds, Series 2009	2024	Fixed	7,510,000
BONDED INDEBTEDNESS			$ 17,460,000
$10,000,000 Electric System Revenue Refunding Bonds, Series 2016	2028	Fixed	$ 10,000,000
Less: Refunded Bonds			(9,950,000)
NET DIRECT BONDED INDEBTEDNESS			$ 17,510,000

NOTES:

(1) The above figures may not include all short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

FAYETTEVILLE ELECTRIC SYSTEM

BONDED DEBT SERVICE REQUIREMENTS

F.Y. Ended 6/30	Existing Debt Service (1) As of June 30, 2015			Electric Revenue Refunding Bonds, Series 2016			Less: Refunded Bonds			Total Bonded Debt Service Requirements (1)			% Principal Repaid
	Principal	Interest	TOTAL	Principal	Interest (2)	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL	
2016	$ 1,055,000	$ 681,919	$ 1,736,919	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,055,000	$ 681,919	$ 1,736,919	6.03%
2017	1,085,000	650,269	1,735,269	50,000	213,582	263,582	-	(414,725)	(414,725)	1,135,000	449,126	1,584,126	
2018	1,120,000	616,363	1,736,363	55,000	210,685	265,685	-	(414,725)	(414,725)	1,175,000	412,323	1,587,323	
2019	1,160,000	578,563	1,738,563	55,000	209,998	264,998	-	(414,725)	(414,725)	1,215,000	373,835	1,588,835	
2020	1,200,000	536,513	1,736,513	55,000	209,255	264,255	-	(414,725)	(414,725)	1,255,000	331,043	1,586,043	33.32%
2021	1,245,000	491,513	1,736,513	830,000	208,430	1,038,430	(775,000)	(414,725)	(1,189,725)	1,300,000	285,218	1,585,218	
2022	1,295,000	441,713	1,736,713	860,000	195,150	1,055,150	(825,000)	(383,725)	(1,208,725)	1,330,000	253,138	1,583,138	
2023	1,345,000	389,500	1,734,500	895,000	180,100	1,075,100	(875,000)	(350,313)	(1,225,313)	1,365,000	219,288	1,584,288	
2024	1,405,000	334,238	1,739,238	925,000	163,095	1,088,095	(925,000)	(314,438)	(1,239,438)	1,405,000	182,895	1,587,895	
2025	1,525,000	276,050	1,801,050	1,505,000	144,595	1,649,595	(1,525,000)	(276,050)	(1,801,050)	1,505,000	144,595	1,649,595	72.76%
2026	1,600,000	212,763	1,812,763	1,550,000	112,990	1,662,990	(1,600,000)	(212,763)	(1,812,763)	1,550,000	112,990	1,662,990	
2027	1,675,000	145,563	1,820,563	1,590,000	78,115	1,668,115	(1,675,000)	(145,563)	(1,820,563)	1,590,000	78,115	1,668,115	
2028	1,750,000	74,375	1,824,375	1,630,000	40,750	1,670,750	(1,750,000)	(74,375)	(1,824,375)	1,630,000	40,750	1,670,750	100.00%
	$ 17,460,000	$ 5,429,338	$ 22,889,338	$ 10,000,000	$ 1,966,745	$ 11,966,745	$ (9,950,000)	$ (3,830,850)	$ (13,780,850)	$ 17,510,000	$ 3,565,232	$ 21,075,232	

NOTES:

(1) The above figures may not include all short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

CITY OF FAYETTEVILLE, TENNESSEE

Five Year Summary of Revenues, Expenditures and
Changes In Fund Balances - Electric System

	For the Fiscal Year Ended June 30				
	2011	**2012**	**2013**	**2014**	**2015**
OPERATING REVENUES:					
Charges for services	$ 44,745,531	$ 42,096,598	$ 43,829,774	$ 45,394,138	$ 44,919,622
Other revenues	991,288	950,446	970,612	1,143,323	1,159,621
TOTAL OPERATING REVENUES	$ 45,736,819	$ 43,047,044	$ 44,800,386	$ 46,537,461	$ 46,079,243
OPERATING EXPENSES:					
Purchased Power/Programming	$ 34,502,170	$ 32,257,274	$ 33,009,964	$ 34,333,576	$ 34,667,157
Operation Expenses	3,678,330	3,731,645	3,624,398	3,479,933	3,452,816
Maintenance Expenses	1,927,412	1,873,951	2,054,591	1,811,366	1,818,152
Provision for Depreciation	2,063,739	2,128,050	2,110,595	2,412,092	2,326,588
Taxes & Tax Equivalents	197,871	201,393	220,410	234,964	239,345
TOTAL OPERATING EXPENSES	$ 42,369,522	$ 40,192,313	$ 41,019,958	$ 42,271,931	$ 42,504,058
INCOME FROM OPERATIONS	$ 3,367,297	$ 2,854,731	$ 3,780,428	$ 4,265,530	$ 3,575,185
OTHER INCOME AND (EXPENSE):					
Interest Income	$ 162,458	$ 69,425	$ 37,802	$ 25,295	$ 27,427
Interest Expense	(749,107)	(793,244)	(766,468)	(738,794)	(710,106)
Amortization	(107,361)	(70,607)	(17,925)	(15,146)	(15,146)
Miscellaneous	(1,191)	(12,344)	6,445	2,598	(18,950)
OTHER INCOME (EXPENSE) – NET	$ (695,201)	$ (806,770)	$ (740,146)	$ (726,047)	$ (716,775)
NET INCOME	$ 2,672,096	$ 2,047,961	$ 3,040,282	$ 3,539,483	$ 2,858,410
Capital contributions in aid of construction	$ 403,294	$ 522,292	$ 225,069	$ 272,633	$ 340,768
Transfers out - taxes and tax equivalents	(674,326)	(685,912)	(750,579)	(801,136)	(811,562)
Retained Earnings, at beginning of year	$ 42,138,006	$ 44,539,070	$ 46,423,411	$ 48,643,130	$ 51,859,215
Adjustments	-	-	(295,053)	205,105	-
RETAINED EARNINGS, AT END OF YEAR	**$ 44,539,070**	**$ 46,423,411**	**$ 48,643,130**	**$ 51,859,215**	**$ 54,246,831**

Source: Comprehensive Annual Financial Report for Fayetteville Electric System, Fayetteville, Tennessee

CITY OF FAYETTEVILLE, TENNESSEE

Historical Coverage Of Proforma Maximum Annual Debt Service Requirements - Electric System

	For the Fiscal Year Ended June 30				
	2011	**2012**	**2013**	**2014**	**2015**
Net Income	$2,672,096	$2,047,961	$3,040,282	$3,539,483	$2,858,410
Plus:					
Transfers (Taxes)	-	-	-	-	-
Depreciation, Amortization and Interest	2,920,207	2,991,901	2,894,988	3,166,032	3,051,840
Net Revenue Available for Debt Service	$5,592,303	$5,039,862	$5,935,270	$6,705,515	$5,910,250
Actual Annual Debt Service Requirement	$ 1,453,319	$ 1,730,469	$ 1,733,767	$ 1,732,419	$ 1,736,919
	3.85 x	2.91 x	3.42 x	3.87 x	3.40 x
Maximum Annual Debt Service Requirement (following issuance of Series 2016 Bonds) (2016)	$ 1,736,919	$ 1,736,919	$ 1,736,919	$ 1,736,919	$ 1,736,919
Senior Coverage Ratio	3.22 x	2.90 x	3.42 x	3.86 x	3.40 x

THE CITY OF FAYETTEVILLE
GENERAL INFORMATION

LOCATION

The City of Fayetteville, Tennessee (the "City") is the county seat of Lincoln County (the "County"), which consists of about 408 square miles. The County is located within 500 miles of 76% of major U.S. markets, and is situated about 78 miles south of Nashville and 25 miles north of Huntsville, Alabama. Five Tennessee Counties border the County: Giles County is to the West; Marshall, Bedford and Moore Counties are to the north; and Franklin County is to the East. The southern border of the County is the Alabama state line. Population in Fayetteville as of the 2010 Census is 6,827. According to the 2010 Census, the County's population is 33,361.

GENERAL

A part-time Mayor and Board of Aldermen with a full-time City Administrator govern the City. The Municipal Analysis Services of Austin, Texas ranked the City to within the top 10% of cities nationwide in terms of efficiency (one of only 840 out of 8,331 cities and counties nationwide to receive such a rating.)

The County is especially prominent as a producer of livestock and dairy products. Grain, cotton, tobacco and soybeans are the leading crops.

TRANSPORTATION

Highways. U.S. Highways 64, 231 and 431 and State Highways 50, 110 and 121 pass through Fayetteville. Interstate I-65 is 17 miles west of Fayetteville, and I-24 is 30 miles northeast of Fayetteville.

Rail and Intermodal. CSX transportation has a main rail line which runs through southwestern Lincoln County, and an offloading rail spur located in Delrose. In addition, the City also has access to a full-service intermodal facility (rail, motor freight, international air cargo) in Huntsville, which is served by Norfolk Southern.

Airports. For commercial aviation, Fayetteville is served by two international airports. Huntsville/Madison County International Airport is 35 miles south of Fayetteville and the Nashville International Airport is located 78 miles north of Fayetteville. In addition, Fayetteville Municipal Airport can accommodate corporate aircraft and is currently being upgraded to include state-of-the-art Global Positioning System (GPS) navigation equipment and a runway length of 6,000 feet.

EDUCATION

There are two school systems in the County. The *Fayetteville City School System* has three schools: one elementary, one middle and one high school. The fall 2014 enrollment was 1,549 students (K-9) with 100 teachers. The *Lincoln County School System* has eight schools: six

elementary schools, one ninth grade school and one high school. The fall 2014 enrollment was 4,036 students with 255 teachers. There is one private school.

Source: Tennessee Department of Education.

Located 25 miles away in Huntsville is the University of Alabama in Huntsville (UAH), one of the premiere engineering schools in the southeast; Alabama A&M University and Oakwood College. Lincoln County residents do not have to pay out-of-state tuition to attend these schools. Conversely, Madison County residents do not pay out-of-state tuition to attend Motlow College in Tennessee.

Motlow State Community College Fayetteville Center. Motlow State Community College is an accredited public comprehensive community college that had a fall 2014 enrollment of 4,793 students. The College was founded in 1969 and is located in Tullahoma in Coffee County, Tennessee. The associate degree program offers students an opportunity to earn an Associate of Arts or Associate of Science degree designed for transfer to a four-year-college or university. Motlow State has offices and classrooms in Fayetteville, McMinnville and Smyrna.

Source: Motlow State Community College.

Don Sundquist Center of Advanced Technologies. Located adjacent to Motlow State Community College-Fayetteville Center in the Bullington Industrial Park is Fayetteville & Lincoln County's premier training facility for area businesses and industries. The Sundquist Center works directly with businesses and industries to design and develop customized training programs. Using state-of-the-art instructional technology, the 32,280 square feet facility provides video-teleconferencing/distance learning capability, specialty classrooms, and three high-bay industrial training areas. The Sundquist Center also provides courses in Computer-Aided Design, Technical Certificate Programs in Microcomputer Applications, Electronics, and Production Maintenance. The Center also houses the Licensed Practical Nursing program.

The Tennessee Technology Center at Pulaski. The Tennessee Technology Center at Pulaski 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 Pulaski serves the south central region of the state including Giles, Lincoln, Lawrence and Marshall Counties. The Technology Center at Pulaski began operations in 1969, and the main campus is located in Giles County. Fall 2013 enrollment was 1,260 students.

Source: Tennessee Technology Center at Pulaski.

HEALTH FACILITIES

Lincoln County Health System. The Lincoln County Health System is located in Fayetteville and is owned and operated by Lincoln County. The 55-bed facility is a full-service, JCAHO-accredited health care system that serves the County and surrounding counties. The facility began operation in 1917 and was moved to its current location in 2001. In addition, Lincoln Medical Center now offers a wide variety of services, such as a 24-hour emergency department and diagnostic services that include radiology, MRI, CT-scanning, ultrasound, mammography, laboratory testing, EKG, stress testing, Holter monitoring, echocardiograms,

vascular imaging with Doppler studies, bronchoscopy, systoscopy, laparoscopy, colonoscopy, gastroscopy, and endoscopy. Outpatient surgery is a convenient alternative at Lincoln Medical Center, and the Family Birthplace offers one of the most modern labor-delivery-recovery units in the Tennessee Valley.

The City has the advantage of being within an hour's drive to two major cities like Nashville and Huntsville. Nashville has several nationally recognized hospitals like Vanderbilt, St Thomas, Baptist, Centennial plus many other quality hospitals. Huntsville, only 25 miles south, has the Huntsville Hospital and Columbia Medical Center.

MANUFACTURING AND COMMERCE

There are several major employers which support the County. The County is also well located for the aerospace industry with easy commuting distance of Huntsville's Redstone Arsenal and Tullahoma's Arnold Engineering (AERO). Fayetteville/Lincoln County also has several available prime tracts for industrial development, with full infrastructure, including water, sewer, gas, electric, fire protection, and telecommunications.

Major Employers in Fayetteville

Company	Product	Employees
Goodman Manufacturing*	Air Conditioner & Furnaces	1,250
Lincoln County Board of Education	Education	707
Frito-Lay, Inc.	Snack Foods	650
Lincoln County Health System	Healthcare	630
Wal-Mart	Retail	362
Franke, Inc.	Restaurant Equipment	200
Fayetteville City Schools	Education	189
C&S Plastics, LLC	Injection Molding	150
Lincoln County	Government	136
Copperweld	Bimetallic Wire	125
Fayetteville Public Utilities	Utilities	114
City of Fayetteville	Government	110
Gregory Manufacturing	Metal Racks	100
Genesco	Shoe Terminal	85
Parsons Oil Co	Fuel & Convenience Stores	80
Conner Industries, Inc.	Remanufacture Wood Pallets	70
Palatec	Wood Pallets	60
First class Printing	Printing	55
Hydro Aluminum	Aluminum Parts for Automobiles	50
Davie Ashley Sawmill, LLC	Sawmill	48
RTR Group, Inc. (Trilogy Pools)	Fiberglass swimming pools	45

* Goodman Manufacturing announced plans to close the plant by mid-2016.
Source: Middle Tennessee Industrial Development Association and the Comprehensive Annual Financial Report and Auditor's Report of the City - 2015.

EMPLOYMENT INFORMATION

Unemployment levels for Lincoln County have been historically lower than average for counties in the State of Tennessee. As of February 2016 the unemployment rate for the County was 4.0%, with 14,680 persons employed in a total labor force of 15,280.

Lincoln County Unemployment

	Annual Average 2011	Annual Average 2012	Annual Average 2013	Annual Average 2014	Annual Average 2015
National	8.9%	8.1%	7.4%	6.2%	5.3%
Tennessee	9.2%	8.0%	8.2%	6.7%	5.8%
Lincoln County	**6.1%**	**5.5%**	**5.8%**	**5.3%**	**4.9%**
Index vs. National	69	68	78	85	92
Index vs. State	66	69	71	79	84

Source: Tennessee Department of Labor & Workforce Development.

ECONOMIC DATA

Lincoln County 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
Lincoln County	**$31,365**	**$33,277**	**$34,125**	**$34,931**	**$35,789**
Index vs. National	78	78	77	79	78
Index vs. State	88	89	87	89	88

Source: Bureau of Economic Analysis.

Social and Economic Characteristics

	National	Tennessee	Lincoln County	Fayetteville
Median Value Owner Occupied Housing	$175,700	$139,900	$108,100	$95,400
% High School Graduates or Higher Persons 25 Years Old and Older	86.30%	84.90%	82.3%	80.5%
% Persons with Income Below Poverty Level	14.80%	18.30%	16.5%	28.0%
Median Household Income	$53,482	$44,621	$41,328	$30,488

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

RECREATION

Goodman Manufacturing. The air conditioning and heating equipment plant announced plans to close the plant by mid-2016 to consolidate all of its production in a new $417 million facility in Houston, Texas. This announcement also included the plant in Dayton, TN. With both plants closing it adds up to nearly 2,000 jobs lost in the state.

Lincoln County Fair. The Fair has been consistently judged as one of the best local fairs in America. Traditional fair activities include shows, the carnival midway, rides and livestock, agricultural and craft exhibitions. In addition, Lincoln County's fair boasts the only horse harness racing in the State.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC RESOLUTION

SUMMARY OF THE BOND RESOLUTION

The Electric System Revenue Refunding Bonds, Series 2016 (the "2016 Bonds") are authorized and issued pursuant to a resolution of the Board of Mayor and Aldermen of the City of Fayetteville, Tennessee (the "Issuer") adopted on April 12, 2016 (the "2016 Resolution"). The 2016 Resolution is supplementary to a resolution of the Board of Mayor and Aldermen of the Issuer, adopted on May 13, 2003 (the "2003 Resolution"), as supplemented and amended by resolution of the Board of Mayor and Aldermen of the Issuer, adopted on July 10, 2007 (the "2007 Resolution") authorizing the issuance of the Issuer's outstanding Electric System Revenue Bonds, Series 2007 and as supplemented and amended by resolution of the Board of Mayor and Aldermen of the Issuer, adopted on March 10, 2009 (the "2009 Resolution") authorizing the issuance of the Issuer's outstanding Electric System Revenue Bonds, Series 2009. The 2003 Resolution, as supplemented and amended by the 2007 Resolution, the 2009 Resolution and the 2016 Resolution, is hereinafter referred to as the "Resolution." The terms of the Resolution are equally applicable to the 2007 Bonds, the 2009 Bonds and the 2016 Bonds. The following statements are brief summaries of certain provisions of the Resolution and are in all respects subject to and qualified in their entirety by references to the Resolution. Capitalized terms not defined herein shall have the meanings assigned thereto in the Resolution.

Definitions

"Acquired System" shall mean any separate electrical power generation, transmission or distribution system or any combination thereof acquired by the Issuer pursuant to State law.

"Balloon Indebtedness" shall mean any bonds, notes or other indebtedness, 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 Fund established pursuant to the 2003 Resolution.

"Bonds" shall mean the 2007 Bonds, the 2007 Bonds, the 2016 Bonds and any Parity Bonds hereafter issued.

"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.

"Compound Accreted Value" shall mean the value at any applicable date of any Capital Appreciation Bond, 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 semi-annually on such dates as shall be established by the resolution authorizing the 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" shall mean any municipal bond insurance policy, letter of credit, surety bond, line of credit, guarantee, or other agreement under which any person other than the Issuer provides additional security for the Bonds and guarantees timely payment of or purchase price equal to the principal of and interest on all or a portion of the Bonds and shall include any Reserve Fund Credit Facility.

"Current Expenses" means and shall include but not be limited to, expenses for ordinary repairs, removals and replacements of the System, salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses (including legal, engineering, accounting and financial advisory fees and expenses and costs of other consulting or technical services not funded with proceeds of bonds, notes or other debt obligations), insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of the Utilities Board, any payments made by the Issuer or by the Utilities Board on behalf of the Issuer during any Fiscal Year to purchase electrical power for distribution and sale during or after the end of that Fiscal Year, and other payments made under any electrical power supply contract or commodity swap or other hedging mechanism, and any principal or interest payments made by the Issuer or by the Utilities Board on behalf of the Issuer during any Fiscal Year on bonds, notes or other obligations, including loan agreements, issued or entered into for the purpose of financing the purchase of electrical power, and to the extent so provided by the resolution authorizing such bonds, notes or obligations and to the extent not inconsistent with generally accepted accounting principles. Current Expenses do not include depreciation or obsolescence charges or reserves therefore, amortization of intangibles or other bookkeeping entries of a similar nature, on bonds, notes or other debt obligations of the System payable from Net Revenues of the System, costs or charges made therefor, capital additions, replacements, betterments, extensions or improvements to or retirement from the System which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and do not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the System, nor such property items, including taxes and fuels, which are capitalized pursuant to the then existing accounting practices of the Issuer or expenses of an Acquired System if revenues of the Acquired System are not included in Revenues at the election of the Issuer at the direction of the Utilities Board.

"Current Interest Bonds" shall mean any Bonds that pay interest semi-annually or at other periodic intervals of not greater than one year.

"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 Issuer or any paying agent for the Bonds or other obligations of the Issuer payable from all or some portion of Revenues), for any period of 12 consecutive calendar months for which such a determination is made, provided:

(i) 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, at the option of the Issuer at the direction of the Utilities Board, either (A) 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 (B) the current average annual fixed rate of interest on securities of similar quality and tax status and having a similar maturity date, as certified by a Financial Adviser.

(ii) The Debt Service Requirement with respect to any Hedged Obligations 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 Issuer on such Hedged Obligations pursuant to their terms and (y) the amount of Hedge Payments payable by the Issuer 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 Issuer 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 (i) by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to 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) by using the same assumptions with respect to the Hedged Obligations as may be used for determining the assumed interest rate for Variable Rate Indebtedness.

(iii) For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness and Short-Term Indebtedness, at the option of the Issuer at the direction of the Utilities Board, (x) 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 herein, or (y) 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 Issuer 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 this paragraph shall not be applicable for purposes of determining the Issuer's Debt Service Requirement for purposes of the rate covenant unless the Issuer 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.

"Financial Adviser" means an investment banking or financial advisory firm, commercial bank, or any other person who or which is retained by the Issuer or the Utilities Board on behalf of the Issuer for the purpose of passing on questions relating to the availability and terms of specified types of debt obligations or the financial condition or operation of the System and is actively engaged in and, in the good faith opinion of the Issuer, has a favorable reputation for skill and experience in providing financial advisory services of the type with respect to which the Financial Adviser has been retained.

"Financial Guaranty Agreement" shall mean any Financial Guaranty Agreement authorized by the Resolution to be executed in connection with a Reserve Fund Credit Facility.

"Fiscal Year" shall mean the twelve month period beginning July 1 of each year and ending June 30 of the following year.

"Governing Body" shall mean the Board of Mayor and Aldermen of the Issuer.

"Loan Agreement(s)" shall mean any agreement or contract entered into by the Issuer whereby a third party agrees to advance funds to the Issuer and the Issuer agrees to repay those funds with interest.

"Loan Repayment Date" shall have the meaning set forth in the 2003 Loan Agreement.

"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 Issuer 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 Issuer shall have entered into a Hedge Agreement.

"Hedge Payments" means amounts payable by the Issuer 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.

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

"Maximum Annual Debt Service Requirement" shall mean the maximum annual Debt Service Requirement for any Fiscal Year of the Issuer.

"Net Revenues" shall mean Revenues, 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.

"Parity Bonds" shall mean bonds, notes, Loan Agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness and Variable Rate Indebtedness, hereafter issued by or entered into by the Issuer on a parity with the Bonds, in accordance with the restrictive provisions of the Resolution, including any 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 herein or the revenues from such Acquired System are not excluded from Revenues.

"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 IBCA, Inc., Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or any successors thereto and any other nationally recognized credit rating agency.

"Reserve Fund" shall mean the Debt Service Reserve Fund established pursuant to the Resolution.

"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" shall mean the issuer of a Reserve Fund Credit Facility rated in the highest rating category by each Rating Agency which maintains a rating on such Issuer.

"Reserve Fund Requirement" shall mean the least of (a) the Maximum Annual Debt Service Requirement on the Bonds; (b) 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, or (c) 10% of the stated principal amount of the Bonds, as from time to time interpreted under the Code; 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 or the Financial Advisor certifies as of the date of issuance thereof would have borne had such Variable Rate Indebtedness borne a fixed rate of interest based upon securities of similar quality and tax-status and having a similar maturity date or dates.

"Revenue Fund" shall mean the Revenue Fund established pursuant to the Resolution.

"Revenues" shall mean all revenues, rentals, earnings and income of the System 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; and all amounts realized from the investment of money in the accounts and funds of the System, including money in any accounts and funds created by the Resolution and resolutions authorizing any Parity Bonds or bonds subordinate to the 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 refund any outstanding obligations payable from Revenues of the System) and at the election of the Utilities Board on behalf of the Issuer, shall not include any rates, fees, rentals or other charges or other income received by the Issuer 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.

"Short-Term Indebtedness" shall mean bonds, notes, Loan Agreements or other debt obligations, including Variable Rate Indebtedness, maturing five (5) years or less from their date of issuance, issued by the Issuer as Parity Bonds in accordance with the restrictive provisions of the Resolution.

"System" shall mean electrical power distribution system of the Issuer any electrical power distribution and/or transmission system hereafter acquired, constructed or otherwise established, including all improvements and extensions made by the Issuer or the Board on behalf of the Issuer 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 herein and become a part thereof or, at the election of the Issuer or the Utilities Board on behalf of the Issuer, not become a part of the System but be operated as a separate and independent system by the Utilities Board on behalf of the Issuer with the continuing right, upon the election of the Issuer at the request of the Utilities Board, to incorporate such separately Acquired System within the System.

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

"2007 Bonds" means the Issuer's Electric System Revenue Bonds, Series 2007, dated July 10, 2007.

"2009 Bonds" means the Issuer's Electric System Revenue Bonds, Series 2009, dated their date of issuance.

"Utilities Board" shall mean the Board of Public Utilities of the City of Fayetteville, Tennessee.

"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 punctual payment of principal of and interest on the Bonds and Hedge Payments, net of Hedge Receipts, shall be payable from and secured equally and ratably by the Net Revenues without priority by reason of number or time of sale or execution or delivery and, subject to the prior pledge of such Net Revenues in favor of the Prior Lien Bond. The Net Revenues are irrevocably pledged to the punctual payment of such principal, premium, and interest on the Bonds.

Application of Revenues

The entire Revenues of the system, including all revenues, rentals, earnings and income of the System shall be deposited as collected to the Revenue Fund of the Issuer administered and controlled by the Utilities Board. The money so deposited 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, after payment of Current Expenses, shall next be used to make deposits into a separate and special fund, to be known as the "Bond and Interest Fund" (the "Bond Fund"), to be kept separate and apart from all other funds of the Issuer and used to pay principal of, Maturity Amounts and interest on Bonds as the same become due, either by maturity or mandatory redemption and to make Hedge Payments net of Hedge Receipts, if any, related to Bonds.

Such deposits shall be made monthly, or as otherwise set forth herein, until the Bonds are paid in full or discharged and satisfied.

Each monthly deposit shall consist of an interest component and a principal component. With respect to the Bonds, if interest is payable semi-annually, then the interest component shall be an amount equal to not less than one-sixth (1/6th) of the interest coming due on the Bonds then outstanding on the next succeeding interest payment date, unless otherwise specified in the resolution authorizing such Parity Bonds. If the interest is payable more frequently than semi-annually, then the amount of the interest to be deposited shall be specified in any resolution authorizing such Parity Bonds. The principal component shall be an amount not less than one-twelfth (1/12) of the total of the Maturity Amounts or principal amounts, as the case may be, coming due, whether by maturity or mandatory redemption, on the Bonds then outstanding during such twelve-month period. No further monthly or periodic deposit shall be required with respect to the next principal or interest payment date when the Bond Fund balance is equal to or greater than the amount needed to pay interest coming due on the next interest payment date and the total of the Maturity Amounts or principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Money in the Bond Fund shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying principal of, including Maturity Amounts and mandatory sinking fund payments, and interest on the Bonds.

Each deposit as to interest may take into account expected Hedge Payments related to such interest 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) The Reserve Fund Requirement for the Bonds shall be fully satisfied by a Reserve Fund Credit Facility or Facilities, funds of the Issuer, or proceeds of the Bonds or a combination thereof, deposited into a separate and special fund, to be known and designated as the "Debt Service Reserve Fund" (the "Reserve Fund") hereby created to be kept separate and apart from all other funds of the Issuer. 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, the next available money in the Reserve Fund shall be used to make deposits 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 hereunder 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, to 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 or Maturity Amounts of or interest on the Bonds for the payment of which funds are not available in the Bond Fund.

At the option of the Issuer, the Issuer may satisfy the Reserve Fund Requirement, or a portion thereof at any time, by providing for the benefit of owners of the Bonds a Reserve Fund Credit Facility or Facilities in an amount not greater than the Reserve Fund Requirement applicable to the Bonds and release funds on deposit in the Reserve Fund to be used for any legally permissible purpose. 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 Issuer receives notice of either of said events, the Issuer 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 of the Resolution, the Issuer 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 Resolution or the substitution of a Reserve Fund Credit Facility or Facilities for less than the full amount of the Reserve Fund Requirement, the Issuer shall immediately 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 and Parity Bonds taking into account any funds then held therein or the amount of any Reserve Fund Credit Facility or Facilities then in effect.

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 Issuer, 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 Issuer, 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 in the Resolution.

In the event the Reserve Fund Requirement, or any part thereof, shall be satisfied with a Reserve Fund Credit Facility or Facilities, notwithstanding any other provision to the contrary, the terms, covenants, liability and liens provided or created herein 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 Issuer 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 Resolution other than remedies which would adversely affect owners or holders of the Bonds.

It shall be the responsibility of the Issuer 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.

(e) The next available money in the Revenue Fund shall be used for the payment of all other payments to be made with respect to the Bonds.

(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. Termination Payments received in connection with a Hedge Agreement shall be deposited to the Revenue Fund and Termination Payments required of a Issuer in connection with a Hedge Agreement shall be paid as a subordinate lien obligation pursuant to this subsection.

(g) Money on deposit in the Funds may be invested by the Issuer in such investments as shall be permitted by applicable law, as determined by an authorized representative of the Issuer, 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 (2) years from the date the money is so invested. The Issuer is authorized to enter into contracts with third parties for the investment of funds in any of the Funds.

(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 Issuer 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.

Prohibition of Prior Lien; Parity Bonds

The Issuer 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 may hereafter be issued on a parity with the Bonds under the following conditions but not otherwise:

(a) Additional bonds may be issued on a parity with the Bonds without regard to the requirements of the restrictive provisions authorizing parity bonds under the Resolution, if such bonds shall be issued for the purpose of refunding any of the Bonds which shall have matured or have become subject to mandatory redemption or which shall mature or become subject to mandatory redemption not later than three months after the date of delivery of such refunding bonds and for the payment of which insufficient money is available in the Bond Fund.

(b) Additional bonds may be issued on a parity with the Bonds without regard to the requirements of the restrictive provisions authorizing parity bonds under the Resolution, if such bonds shall be issued for the purpose of refunding any outstanding Bonds under circumstances not resulting in the defeasance of all of the Bonds pursuant to the resolution authorizing such Bonds, provided the Maximum Annual Debt Service Requirement computed with respect to all Bonds to be outstanding as of the date of issuance of such additional bonds (and after giving effect to the application of the proceeds

thereof) shall not be greater than 105% of the Maximum Annual Debt Service Requirement computed with respect to all Bonds outstanding as of the date immediately preceding the issuance of such additional bonds.

(c) Additional bonds may be issued on a parity with the Bonds if all of the following conditions shall have been met:

(1) Either:

(A) the Net Revenues of the System for twelve consecutive months out of the eighteen months immediately preceding the issuance of such additional bonds must have been equal to at least one and two-tenths (1.20) times the Maximum Annual Debt Service Requirement computed with respect to the bonds proposed to be issued, and the Bonds other than any Bonds intended to be refunded by the proposed additional bonds; or

(B) the Net Revenues of the System for the twelve consecutive months out of the eighteen months immediately preceding the issuance of the proposed additional bonds, as certified by the Financial Advisor, must be equal at least to one and two-tenths (1.20) times the Maximum Annual Debt Service Requirement computed with respect to the bonds proposed to be issued and the outstanding Bonds, and one (1.0) times the Maximum Annual Debt Service on any subordinate lien obligations other than the obligations intended to be refunded by the proposed bonds; provided, however, that if prior to the sale of such additional bonds or the incurring of additional indebtedness the Issuer shall have adopted a revised schedule of rates for the System and resolved to put such rate schedule in effect at or prior to the issuance of the additional bonds, then the Net Revenues for the Fiscal Year immediately preceding the issuance of such additional bonds or the incurring of additional indebtedness, as certified by an independent engineer or engineering firm or a nationally recognized firm of financial feasibility consultants having a favorable reputation for skill and experience in the financial feasibility of electrical power systems, that would have resulted from such rates had they been in effect for such period, may be used in lieu of the actual Net Revenues for such Fiscal Year; and the Net Revenues for each of the next three Fiscal Years ending after the issuance of the additional bonds, as estimated by an independent engineer or engineering firm, or a nationally recognized firm of financial feasibility consultants, having a favorable reputation for skill and experience in the financial feasibility of electrical power systems, must be equal to at least one and two-tenths (1.20) times the Maximum Annual Debt Service Requirement computed with respect to the additional bonds proposed to be issued, and the Bonds and one times (1.0) times the Maximum Annual Debt Service Requirement on any subordinate lien obligations other than the Bonds intended to be refunded by the proposed additional bonds; provided, however, that if the proposed additional bonds are to be issued for the acquisition or construction of any extension, improvement or replacement to the System, then the estimate of Net Revenues may be for the next three Fiscal Years ending after the time that such improvement, extension or replacement is expected to be placed in service;

(2) The payments required to be made into the Bond Fund and the Reserve Fund must be current, and all payments under any Financial Guaranty Agreement or with respect to any Reserve Fund Credit Facility must be current;

(3) The proceeds of the additional bonds may be used only to (i) make improvements, extensions, renewals or replacements to the System, to purchase an Acquired

System, or to refund Bonds, subordinate lien obligations, or outstanding debt of an Acquired System, (ii) fund necessary reserves related to such additional bonds, (iii) fund capitalized interest related to the additional bonds; or (iv) pay the costs and expenses of issuance and sale of the additional bonds;

(d) All the provisions and covenants of the Resolution relating to 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 the Authority and the owners of Bonds, the issuance of additional bonds, modification of the Resolution and such other provisions 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 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.

Covenants Regarding the Operation of the System

The Issuer hereby covenants and agrees with the Authority and with the owners of the Bonds so long as the Bonds shall remain outstanding:

(a) 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 Resolution.

(b) The Issuer shall cause the System to be maintained in good condition and operated in an efficient manner and at reasonable cost.

(c) The Issuer shall maintain insurance or a self-insurance fund of a kind and in an amount which in the judgment of the Issuer is sufficient to provide coverage against losses equivalent to the coverage normally in effect for similarly situated electrical power systems; provided the Issuer shall not be required to insure within the limits of immunity afforded to the Issuer by Sections 29-20-101 et seq., Tennessee Code Annotated, or other similar laws providing immunity to or limitation of liability to the Issuer. Any amounts paid to the Issuer under any such insurance from loss or casualty to property or assets of the System shall be used to replace or repair the part or parts of the System the damage or destruction of which gave rise to the payment under the insurance coverage, or, if not so used, shall be placed in the Revenue Fund.

(d) The Issuer 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 firm of such accountants. Each such audit, in addition to whatever matters may be thought proper by the 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 herein;

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

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

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

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

(7) A statement as to all breaches or defaults hereunder of which the 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 Authority and the registered owner of any of the Parity Bonds shall have at all reasonable times the right to inspect the System and the records, accounts and data of the Issuer relating thereto. It is further agreed that if the Issuer 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 Issuer.

(e) Prior to the commencement of each Fiscal Year, the Issuer will cause to be prepared an estimate of the revenues and expenditures for the Fiscal Year next succeeding. Based on such estimate, rates shall be adjusted to the extent necessary to produce Net Revenues for the next succeeding Fiscal Year (i) equal to not less than 1.20 times the Debt Service Requirement payable during the next succeeding Fiscal Year on the outstanding Bonds, if any, and one (1.0) times the Debt Service Requirement on subordinate lien bonds, if any, and (ii) sufficient, in addition, to provide for any required deposits during the succeeding Fiscal Year to the Reserve Fund, and any other funds established pursuant to the Resolution or any resolution authorizing Parity Bonds or subordinate lien bonds, and any payments required to be made during such Fiscal Year under any Financial Guaranty Agreements or in connection with any Reserve Fund Credit Facilities then in effect.

(f) The Issuer will 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 Resolution.

(g) The Issuer 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 the System or any portion of the System or of the System facilities sold or otherwise disposed of, provided that:

(1) The Issuer is in full compliance with all covenants and undertakings in connection with the Bonds then outstanding and payable from the Revenues of the System and any required reserve funds for such Bonds have been fully established and contributions thereto are current;

(2) In the event of sale of all or a portion of the System, (i) if all of the System is sold, the proceeds shall be in an amount at least equal to all principal, premium, if any, and interest on the outstanding Bonds and all subordinate lien obligations or if a portion of the System is sold, then the proceeds of the sale shall be in an amount equal to the outstanding Bonds and the outstanding subordinate lien obligations allocable to such portion of the System and the remaining revenues of the System shall be sufficient to pay principal of, premium, if any, and interest on the Bonds and any subordinate lien bonds and sufficient to be in compliance with the covenants set forth herein as certified by an independent engineer or engineering firm or a nationally recognized firm of financial feasibility consultants having a favorable reputation for skill and experience in the financial feasibility of electrical power systems and such proceeds will be applied either (A) to prepayment of the Bonds in accordance with the provisions governing repayment there of in advance of maturity or (B) to the purchase of the 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 as set forth herein or (C) to replacement of the facility so disposed of by another facility the revenues of which shall be deposited to the Issuer, or (D) to a separate fund to be held by the Issuer to be used for legally authorized purposes; or (ii) the payment of the principal and Compound Accreted Value of, premium, if any, and interest on the Bonds and subordinate lien bonds shall be assumed by the entity to which the System is sold if such assumption does not violate the covenants set forth herein;

(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 its revenue producing capacity is not materially impaired by such abandonment, sale or disposition or any facilities acquired in replacement thereof are of equivalent or greater value or it is in the best interests of the Issuer to otherwise dispose of all or a part of the System as determined by the Governing Body of the Issuer; and

(4) The Issuer receives an opinion of nationally recognized bond counsel to the effect that the disposition of the System or any portion thereof and use of the proceeds therefrom will not adversely affect the exclusion of interest on the Bonds or any subordinate lien obligations from gross income of the holders thereof for purposes of federal income taxation.

Nothing 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 Issuer is in full compliance with the covenants set forth herein immediately following such transfer or exchange.

(h) Prior to the beginning of each Fiscal Year, the Issuer shall prepare or cause to be prepared and adopted an annual budget of estimated revenues and Current Expenses for the System for the ensuing Fiscal Year and will undertake to operate the System within such budget to the best of its ability. The Current Expenses incurred in any year will not exceed reasonable and necessary amounts therefor and the Issuer will not expend any amounts or incur any obligations therefor in excess of the amounts provided for Current Expenses in the budget except upon resolution of the Issuer.

(i) Each officer or employee of the Issuer or any other person, other than banks or other financial institutions, having custody of funds of the System shall be under fidelity bond at all times in reasonable and customary amounts.

(j) The Issuer, either directly or indirectly, 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.

Remedies of Bond Owners

Any owner of any Bonds, including the holder or assignee of a Loan Agreement, 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 Issuer by the provisions of the Resolution, including the making and collecting of sufficient rates, the segregation from all funds of the Issuer of the income and Gross Earnings of the System and proper application thereof.

If any default be made in the payment of principal or Compound Accreted Value of or interest on the Bonds, then upon the filing of suit by any holder of said Bonds, including the holder or assignee of a Loan Agreement, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the Issuer 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 Series Resolution.

Modification of Resolution

(a) The Resolution may be amended without the consent of or notice to the registered owners or holder of any Bonds, for the purpose of curing any ambiguity or formal defect or omission in the Resolution.

(b) In addition to the amendments to the Resolution without the consent of holders as referred to in subsection (a) above, the registered owners of a majority in aggregate principal amount of the Parity Bonds, at any time outstanding (not including in any case any Parity Bonds which may then be held or owned by or for the account of the Issuer but including such refunding bonds as may have been issued for the purpose of refunding any of such Parity Bonds if such refunding bonds shall not then be owned by the Issuer) 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 Resolution; provided, however, that the Resolution may not be so modified or amended in such manner as to:

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

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

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

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

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

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

Whenever the Issuer shall propose to amend or modify the Resolution, it shall cause notice of the proposed amendment to be mailed by first-class mail, postage prepaid, to the owner of each Parity 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 Issuer for public inspection.

Whenever at any time within one (1) year from the date of mailing of said notice there shall be filed with the Secretary of the Governing Body an instrument or instruments executed by the registered owners of at least a majority in aggregate principal amount of the Parity Bonds then outstanding, 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 Issuer may adopt such amendatory resolution and such resolution shall become effective and binding upon the owners of all Parity Bonds.

If the registered owners of at least a majority in aggregate principal amount of the Parity Bonds outstanding and the holder, 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, no registered owner of any Parity Bonds, whether or not such owner shall have consented to or shall have revoked any consent, 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 Issuer from taking any action pursuant to the provisions thereof.

Any consent given by the registered owner of a Parity Bond shall be irrevocable for a period of six (6) 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 Parity Bond during such period. Such consent may be revoked at any time after six (6) 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 Issuer office, but such revocation shall not be effective if the registered owners of a majority in aggregate principal amount of the Parity Bonds outstanding shall have, prior to the attempted revocation, consented to and approved the amendatory resolution referred to in such revocation.

Discharge and Satisfaction

If the Issuer 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 Issuer shall also pay or cause to be paid all other sums payable hereunder by the Issuer 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 Issuer to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the Issuer 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 Issuer 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 Issuer, as received by the Registration Agent.

APPENDIX D

GENERAL PURPOSE FINANCIAL STATEMENTS

THE CITY OF FAYETTEVILLE, TENNESSEE
BOARD OF PUBLIC UTILITIES – ELECTRIC DEPARTMENT

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

of

FAYETTEVILLE PUBLIC UTILITIES
FAYETTEVILLE, TENNESSEE

June 30, 2015

FAYETTEVILLE PUBLIC UTILITIES

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FAYETTEVILLE PUBLIC UTILITIES

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INDEPENDENT AUDITORS' REPORT

Board of Public Utilities
City of Fayetteville
Fayetteville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Fayetteville Public Utilities (the "System"), an enterprise fund of the City of Fayetteville, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fayetteville Public Utilities as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Fayetteville Public Utilities and do not purport to, and do not present fairly the financial position of the City of Fayetteville, Tennessee as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 5 through 8 and schedules of funding progress and contributions on pages 27 and 28 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Fayetteville Public Utilities. The accompanying schedule of expenditures of federal awards and state financial assistance on pages 54 and 55, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information and the schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The other information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015 on our consideration of Fayetteville Public Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fayetteville Public Utilities' internal control over financial reporting and compliance.

Putman & Hancock

Fayetteville, Tennessee
December 11, 2015

Our discussion and analysis of the Fayetteville Public Utilities ("System") financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2015. We encourage readers to consider the information that we have furnished in the basic financial statements and the accompanying notes to those financial statements.

REQUIRED FINANCIAL STATEMENTS

The Fayetteville Public Utilities are comprised of four separate operating departments - Electric, Gas, Water and Wastewater (Water), and Telecommunications. All departments are operated under the Board of Public Utilities of the City of Fayetteville, Lincoln County, Tennessee. Where practical and cost effective common functions are shared and each department pays a pro-rata share of those expenses. Each department supports its operations through its own revenues.

The financial statements of the Fayetteville Public Utilities report information using accounting methods similar to those used by private sector companies. These statements offer financial information about the System's activities.

The Statement of Net Position includes all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities), with the difference between the two reported as net position. Over time, increases or decreases in net position serve as one indicator of whether the financial position of the System is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. All changes in net position are taken into account regardless of when cash is received or paid. This statement measures the success of the operations over the past year and can be used to analyze the results of the System's operations.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash position resulting from operations, investing, non-capital and capital financing activities and provides answers to such questions such as where did cash come from, for what was cash used, and what was the change in cash balance during the reporting period.

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

FINANCIAL ANALYSIS – SYSTEM

The following table summarizes the Statements of Net Position for fiscal years 2015 and 2014:

STATEMENTS OF NET POSITION (in thousands)

	2015	2014
ASSETS		
Current assets	$ 36,498	$ 34,777
Special funds	10,732	9,506
Capital assets, net of accumulated depreciation	87,960	81,231
Other assets	1,412	1,501
Total Assets	136,602	127,015
Deferred outflows of resources	352	240
	$ 136,954	$ 127,255
LIABILITIES AND NET POSITION		
Current liabilities	$ 10,225	$ 9,642
Other liabilities	2,340	2,208
Long-term debt	34,545	31,785
Total Liabilities	47,110	43,635
NET POSITION		
Net investment in capital assets	51,235	47,271
Restricted for debt service	1,976	1,976
Restricted for improvements and construction	128	28
Unrestricted	36,505	34,345
Total Net Position	89,844	83,620
	$ 136,954	$ 127,255

The Statement of Net Position shows an increase of 7.5% or $9.6 million in Total Assets during fiscal year 2015. Current assets increased 4.9% or $1.7 million with

the increase in cash for general use accounting for the change. Special funds increased 12.9% or $1.2 million. Net capital assets increased 8.3% or $6.7 million due to significant System projects undertaken during the year.

Long-term debt increased 8.7% or $2.8 million as a result of additional Water department borrowings that exceeded current year principal payments. Unrestricted Net Position increased $2.2 million or 6.3% over the prior year. The statement indicates that the largest portion of the System's net position represents its investment in capital assets, $51.2 million or 57% of net position. An additional $2.0 million of net position is restricted for debt service. $128 thousand of net position is restricted for improvements and construction. Remaining net position of $36.5 million is unrestricted and may be used to meet ongoing obligations of the System.

Below are the condensed Statements of Revenues, Expenses, and Changes in Net Position for fiscal years 2015 and 2014:

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (in thousands)

	2015	2014
REVENUES		
Charge for services	$ 61,605	$ 61,707
Other	1,764	1,497
TOTAL REVENUES	63,369	63,204
EXPENSES		
Cost of utility services	42,640	42,203
Distribution expenses	5,350	5,282
Other operating expenses	4,118	4,015
Provision for depreciation	4,521	4,495
Interest and amortization expense	1,134	1,120
TOTAL EXPENSES	57,763	57,115
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	5,606	6,089
Capital contributions in aid of construction	1,853	1,306
Transfers out - taxes and tax equivalents	(1,236)	(1,212)
CHANGE IN NET POSITION	$ 6,223	$ 6,183

The Statement of Revenue, Expenses, and Changes in Net Position indicates that charges for services decreased 0.2% or $0.1 million while cost of utility services increased $0.4 million or 1.0%. Capital contributions in aid of construction increased by $0.5 million or 41.9%.

Below are the condensed Statements of Cash Flows for fiscal years 2015 and 2014:

STATEMENTS OF CASH FLOWS (in thousands)

	2015	2014
Cash flows provided by operating activities	$ 12,602	$ 13,289
Cash flows used by non-capital financing activities	(1,236)	(1,212)
Cash flows used by capital and related financing activities	(8,506)	(8,180)
Cash flows provided by investing activities	43	36
INCREASE IN CASH, NET	2,903	3,933
Cash and cash equivalents, beginning of year	$ 33,833	$ 29,900
Cash and cash equivalents, end of year	$ 36,736	$ 33,833

The Statement of Cash Flows indicates an increase of $2.9 million in cash and cash equivalents during the fiscal year 2015. Cash flow provided by operating activities decreased by 5.2% or $0.7 million. Receipts from customers decreased 0.3% and non-capitalized payments to employees increased 4.3% compared to the previous fiscal year. Cash flows used by capital and related financing activities increased 4.0% or $0.3 million. Additions to capital assets increased 27.0% and borrowings repaid increased 8.5% compared to the previous fiscal year.

CONTACTING FAYETTEVILLE PUBLIC UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have any questions about this report or need any additional financial information, contact Britt Dye, CEO/General Manager or Kim Posey, Manager of Finance and Office Services at P.O. 120, 408 College Street West, Fayetteville, Tennessee, 37334, phone number 931-433-1522.

FAYETTEVILLE PUBLIC UTILITIES

STATEMENT OF NET POSITION

June 30, 2015

ASSETS	
CURRENT ASSETS	
Cash for general use	$ 26,003,828
Accounts receivable:	
Customers, net of allowance for uncollectible accounts $11,233	5,697,952
Other receivables	944,923
Inventories	1,511,848
Prepaid expenses	2,339,290
Total Current Assets	36,497,841
SPECIAL FUNDS	10,732,439
CAPITAL ASSETS, net of accumulated depreciation	87,959,557
OTHER ASSETS	1,411,667
TOTAL ASSETS	136,601,504
DEFERRED OUTFLOWS OF RESOURCES	
Excess consideration provided for acquisition	142,519
Deferred charges on refunding	209,514
TOTAL DEFERRED OUTFLOWS OF RESOURCES	352,033
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Current maturities of long-term debt payable from current assets	2,162,387
Accounts payable	5,461,714
Customer deposits	1,695,308
Accrued interest	86,280
Other accrued liabilities	819,393
Total Current Liabilities	10,225,082
OTHER LIABILITIES	
Advances from TVA	1,015,089
Long-term debt payable from special funds	144,743
OPEB liabilities, net	693,945
Compensated absences	486,018
Total Other Liabilities	2,339,795
LONG-TERM DEBT	34,544,732
TOTAL LIABILTIES	47,109,609
NET POSITION	
Net investment in capital assets	51,235,258
Restricted for debt service	1,975,895
Restricted for improvements and construction	127,563
Unrestricted	36,505,212
Total Net Position	$ 89,843,928

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

FAYETTEVILLE PUBLIC UTILITIES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2015

OPERATING REVENUES	
Charges for services (net of provision for bad debts of $134,754)	$ 61,605,428
Other	1,764,319
TOTAL OPERATING REVENUES	63,369,747
OPERATING EXPENSES	
Cost of utility services	42,640,471
Pumping, distribution, and collection	5,349,913
Customer billing and collecting	1,267,430
General and administrative	2,110,102
Taxes and tax equivalents	419,893
Provision for depreciation	4,521,109
Other	320,474
TOTAL OPERATING EXPENSES	56,629,392
INCOME FROM OPERATIONS	6,740,355
NONOPERATING REVENUES AND (EXPENSE)	
Interest income	33,350
Interest expense	(1,090,480)
Amortization	(34,546)
Debt issuance costs	(8,235)
Loss on disposition of assets	(44,026)
Miscellaneous	9,422
NONOPERATING REVENUES (EXPENSE) - NET	(1,134,515)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	5,605,840
Capital contributions in aid of construction	1,853,220
Transfers out - taxes and tax equivalents	(1,235,582)
CHANGE IN NET POSITION	6,223,478
Total Net Position, at beginning of year	83,620,450
TOTAL NET POSITION, AT END OF YEAR	$ 89,843,928

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

FAYETTEVILLE PUBLIC UTILITIES
STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	$ 63,152,499
Payments to suppliers and others	(46,432,242)
Payments to employees	(4,117,810)
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,602,447
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers to other funds - taxes and tax equivalents	(1,235,582)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(1,235,582)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Additions to capital assets, net	(10,987,141)
Removal costs of capital assets	(628,875)
Materials salvaged from retirements of capital assets	138,233
Acquisition of Ardmore gas operations	(602,000)
Capital contributions received	1,853,220
Long-term borrowings, net	5,098,294
Borrowings repaid	(2,219,092)
Issue costs paid	(8,235)
Interest paid, net	(1,150,442)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(8,506,038)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	33,319
Other nonoperating income (expense), net	9,422
NET CASH PROVIDED BY INVESTING ACTIVITIES	42,741
INCREASE IN CASH, NET	2,903,568
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	33,832,699
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 36,736,267
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income from operations	$ 6,740,355
Adjustments to reconcile income from operations to net cash provided by operating activities -	
Depreciation, including amounts capitalized	4,818,589
Loss on disallowance of plant	340,768
Conservation loans advanced - customers	(204,546)
Conservation loans collected - customers	230,427
Conservation advances from TVA	251,697
Conservation advances repaid to TVA	(275,528)
Changes in operating assets and liabilities:	
Accounts and other receivables, net	(353,695)
Inventories	110,946
Prepaid expenses and other assets	248,392
Accounts payable	374,085
Accrued employee benefits	110,530
Customer deposits	110,566
Other current liabilities and compensated absences	99,861
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 12,602,447
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:	
Water interim certificates of indebtedness refinanced	$ 2,725,277

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fayetteville Public Utilities (the "System") conform to generally accepted accounting principles applicable to utilities. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting standards. The GASB's *Codification of Governmental Accounting and Financial Reporting Standards* document these principles. The following is a summary of significant policies:

(1) Reporting Entity

The System is owned by the City of Fayetteville, Tennessee, (the "Primary Government"). The System is not a legal entity separate and apart from the Primary Government and accordingly, is blended as part of the financial statements of the Primary Government. The System is governed by the Board of Public Utilities of the City of Fayetteville, Lincoln County, Tennessee, which is composed of seven members. The members are appointed by the Mayor, subject to ratification by a majority of the Board of Mayor and Alderman. The term of each board member is three years. The mayor serves as an ex-officio member of the board.

In 2002, the City of Fayetteville, Tennessee passed an ordinance to merge its electric (including telecommunications), water and sewer and gas services under one system Board of Public Utilities. The System provides electric, natural gas, water and wastewater utility services, and telecommunications services to residents of Lincoln County and certain contiguous counties in Tennessee.

The System's financial statements include the following activities referred to herein as "departments": Electric department, Gas department, Water and Wastewater (Water) department, Telecommunications (Telecom) department.

(2) Basis of Accounting

The System's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and general practices of the utility and telecommunications industries. Revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of the related cash flow. An accrual is made for unbilled revenue for services from the date of the most recent meter readings to the balance sheet date consistent with costs for utility services.

The System distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from charges to customers for the provision of utility and programming services. Operating expenses include the purchased cost of these services as well as costs to operate and maintain the various treatment, storage, transmission, and distribution systems plus general and administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Capital Assets

The System's utility plant capital assets are capitalized at cost at the time they become part of operations. Certain items of electric plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with the related cost of installation. Donated capital assets are recorded at estimated fair value at the date of donation.

Depreciation of capitalized cost is provided on a straight-line basis over the estimated useful lives of the assets at annual rates ranging from 2.0 to 20.0 percent. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to the accumulated provision for depreciation.

The costs of maintenance, repairs and replacements of minor items of property are charged to expense accounts as incurred.

(4) Inventories

Inventories are comprised of materials and supplies and natural gas utility reserves. They are stated at the lower of cost or market. Cost for materials and supplies are determined substantially by the moving average method of inventory valuation.

(5) Allowance for Uncollectible Accounts

The System provides an allowance for uncollectible receivables equal to the estimated loss that may be incurred in collection of all receivables. The estimated losses are based on historical collection experience and a review of the current status of the existing receivables.

(6) Debt Issue Costs

Premiums and discounts realized on debt issuances are deferred and amortized over the terms of the respective debt using a method which approximates the effective interest method. Costs of issuance other than insurance are charged to expense in the period incurred.

(7) Compensated Absences

The costs of vacation benefits are recorded as expense when earned. Sick leave benefits are recorded as expense when used. The System also records an estimated liability for sick leave benefits expected to be paid at retirement in accordance with the System's retirement policy.

(8) Income Taxes and Tax Equivalents

The System is an instrumentality of the City of Fayetteville, Tennessee; therefore, its electric, gas, and water departments are exempt from payment of federal and state income taxes. Its telecom department is exempt from payment of federal income taxes; however, under the Tennessee Broadband Act, it is subject to payment of state income taxes.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(8) Income Taxes and Tax Equivalents (Continued)

The System is required to make tax equivalent payments to the City of Fayetteville and Lincoln County, Tennessee and other local governments where operations are conducted. The amount for the electric department is based on the assessed value of plant and equipment cost and 4 percent of the current three-year average margin for operating revenue less power cost. The gas and water departments make tax equivalent payments to the City of Fayetteville at amounts determined by the City. The telecommunications department pays franchise fees and personal property taxes to the City of Fayetteville and Lincoln County, Tennessee.

(9) Capitalized Interest

Interest cost incurred, net of interest earned, on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest cost incurred in the current year totaled $1,181,696. Of this, $91,216 was capitalized with the remainder charged to expense.

(10) Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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.

(11) Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the System considers all highly liquid investments with an original maturity of three months or less to be cash equivalents, including assets classified in "Special Funds" in the financial statements.

(12) Deferred Outflows/ Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The System has two items that qualify for reporting in this category. They are the deferred charge on refunding and the excess consideration provided for acquisition reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The excess consideration provided for acquisition represents the amount by which the consideration provided for the Ardmore gas operations exceeded the acquisition value of the net position acquired, as described in Note O.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The System does not have any items that qualify for reporting in this category.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(13) Net Position

Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets represent capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets as well as any deferred outflows or inflows of resources attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets occur when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributions, laws, regulations, etc. Unrestricted net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. The debt service reserve is presented as a restricted component of net position. The reserve amount is in compliance with the required amount. Also presented as a restricted component of net position are unspent loan funds and retainage amounts due contractors which are classified as restricted for improvements and construction.

(14) Pensions

During the current year, the System early implemented GASB Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Plans*, to be concurrent with the implementation of GASB Statements 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Accordingly, pension expense is recognized in an amount equal to the System's required contributions to the pension plan for the reporting period. A liability is recognized in accounts payable for the difference, if any, at the end of the reporting period between contributions required and contributions made.

NOTE B – CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2015:

	Balance 6/30/2014	Additions	Retirements	Reclassifications and Other Adjustments	Balance 6/30/2015
Transmission	$ 445,435	$ 10,573	$ 10,734	-	$ 445,274
Distribution	100,767,758	5,417,705	1,356,716	604,306	105,433,053
Treatment	4,614,452	20,037	-	-	4,634,489
Storage	1,883,689	1,082,079	65,508	-	2,900,260
Wastewater Facilities	17,577,055	3,732,591	575,090	-	20,734,556
General	12,153,138	765,858	176,855	(604,306)	12,137,835
Total plant and equipment in service	137,441,527	11,028,843	2,184,903	-	146,285,467
Construction work in progress	4,541,290	9,839,834	9,607,457	-	4,773,667
	141,982,817	20,868,677	11,792,360	-	151,059,134
Less accumulated depreciation	(60,751,918)	(4,818,589)	(2,631,521)	(160,591)	(63,099,577)
	$ 81,230,899	$ 16,050,088	$ 9,160,839	$ (160,591)	$ 87,959,557

The provision for depreciation for 2015 totaled $4,818,589 of which $297,480 applicable to transportation equipment is allocated to utility plant and operating expenses based on usage. The System allocates depreciation expense for certain joint use assets among the benefiting departments based on utilization. For the year ended June 30, 2015, allocated depreciation was as follows on the next page:

NOTE B – CAPITAL ASSETS (CONTINUED)

	Allocations (from) / to			
Department holding joint use asset	Electric	Gas	Telecom	Water
Electric / Main office facilities	$ (24,765)	$ 7,545	$ 6,350	$ 10,870
Gas / Crew work center	-	(5,958)	-	5,958
	$ (24,765)	$ 1,587	$ 6,350	$ 16,828

The following is a summary of capital assets by department at June 30, 2015:

	Electric	Gas	Telecom	Water	Total
Transmission	$ 445,274	$ -	$ -	$ -	$ 445,274
Distribution	63,777,925	22,150,237	8,504,585	11,000,306	105,433,053
Treatment	-	-	-	4,634,489	4,634,489
Storage	-	-	-	2,900,260	2,900,260
Wastewater Facilities	-	-	-	20,734,556	20,734,556
General	8,846,202	1,805,771	458,388	1,027,474	12,137,835
Total plant and equipment in service	73,069,401	23,956,008	8,962,973	40,297,085	146,285,467
Construction work in progress	316,349	83,860	10,956	4,362,502	4,773,667
	73,385,750	24,039,868	8,973,929	44,659,587	151,059,134
Less accumulated depreciation	(31,197,615)	(8,444,369)	(6,073,837)	(17,383,756)	(63,099,577)
	$ 42,188,135	$ 15,595,499	$ 2,900,092	$ 27,275,831	$ 87,959,557

At June 30, 2015, significant outstanding contract commitments for engineering and plant upgrades totaled $8,972,387.

NOTE C – CASH

The following is a summary of cash for general use and special funds by department at June 30, 2015:

	Electric	Gas	Telecom	Water	Total
Cash for general use	$ 23,788,013	$ 1,893,318	$ 21,571	$ 300,926	$ 26,003,828
Special funds - restricted:					
Externally restricted	1,975,895	-	-	127,563	2,103,458
Internally restricted	735,781	3,169,695	152,738	4,570,767	8,628,981
	$ 26,499,689	$ 5,063,013	$ 174,309	$ 4,999,256	$ 36,736,267

Bond Sinking and Construction Funds: The System is required by loan and bond resolutions to maintain sinking and reserve funds at specified levels. In addition, the System has unexpended bond and grant funds for improvements and construction projects and retainages due to contractors.

	Electric	Water	Total
Bond sinking and reserve funds	$ 1,975,895	$ -	$ 1,975,895
Improvements and construction fund	-	127,563	127,563
	$ 1,975,895	$ 127,563	$ 2,103,458

NOTE C – CASH (CONTINUED)

Other Special Funds: Other special funds include funds designated for specific purposes by the System. The funds include funded substation replacement, operating reserves, improvements and construction costs, safety incentive funds, debt service reserves, and post retirement health benefits described in Note G – Other Postemployment Benefits. The following funds are included in this category:

	Electric	Gas	Telecom	Water	Total
Substation replacement fund	$ 367,525	$ -	$ -	$ -	$ 367,525
Funded employee benefits	366,906	115,636	58,571	154,694	695,807
Safety incentive fund	1,350	-	-	-	1,350
Operating reserves	-	1,008,101	-	1,741,446	2,749,547
Debt service reserves	-	39,674	94,167	36,824	170,665
Improvements and construction	-	2,006,284	-	2,637,803	4,644,087
	$ 735,781	$ 3,169,695	$ 152,738	$ 4,570,767	$ 8,628,981

State law limits investments by municipalities to federal obligations, certain other federally guaranteed obligations or certain other highly rated instruments as well as certificates of deposit at state and federally chartered banks. The System has not adopted policies to further limit its deposits or investments. System cash consists of deposits in financial institutions with bank balances of $37,104,530 and carrying amounts of $36,733,167 as well as cash on hand of $3,100. Of the amounts on deposit, $35,056,457 is fully insured by the Federal Deposit Insurance Corporation (FDIC) or Tennessee Bank Collateral Pool. The remaining $1,676,710 is collateralized by securities pledged by the financial institution in the name of the System.

NOTE D - LONG-TERM DEBT

The following is a summary of long-term debt transactions by department for the year ended June 30, 2015:

	Electric	Gas	Telecom	Water	Total
Balance at June 30, 2014	$ 18,485,000	$ 3,440,000	$ 2,025,000	$ 7,542,632	$ 31,492,632
Issued during year	-	-	-	5,106,630	5,106,630
Payments during year	(1,025,000)	(290,000)	(325,000)	(579,092)	(2,219,092)
	17,460,000	3,150,000	1,700,000	12,070,170	34,380,170
Less current maturities	(1,055,000)	(295,000)	(330,000)	(627,130)	(2,307,130)
Unamortized bond premium	51,074	33,035	3,274	28,598	115,981
Balance at June 30, 2015	$ 16,456,074	$ 2,888,035	$ 1,373,274	$ 11,471,638	$ 32,189,021

Interim Financing (non amortizing)	Water			
	State of TN Loans	USDA Interim Certificates of Indebtedness	Total Interim Financing	Total All Debt
Balance at June 30, 2014	$ -	$ 2,364,047	$ 2,364,047	$ 33,856,679
Issued during year	2,344,511	372,430	2,716,941	7,823,571
Interim certificates refinanced	-	(2,725,277)	(2,725,277)	(2,725,277)
Payments during year	-	-	-	(2,219,092)
	2,344,511	11,200	2,355,711	36,735,881
Less current maturities	-	-	-	(2,307,130)
Unamortized bond premium	-	-	-	115,981
Balance at June 30, 2015	$ 2,344,511	$ 11,200	$ 2,355,711	34,544,732

NOTE D - LONG-TERM DEBT (Continued)

The annual requirements to amortize all long-term debt outstanding as of June 30, 2015 are as follows:

	Electric		Gas		Telecom	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 1,055,000	$ 681,919	$ 295,000	$ 114,620	$ 330,000	$ 26,115
2017	1,085,000	650,269	300,000	105,768	335,000	22,320
2018	1,120,000	616,363	300,000	95,270	340,000	17,965
2019	1,160,000	578,562	310,000	84,768	345,000	12,865
2020	1,200,000	536,512	315,000	74,694	350,000	7,000
2021 - 2025	6,815,000	1,933,011	1,630,000	197,996	-	-
2026 - 2028	5,025,000	432,699	-	-	-	-
	$ 17,460,000	$ 5,429,335	$ 3,150,000	$ 673,116	$ 1,700,000	$ 86,265

	Water		Total	
Year	Principal	Interest	Principal	Interest
2016	$ 627,130	$ 311,453	$ 2,307,130	$ 1,134,107
2017	629,398	294,585	2,349,398	1,072,942
2018	656,232	276,727	2,416,232	1,006,325
2019	683,221	258,012	2,498,221	934,207
2020	679,813	239,882	2,544,813	858,088
2021 - 2025	1,710,186	1,023,833	10,155,186	3,154,840
2026 - 2030	1,159,665	862,575	6,184,665	1,295,274
2031 - 2035	1,272,141	712,484	1,272,141	712,484
2036 - 2040	1,267,244	549,617	1,267,244	549,617
2041 - 2045	1,450,047	366,813	1,450,047	366,813
2046 - 2050	1,659,353	157,507	1,659,353	157,507
2051 - 2052	275,740	5,108	275,740	5,108
	$ 12,070,170	$ 5,058,596	$ 34,380,170	$ 11,247,312

Loans: The System has loans outstanding as of June 30, 2015, as follows:

State of Tennessee Utility Relocation Loan Program: The System entered into a loan agreement on August 9, 2005 with the Tennessee State Funding Board and the Tennessee Department of Transportation to borrow $2,070,465 to finance the cost of moving and reinstalling certain water department utility lines required by a highway construction project which was completed in a prior year. The original term of the loan is 15 years. The loan bears interest at a rate of 1.85%. The balance outstanding at June 30, 2015 was $1,377,037.

State of Tennessee Revolving Fund Program Loan: The System entered into a loan agreement on January 3, 2013 with the Tennessee Department of Environment and Conservation to borrow $972,360 of which $240,173 is to be forgiven. This loan was used to finance the cost of certain improvements to the Water and Wastewater Department's wastewater system, which were completed in a prior year. The original term of the loan is 20 years. The loan bears interest at a rate of 1.17%. The balance outstanding at June 30, 2015 was $702,245.

NOTE D - LONG-TERM DEBT (Continued)

State of Tennessee Revolving Fund Program Loan: The System entered into a loan agreement on January 3, 2013 with the Tennessee Department of Environment and Conservation to borrow $4,300,000 of which $430,000 is to be forgiven. This loan will be used to finance the cost of certain improvements to the Water and Wastewater Department's wastewater system. The loan will mature 20 years from project completion. The loan bears interest at a rate of 1.17%. The System had received $2,344,511 in advances at June 30, 2015.

State of Tennessee Revolving Fund Program Loan: The System entered into a loan agreement on January 23, 2015 with the Tennessee Department of Environment and Conservation to borrow $4,000,000 of which $280,000 is to be forgiven. This loan will be used to finance the cost of certain improvements to the Water and Wastewater Department's wastewater system. The loan will mature 20 years from project completion. The loan bears interest at a rate of 1.38%. The System had received no advances at June 30, 2015.

State of Tennessee Revolving Fund Program Loan: The System entered into a loan agreement on January 23, 2015 with the Tennessee Department of Environment and Conservation to borrow $1,700,000. This loan will be used to finance the cost of certain improvements to the Water and Wastewater Department's wastewater system. The loan will mature 20 years from project completion. The loan bears interest at a rate of 1.38%. The System had received no advances at June 30, 2015.

Revenue and Tax Bonds: The System has revenue and tax bond issues outstanding as of June 30, 2015, as follows:

Water - Series 2008 revenue and tax bond (Phase I) in the original amount of $3,500,000, with an outstanding balance of $3,390,865, issued in September 2013 through the U. S. Department of Agriculture (USDA) Rural Development to finance the cost of certain extensions and improvements to the Water and Wastewater Department's water and wastewater system and refinance maturing interim certificates of indebtedness. The bond bears interest at the rate of 2.25% per annum with final maturity in 2050. Prepayments of scheduled installments, or any portion thereof, may be made at any time at the option of the System.

Water – Series 2009 revenue and tax bond (Phase II) in the original amount of $4,980,000, with an outstanding balance of $4,930,023, issued in October 2014 through the U. S. Department of Agriculture (USDA) Rural Development to finance the cost of certain extensions and improvements to the Water and Wastewater Department's water and wastewater system and refinance maturing interim certificates of indebtedness. The bond bears interest at a rate of 3.00% per annum with final maturity in 2051. Prepayments of scheduled installments, or any portion thereof, may be made at any time at the option of the System.

Revenue and Tax Bond Interim Certificates of Indebtedness (Phase III): The System entered into a loan agreement on March 27, 2013 with the U. S. Department of Agriculture (USDA) Rural Development to borrow $2,531,200 to finance the cost of certain extensions and improvements to the Water and Wastewater Department's water and wastewater system and refinance maturing bond anticipation notes. The loan matures March 27, 2016. The loan bears interest at a rate of 2.50%. The System had received advances totaling $5,200 at June 30, 2015. These loans are authorized under a resolution approved by the Board of Mayor and Aldermen in anticipation of issuance of $2,623,000 bonds through the USDA under the Consolidated Farm and Rural Development Act.

Revenue and Tax Bond Interim Certificates of Indebtedness (Phase IV): The System entered into a loan agreement on April 9, 2015 with the U. S. Department of Agriculture (USDA) Rural Development to borrow $1,900,000 to finance the cost of certain extensions and improvements to the Water and Wastewater Department's water and wastewater system. The loan matures April 9, 2017. The loan bears interest at a rate of 2.75%. The System had received advances totaling $6,000 at June 30, 2015. These loans are authorized

NOTE D - LONG-TERM DEBT (Continued)

under a resolution approved by the Board of Mayor and Aldermen in anticipation of issuance of $1,900,000 bonds through the USDA under the Consolidated Farm and Rural Development Act.

Other Revenue Bonds: The System has revenue bond issues outstanding as of June 30, 2015, as follows:

Electric - Series 2009 revenue bonds in the original amount of $12,525,000, with an outstanding balance of $7,510,000, issued in August 2009 to currently refund debt totaling $7,050,000, as well as finance the improvements and extensions of the electrical distribution system. The bonds mature serially at annual interest rates ranging from 3.00% to 4.125%, with final maturity in 2024. The bonds are subject to redemption prior to maturity on or after June 1, 2019 at a redemption price of 100%.

Electric - Series 2007 revenue bonds in the original amount of $9,950,000, with an outstanding balance of $9,950,000, issued in December 2007 to finance improvements and extensions of the electrical distribution system. The bonds mature serially at annual interest rates ranging from 4.00% to 4.25% with final maturity in 2028. The bonds are subject to redemption prior to maturity at a redemption price of 100%.

General Obligation Bonds: The System has general obligation bond issues outstanding at June 30, 2015, as follows:

Water – Series 2009 general obligation bonds, with an outstanding balance of $1,670,000 issued in June 2009 to refund other revenue bonds totaling $3,350,000. The bonds are additionally payable from water and wastewater system revenues. The bonds mature serially at annual interest rates ranging from 3.00% to 3.50% with final maturity in 2020. The bonds are subject to redemption prior to maturity beginning in 2018 at a redemption price of 100%.

Gas – Series 2009 general obligation bonds, with an outstanding balance of $3,150,000 issued in June 2009 to refund other revenue bonds totaling $4,755,000. The bonds are additionally payable from gas system revenues. The bonds mature serially at annual interest rates ranging from 3.00% to 4.125% with final maturity in 2025. The bonds are subject to redemption prior to maturity beginning in 2018 at a redemption price of 100%.

Telecom – Series 2011 general obligation bonds, with an outstanding balance of $1,700,000 issued in December 2011 to refund other revenue bonds totaling $3,600,000. The bonds are additionally payable from telecom system revenues. The bonds mature serially at annual interest rates ranging from 1.00% to 2.00% with final maturity in 2020. The bonds are not subject to redemption prior to maturity.

Each department's debt is secured and / or payable by the respective revenues of that department. Certain of the System's bonds require establishment of sinking funds and compliance with various covenants. All departments comply with these requirements at June 30, 2015.

NOTE E - ADVANCES FROM TVA

The System has received advances from the Tennessee Valley Authority (TVA) totaling $1,015,089 to fund energy conservation loans to consumers. Advances in excess of loans made there from are callable at the discretion of TVA.

NOTE F - RETIREMENT BENEFITS

Plan description. Substantially all employees of the System are participants in the National Rural Electric Cooperative Association (NRECA) Retirement Security (RS) Plan, a cost-sharing multiple-employer defined benefit pension plan qualified under section 401 and tax-exempt under section 501(a) of the Internal Revenue Code. The RS Plan meets the criteria in paragraph 4 of GASB Statement 68 and the additional characteristics described in paragraph 2 of GASB Statement 78 in that it (a) is not a state or local

NOTE F - RETIREMENT BENEFITS (Continued)

governmental pension plan, (b) is used to provide defined benefit pensions to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). NRECA issues a publicly available financial report that can be obtained by writing to the Retirement Safety & Insurance Department, National Rural Electric Cooperative Association, 4301 Wilson Boulevard, Arlington, Virginia 22203-1860 or by calling (703) 907-5500.

Benefits provided. NRECA provides retirement, disability, and death benefits. Benefits are determined by a formula using the member's high five-year average salary, years of service and benefit rate of 1.7%. Members become eligible to retire at the age of 62. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members who become totally disabled. Members become vested after five years of service. Benefit terms are established and may be amended by the NRECA Board. At June 30, 2015, the System had 104 employees covered by the RS plan.

Contributions. Contribution requirements of the active employees and the participating employers are established and may be amended by the NRECA Board. The RS plan does not require member contributions. The System is required to contribute an actuarially determined normal cost annually and a past service adjustment cost which provides for crediting retirement benefits for past service on a uniform basis for all participants. The System's contractually required contribution rate for the year ended June 30, 2015 was 17.54% percent of annual payroll. All members age 21 years and older with one year of completed service are eligible to participate.

The System's required contribution based on the payroll of eligible participants for the years ended June 30, 2015 was $886,106.

The System also has a defined contribution plan (administered by National Rural Electric Cooperative Association (NRECA)), under section 401(k) of the Internal Revenue Code, covering all employees who have completed six months of service.

Benefit terms, including contribution requirements, for the NRECA 401(k) pension plan are established and may be amended by the NRECA Board. Under the Plan, the System matches employee contributions of 1.25% of the employees' base pay. The employee must contribute 1.25% of their base pay in order to receive the System's matching contribution. After-tax Roth 401K employee contributions are permitted by the Plan up to limits imposed by the Internal Revenue Code. Employee contributions to the Plan totaled $155,282 for the year ended June 30, 2015. The System recognized pension expense under the defined contribution plan of $63,819 for the year ended June 30, 2015.

Employees are immediately vested in their own contributions, employer contributions, and earnings on those contributions.

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The System administers a single-employer defined benefit healthcare plan which provides postemployment healthcare benefits for employees that retire from service who have attained the age of 62 years with a minimum of ten years service with the System or who have thirty years in the retirement plan. The System pays the full cost of coverage for these benefits through private insurers for the shorter of three years or until the retiree qualifies for Medicare coverage. Also, the System's retirees can purchase coverage for their dependents at the System's group rates. The Board of Public Utilities may amend the benefit provisions. A separate report was not issued for the plan.

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Funding Policy

The System pays the full cost of coverage for the healthcare benefits provided to qualified retirees under a plan that can be amended by the Board of Public Utilities. Dependent coverage may be purchased by the retiree at their cost. The System has chosen to fund the healthcare benefits on a pay as you go basis. For the year ended June 30, 2015, the System made no contributions to fund premiums for retirees receiving benefits.

Annual OPEB Cost and Net OPEB Obligation

The System's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The following table shows the components of the System's OPEB cost for the year, the amount actually contributed to the plan, and changes in the System's net OPEB obligation:

Annual required contribution	$ 111,675
Interest on net OPEB obligation	20,295
Adjustment to annual required contribution	(21,440)
Annual OPEB cost (expense)	110,530
Contributions made	-
Increase in net OPEB obligation	110,530
Net OPEB obligation, beginning of year	583,415
Net OPEB obligation, end of year	$ 693,945

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year were as follows:

Year ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$ 111,149	0.35%	$ 468,519
2014	114,896	0.00%	583,415
2015	110,530	0.00%	693,945

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was $1,108,556. The covered payroll (annual payroll of active employees covered by the plan) was $4,969,906 and the ratio of the UAAL to the covered payroll was 22.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 4% and an annual medical cost trend increase of 7% initially with future annual increases assumed to grade uniformly to 5% over a 4 year period. The valuation did not include an investment rate of return on plan assets as there were no plan assets at the valuation date. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2014, was twenty four years.

NOTE H - RISK MANAGEMENT

The System is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System maintains commercial insurance coverage covering each of the above risks of loss. Management believes that the coverage is adequate to preclude any significant uninsured risk exposure to the System.

Settled claims in the past three years have not exceeded the coverages.

NOTE I – SEGMENT INFORMATION

The System has issued revenue bonds to finance its various departments. The investors in the revenue bonds rely solely on the revenue generated by the individual departments for repayment. Summary financial information for each department is presented on the following page.

NOTE I – SEGMENT INFORMATION (Continued)

	Electric	Gas	Telecom	Water
Condensed Statement of Net Position				
Assets				
Current assets	$ 31,919,699	$ 2,793,005	$ 320,664	$ 1,464,473
Special funds	2,711,676	3,169,695	152,738	4,698,330
Capital assets	42,188,135	15,595,499	2,900,092	27,275,831
Other assets	1,319,604	32,651	23,755	35,657
Due from other departments	1,159,452	-	-	-
	79,298,566	21,590,850	3,397,249	33,474,291
Deferred Outflows of Resources	108,285	169,103	62,513	12,132
Liabilities				
Current liabilities	6,874,652	919,037	586,130	1,845,263
Other liabilities	1,829,294	187,741	88,045	234,715
Long term debt	16,456,074	2,888,035	1,373,274	13,827,349
Due to other departments	-	-	1,159,452	-
	25,160,020	3,994,813	3,206,901	15,907,327
Net Position (Deficit)				
Net investment in capital assets	24,677,061	12,412,464	1,196,818	12,948,915
Restricted	1,975,895	-	-	127,563
Unrestricted	27,593,875	5,352,676	(943,957)	4,502,618
	$ 54,246,831	$ 17,765,140	$ 252,861	$ 17,579,096
Condensed Statement of Revenues, Expenses, and Changes in Net Position				
Operating revenues	$ 46,079,243	$ 7,926,239	$ 4,013,298	$ 5,350,967
Depreciation expense	2,326,588	552,559	515,804	1,126,158
Other operating expenses	40,177,470	6,075,465	3,063,079	2,792,269
Operating income	3,575,185	1,298,215	434,415	1,432,540
Nonoperating revenue (expenses):				
Investment income	27,427	3,895	22	2,006
Interest expense	(710,106)	(122,594)	(31,513)	(226,267)
Gain (loss) on disposition of assets	-	(907)	-	(43,119)
Other	(34,096)	(307)	7,268	(6,224)
Contributions/Transfers - net	(470,794)	(2,080)	9,978	1,080,534
Change in net position	2,387,616	1,176,222	420,170	2,239,470
Beginning net position (deficit)	51,859,215	16,588,918	(167,309)	15,339,626
Ending net position	$ 54,246,831	$ 17,765,140	$ 252,861	$ 17,579,096
Condensed Statement of Cash Flows				
Net cash provided (used) by:				
Operating activities	$ 7,305,354	$ 2,082,138	$ 895,898	$ 2,319,057
Noncapital financing activities	(541,305)	(254,547)	(270,257)	(169,473)
Capital and related financing activities	(5,079,415)	(1,877,992)	(747,245)	(801,386)
Investing activities	8,448	11,407	19,582	3,304
Net increase (decrease)	1,693,082	(38,994)	(102,022)	1,351,502
Beginning cash and cash equivalents	24,806,607	5,102,007	276,331	3,647,754
Ending cash and cash equivalents	$ 26,499,689	$ 5,063,013	$ 174,309	$ 4,999,256

NOTE J - COMMITMENTS AND CONTINGENCIES

The System operates under a Power Contract with TVA whereby restrictions are placed upon utilization of revenues collected by the System. Under terms of this contract, the System has agreed to the following restrictions:

(a) Gross revenues from electric operations will be used for (1) current electric system operating expenses, (2) current debt service payments, including sinking fund payments, when due; (3) provision of reasonable reserves for renewals, replacements, and contingencies; and working capital adequate to cover operating expenses for a reasonable number of weeks, and; (4) to pay tax equivalent payments into the City of Fayetteville, Tennessee's general funds, within certain guidelines established by TVA, from any revenues then remaining.

(b) All revenues remaining over and above the requirements stipulated are considered surplus revenues. These revenues may be used for new electric system construction or for the retirement of System indebtedness prior to maturity with consideration that resale rates and charges will be reduced from time to time to the lowest practicable levels.

NOTE K – SOLAR POWER GENERATION

Certain customers of the System's electric department have installed solar panels at their homes or businesses. The power generated flows through separate "generation" meters. These customers are given credit against their normal monthly electric bills for the solar generated power which is included in "cost of utility services" on the statement of revenues, expenses, and changes in net position. For the year ended June 30, 2015, credits resulting from solar power generation totaled $1,601,054. In instances where solar generation actually exceeds normal electric usage, the customer is paid the difference. At June 30, 2015, the liability for such amounts due to customers was $310,784 which is included in accounts payable on the Statement of Net Position. The System is credited on its wholesale power cost by TVA for the solar generated power.

NOTE L – LEASES

The System is committed under various noncancelable operating leases for office equipment. Future minimum operating lease commitments are as follows:

Year Ending June 30,	
2016	$ 14,797
2017	7,798
2018	1,621
	$ 24,216

Lease expenditures for the year ending June 30, 2015 totaled $37,671.

NOTE M - TRANSFERS

The electric, gas, and water and wastewater departments make tax equivalent payments to the City of Fayetteville, Tennessee general fund. As Fayetteville Public Utilities is not a legal entity separate and apart from the City, these payments are presented as transfers in the financial statements. For the year ended June 30, 2015, transfers were as follows on the next page:

NOTE M – TRANSFERS (Continued)

From	To City of Fayetteville, Tennessee General Fund
Fayetteville Public Utilities:	
Electric department	$ 811,562
Gas department	254,547
Water and Wastewater department	169,473
	$ 1,235,582

NOTE N – PLEDGED REVENUES

The System has pledged the respective revenues of each department to secure certain revenue bonds as described in Note D. The current year revenues, debt service, and future pledge commitment are presented below:

Department	Operating Revenues	Current Year Principal and Interest Paid on Revenue Bonds	Percent of Current Revenue	Remaining Pledge based on future Principal and Interest Requirements	Commitment Period through Fiscal Year
Electric	$ 46,079,243	$ 1,737,669	3.8%	$ 22,889,335	2028
Gas	7,926,239	413,319	5.2%	3,823,116	2025
Telecom	4,013,298	354,365	8.8%	1,786,265	2020
Water & Wastewater	5,350,967	952,893	17.8%	19,484,477	2052
	$ 63,369,747	$ 3,458,246	5.5%	$ 47,983,193	

NOTE O – GOVERNMENT ACQUISITION

On June 25, 2014, the System's gas department entered into an asset purchase agreement to acquire utility plant in the Ardmore, Tennessee area and the right to serve those gas customers. This acquisition closed in the current fiscal year for a final purchase amount of $602,000. The acquisition value of the net position acquired as of the acquisition date was determined to be $454,256, comprised of $614,847 included in utility plant in service less $160,591 valuation allowance for depreciation included in accumulated depreciation. The difference between these two amounts less current year amortization expense is reported in the Statement of Net Position as a Deferred Outflow of Resources and is being amortized over a period of 30 years approximating the average remaining service life of utility plant acquired.

NOTE P – SUBSEQUENT EVENTS

Subsequent to year-end, the System obtained a $133,334 Rural Economic Development Loan and Grant (REDLG) through the Rural Business Service of the U. S. Department of Agriculture at zero interest rate. This sum was passed to Lincoln County in exchange for a promissory note in the sum of $133,334 at 0% interest to assist the County in financing the cost of two ambulances. The notes amortize through monthly installments over a seven year period. The County will pay the System a fee to cover administration expense and provide security in the form of a commercial bank letter of credit.

In addition subsequent to year-end, the System awarded a contract for a building addition and renovation project valued at $4,969,612.

REQUIRED SUPPLEMENTARY INFORMATION

FAYETTEVILLE PUBLIC UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
RETIREE HEALTHCARE PLAN
June 30, 2015

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2010	-	1,024,128	1,024,128	0.0%	4,997,646	20.5%
7/1/2012	-	1,192,329	1,192,329	0.0%	4,993,025	23.9%
7/1/2014	-	1,108,556	1,108,556	0.0%	4,969,906	22.3%

FAYETTEVILLE PUBLIC UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SYSTEM CONTRIBUTIONS
Last 10 Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 886,106	$ 802,092	$ 795,514	$ 1,064,897	$ 1,270,135	$ 851,556	$ 682,529	$ 581,293	$ 573,972	$ 545,416
Contributions in relation to the contractually required contribution	(886,106)	(802,092)	(795,514)	(1,064,897)	(1,270,135)	(851,556)	(682,529)	(581,293)	(573,972)	(545,416)
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Optional contribution prepayment	$ -	$ -	$ 2,477,617	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Notes to Schedule

During fiscal year 2013, the System elected to participate in NRECA's RS Plan prepayment option. This option allowed participating members to prepay contributions in exchange for lower future RS Plan billing rates.

SUPPLEMENTARY INFORMATION

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF NET POSITION
June 30, 2015

	Electric	Gas	Telecom	Water & Wastewater	Total
ASSETS					
Current Assets:					
Cash for general use	$ 23,788,013	$ 1,893,318	$ 21,571	$ 300,926	$ 26,003,828
Customer receivables, net	4,691,635	330,596	185,066	490,655	5,697,952
Other receivables	391,159	6,933	11,217	535,614	944,923
Inventories	819,693	524,332	44,565	123,258	1,511,848
Prepaid expenses	2,229,199	37,826	58,245	14,020	2,339,290
Total Current Assets	31,919,699	2,793,005	320,664	1,464,473	36,497,841
Special Funds	2,711,676	3,169,695	152,738	4,698,330	10,732,439
Capital assets, net of accumulated depreciation	42,188,135	15,595,499	2,900,092	27,275,831	87,959,557
Other Assets	1,319,604	32,651	23,755	35,657	1,411,667
Due (to)/from other departments	1,159,452	-	(1,159,452)	-	-
Total Assets	79,298,566	21,590,850	2,237,797	33,474,291	136,601,504
DEFERRED OUTFLOWS OF RESOURCES					
Excess consideration provided for acquisition	-	142,519	-	-	142,519
Deferred charges on refunding	108,285	26,584	62,513	12,132	209,514
Total Deferred Outflows of Resources	108,285	169,103	62,513	12,132	352,033
LIABILITIES AND NET POSITION					
Current Liabilities:					
Current maturities of long-term debt	910,257	295,000	330,000	627,130	2,162,387
Accounts payable	4,017,180	322,992	154,071	967,471	5,461,714
Customer deposits	1,288,243	237,926	-	169,139	1,695,308
Accrued interest	56,827	9,552	6,529	13,372	86,280
Other accrued liabilities	602,145	53,567	95,530	68,151	819,393
Total Current Liabilities	6,874,652	919,037	586,130	1,845,263	10,225,082
Other Liabilities:					
Advances from TVA	1,015,089	-	-	-	1,015,089
Long-term debt payable from special funds	144,743	-	-	-	144,743
OPEB liabilities, net	366,629	115,116	57,979	154,221	693,945
Compensated absences	302,833	72,625	30,066	80,494	486,018
Total Other Liabilities	1,829,294	187,741	88,045	234,715	2,339,795
Long-term debt	16,456,074	2,888,035	1,373,274	13,827,349	34,544,732
Total Liabilities	25,160,020	3,994,813	2,047,449	15,907,327	47,109,609
NET POSITION (DEFICIT)					
Net investment in capital assets	24,677,061	12,412,464	1,196,818	12,948,915	51,235,258
Restricted for debt service	1,975,895	-	-	-	1,975,895
Restricted for improvements and construction	-	-	-	127,563	127,563
Unrestricted	27,593,875	5,352,676	(943,957)	4,502,618	36,505,212
Total Net Position	$ 54,246,831	$ 17,765,140	$ 252,861	$ 17,579,096	$ 89,843,928

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2015

	Electric	Gas	Telecom	Water & Wastewater	Total
Operating Revenues:					
Charges for services	$ 44,919,622	$ 7,849,172	$ 3,620,547	$ 5,216,087	$ 61,605,428
Other	1,159,621	77,067	392,751	134,880	1,764,319
TOTAL OPERATING REVENUES	46,079,243	7,926,239	4,013,298	5,350,967	63,369,747
Operating Expenses:					
Cost of utility services	34,667,157	4,611,592	1,902,190	1,459,532	42,640,471
Pumping, distribution, and collection	3,452,816	691,780	562,900	642,417	5,349,913
Customer billing and collecting	732,836	231,797	131,264	171,533	1,267,430
General and administrative	940,560	445,466	236,587	487,489	2,110,102
Taxes and tax equivalents	239,345	-	180,548	-	419,893
Provision for depreciation	2,326,588	552,559	515,804	1,126,158	4,521,109
Other	144,756	94,830	49,590	31,298	320,474
TOTAL OPERATING EXPENSES	42,504,058	6,628,024	3,578,883	3,918,427	56,629,392
INCOME FROM OPERATIONS	3,575,185	1,298,215	434,415	1,432,540	6,740,355
Nonoperating revenues and (expense):					
Interest income	27,427	3,895	22	2,006	33,350
Interest expense	(710,106)	(122,594)	(31,513)	(226,267)	(1,090,480)
Amortization	(15,146)	(7,821)	(12,292)	713	(34,546)
Debt issuance costs	-	-	-	(8,235)	(8,235)
Loss on disposition of assets	-	(907)	-	(43,119)	(44,026)
Miscellaneous	(18,950)	7,514	19,560	1,298	9,422
NONOPERATING REVENUES (EXPENSE) - NET	(716,775)	(119,913)	(24,223)	(273,604)	(1,134,515)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	2,858,410	1,178,302	410,192	1,158,936	5,605,840
Capital contributions in aid of construction	340,768	252,467	9,978	1,250,007	1,853,220
Transfers out - taxes and tax equivalents	(811,562)	(254,547)	-	(169,473)	(1,235,582)
CHANGE IN NET POSITION	2,387,616	1,176,222	420,170	2,239,470	6,223,478
TOTAL NET POSITION (DEFICIT), AT BEGINNING OF YEAR	51,859,215	16,588,918	(167,309)	15,339,626	83,620,450
TOTAL NET POSITION, AT END OF YEAR	$ 54,246,831	$ 17,765,140	$ 252,861	$ 17,579,096	$ 89,843,928

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF CASH FLOWS
Year Ended June 30, 2015

	Electric	Gas	Telecom	Water & Wastewater	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	$ 46,252,542	$ 7,999,686	$ 3,988,793	$ 4,911,478	$ 63,152,499
Payments to suppliers and others	(36,760,752)	(5,284,667)	(2,721,959)	(1,664,864)	(46,432,242)
Payments to employees	(2,186,436)	(632,881)	(370,936)	(927,557)	(4,117,810)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,305,354	2,082,138	895,898	2,319,057	12,602,447
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Loans (to)/from other departments	270,257	-	(270,257)	-	-
Transfers to other funds - taxes and tax equivalents	(811,562)	(254,547)	-	(169,473)	(1,235,582)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(541,305)	(254,547)	(270,257)	(169,473)	(1,235,582)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Additions to capital assets, net	(3,401,780)	(1,075,925)	(397,927)	(6,111,509)	(10,987,141)
Removal costs of capital assets	(413,001)	(42,251)	(1,971)	(171,652)	(628,875)
Materials salvaged from retirements of capital assets	132,266	3,036	-	2,931	138,233
Acquisition of Ardmore gas operations	-	(602,000)	-	-	(602,000)
Capital contributions received	340,768	252,467	9,978	1,250,007	1,853,220
Long-term borrowings, net	-	-	-	5,098,294	5,098,294
Borrowings repaid	(1,025,000)	(290,000)	(325,000)	(579,092)	(2,219,092)
Issue costs paid	-	-	-	(8,235)	(8,235)
Interest paid, net	(712,668)	(123,319)	(32,325)	(282,130)	(1,150,442)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(5,079,415)	(1,877,992)	(747,245)	(801,386)	(8,506,038)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	27,398	3,893	22	2,006	33,319
Other nonoperating income (expense), net	(18,950)	7,514	19,560	1,298	9,422
NET CASH PROVIDED BY INVESTING ACTIVITIES	8,448	11,407	19,582	3,304	42,741
INCREASE (DECREASE) IN CASH, NET	1,693,082	(38,994)	(102,022)	1,351,502	2,903,568
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	24,806,607	5,102,007	276,331	3,647,754	33,832,699
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 26,499,689	$ 5,063,013	$ 174,309	$ 4,999,256	$ 36,736,267
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Income from operations	$ 3,575,185	$ 1,298,215	$ 434,415	$ 1,432,540	$ 6,740,355
Adjustments to reconcile income from operations to net cash provided by operating activities -					
Depreciation, including amounts capitalized	2,551,257	594,108	527,282	1,145,942	4,818,589
Depreciation allocated to / (from) other departments	24,765	(1,587)	(6,350)	(16,828)	-
Loss on disallowance of plant	340,768	-	-	-	340,768
Conservation loans advanced - customers	(204,546)	-	-	-	(204,546)
Conservation loans collected - customers	230,427	-	-	-	230,427
Conservation advances from TVA	251,697	-	-	-	251,697
Conservation advances repaid to TVA	(275,528)	-	-	-	(275,528)
Changes in operating assets and liabilities:					
Accounts and other receivables, net	89,507	28,116	(24,505)	(446,813)	(353,695)
Inventories	(37,601)	150,548	10,754	(12,755)	110,946
Prepaid expenses and other assets	242,123	16,260	(19,626)	9,635	248,392
Accounts payable	345,138	(85,773)	(45,140)	159,860	374,085
Accrued employee benefits	56,667	18,304	9,695	25,864	110,530
Customer deposits	57,910	45,331	-	7,325	110,566
Other current liabilities and compensated absences	57,585	18,616	9,373	14,287	99,861
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 7,305,354	$ 2,082,138	$ 895,898	$ 2,319,057	$ 12,602,447
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:					
Water interim certificates of indebtedness refinanced	$ -	$ -	$ -	$ 2,725,277	$ 2,725,277

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF OPERATING REVENUES

Year Ended June 30, 2015

	Electric	Gas	Telecom	Water & Wastewater	Total
Service Revenue:					
Residential	$ 26,325,360	$ 3,357,684	$ -	$ -	$ 29,683,044
Commercial and industrial	17,843,296	2,319,254	-	-	20,162,550
Public housing	-	154,303	-	-	154,303
Interruptible	-	2,021,222	-	-	2,021,222
Public street and outdoor lighting	847,249	-	-	-	847,249
Local network programming	-	-	2,250,194	-	2,250,194
Internet access	-	-	1,263,485	-	1,263,485
VOIP service	-	-	131,556	-	131,556
Water sales	-	-	-	2,952,117	2,952,117
Sewer charges	-	-	-	2,254,087	2,254,087
Fire hydrant	-	-	-	20,375	20,375
Uncollectible accounts	(96,283)	(3,291)	(24,688)	(10,492)	(134,754)
TOTAL	44,919,622	7,849,172	3,620,547	5,216,087	61,605,428
Other Operating Revenue:					
Late payment revenue	314,683	36,741	38,069	33,503	422,996
Rentals of property	710,538	-	329,635	-	1,040,173
Service charges	134,400	40,326	3,812	29,881	208,419
Other	-	-	21,235	71,496	92,731
TOTAL	1,159,621	77,067	392,751	134,880	1,764,319
TOTAL OPERATING REVENUE	$ 46,079,243	$ 7,926,239	$ 4,013,298	$ 5,350,967	$ 63,369,747

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF OPERATING EXPENSES

Year Ended June 30, 2015

	Electric	Gas	Telecom	Water & Wastewater	Total
Cost of Services:					
Purchased power and natural gas	$ 34,667,157	$ 4,611,592	$ -	$ -	$ 39,278,749
Programming and internet	-	-	1,902,190	-	1,902,190
Water source and treatment	-	-	-	801,336	801,336
Wastewater treatment	-	-	-	658,196	658,196
TOTAL	34,667,157	4,611,592	1,902,190	1,459,532	42,640,471
Pumping, distribution and collection:					
Supervision and engineering	145,658	-	53,397	4,067	203,122
Stations	164,118	67,625	-	141,628	373,371
Storage tanks		-	-	42,376	42,376
Distribution lines	1,696,648	309,494	378,982	206,213	2,591,337
Collection lines	-	-	-	80,025	80,025
Transformers	17,061	-	-	-	17,061
Street lighting and signals	18,316	-	-	-	18,316
Security lights	65,936	-	-	-	65,936
Meters	160,051	72,973	-	46,560	279,584
Customer installation	24,001	67,518	-	-	91,519
Rents	218,198	22,006	76,960	11,439	328,603
Loss on disallowance of plant	340,768	-	-	-	340,768
Other	602,061	152,164	53,561	110,109	917,895
TOTAL	3,452,816	691,780	562,900	642,417	5,349,913

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF OPERATING EXPENSES (CONTINUED)

Year Ended June 30, 2015

	Electric	Gas	Telecom	Water & Wastewater	Total
Customer billing and collecting:					
Meter reading	110,216	29,064	-	21,608	160,888
Customer records	271,707	92,658	51,990	68,529	484,884
Collection	350,913	110,075	79,274	81,396	621,658
TOTAL	732,836	231,797	131,264	171,533	1,267,430
General and administrative:					
Salaries	503,808	296,225	166,078	287,287	1,253,398
Office expense	59,000	39,295	17,087	32,655	148,037
Outside services	80,904	29,626	13,985	17,532	142,047
Insurance	112,786	45,981	26,007	131,012	315,786
Advertising and promotion	54,796	19,147	2,631	7,468	84,042
Maintenance	28,290	8,831	6,462	4,666	48,249
Other	100,976	6,361	4,337	6,869	118,543
TOTAL	940,560	445,466	236,587	487,489	2,110,102
Taxes & Tax Equivalents	239,345	-	180,548	-	419,893
Provision for Depreciation	2,326,588	552,559	515,804	1,126,158	4,521,109
Other Operating Expense:					
Customer service	123,561	32,674	5,081	31,150	192,466
Dues and contributions	-	-	13,514	-	13,514
Selling and advertising	21,195	62,156	30,995	148	114,494
TOTAL	144,756	94,830	49,590	31,298	320,474
TOTAL OPERATING EXPENSES	$ 42,504,058	$ 6,628,024	$ 3,578,883	$ 3,918,427	$ 56,629,392

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF PLANT AND EQUIPMENT - ELECTRIC

June 30, 2015

	COST					ACCUMULATED DEPRECIATION			
	Balance 6/30/2014	Additions	Retirements	Balance 6/30/2015	Depr. Rates	Balance 6/30/2014	Provisions	Retirements & Adjustments	Balance 6/30/2015
Transmission plant:									
Land and land rights	$ 1,726	$ -	$ -	$ 1,726		$ -	$ -	$ -	$ -
Substation equipment	24,758	-	-	24,758	4%	23,457	990	-	24,447
Overhead conducters and devices	418,951	10,573	10,734	418,790	2	178,176	8,379	13,446	173,109
TOTAL TRANSMISSION PLANT	445,435	10,573	10,734	445,274		201,633	9,369	13,446	197,556
Distribution plant:									
Land and land rights	266,922	-	-	266,922		-	-	-	-
Structures and improvements	122,390	-	-	122,390	4	115,119	4,895	-	120,014
Station equipment	14,973,088	4,234	-	14,977,322	4	10,034,462	626,280	-	10,660,742
Poles and fixtures	19,544,600	1,373,809	350,349	20,568,060	3.5	6,003,051	697,237	604,979	6,095,309
Overhead lines	8,341,843	510,147	29,429	8,822,561	2	2,147,268	167,328	24,411	2,290,185
Underground conduit	264,024	6,147	455	269,716	3	119,915	7,967	806	127,076
Underground conductor	821,643	35,557	2,421	854,779	3	276,871	25,185	4,456	297,600
Line transformers	8,797,783	339,084	157,880	8,978,987	2	2,255,818	178,681	152,322	2,282,177
Services	3,595,838	185,734	29,036	3,752,536	4.75	1,861,482	174,306	56,151	1,979,637
Meters and meter equipment	3,001,587	90,337	64,069	3,027,855	2.75	685,823	83,147	71,011	697,959
Consumer security lights	1,453,767	134,501	76,212	1,512,056	10	564,930	147,488	101,495	610,923
Street lighting and signal systems	612,379	27,710	15,348	624,741	12	611,369	12,366	17,591	606,144
TOTAL DISTRIBUTION PLANT	61,795,864	2,707,260	725,199	63,777,925		24,676,108	2,124,880	1,033,222	25,767,766
General plant:									
Land and land rights	350,706	-	-	350,706		-	-	-	-
Structures and improvements	3,101,361	9,800	7,995	3,103,166	2.5 & 4	1,513,991	81,161	7,995	1,587,157
Office furniture and fixtures	1,153,077	72,183	-	1,225,260	4, 10, 14.5	1,131,671	56,374	-	1,188,045
Transportation equipment	2,167,829	427,285	162,595	2,432,519	10-25	1,138,159	192,222	132,595	1,197,786
Stores equipment	103,184	-	-	103,184	4 & 10	103,185	-	-	103,185
Tools, shop and garage equipment	361,857	25,609	-	387,466	10	250,721	37,961	-	288,682
Laboratory equipment	88,881	-	-	88,881	8	87,219	1,662	-	88,881
Power operated equipment	592,733	136,980	-	729,713	6-14	325,992	32,447	-	358,439
Communications equipment	390,832	-	-	390,832	15	354,287	36,545	-	390,832
Miscellaneous equipment	28,995	5,480	-	34,475	10	25,885	3,401	-	29,286
TOTAL GENERAL PLANT	8,339,455	677,337	170,590	8,846,202		4,931,110	441,773	140,590	5,232,293
TOTAL PLANT IN SERVICE	70,580,754	3,395,170	906,523	73,069,401		$ 29,808,851	$ 2,576,022	$ 1,187,258	$ 31,197,615
Construction in progress	650,507	2,822,548	3,156,706	316,349					
	$ 71,231,261	$ 6,217,718	$ 4,063,229	$ 73,385,750					

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF PLANT AND EQUIPMENT - GAS

June 30, 2015

	Balance 6/30/2014	Additions	Retirements	Reclassifications	Balance 6/30/2015
UTILITY PLANT AND EQUIPMENT IN SERVICE:					
Land and land rights	$ 4,720	$ -	$ -	$ -	$ 4,720
Land and land rights	177,269	-	-	-	177,269
Structure and improvements	621,549	-	-	(604,306)	17,243
Regulator stations	907,880	-	-	604,306	1,512,186
Mains	14,712,475	1,342,139	55,292	-	15,999,322
Pumping and regulating equipment	326,404	21,907	6,907	-	341,404
Pumping and regulating equipment	76,084	-	-	-	76,084
Services	2,375,268	349,617	12,468	-	2,712,417
Meters	1,410,053	191,195	92,424	-	1,508,824
Meters	-	-	-	-	-
Office furniture and equipment	70,508	-	-	-	70,508
Computer equipment	147,817	722	-	-	148,539
Transportation	873,005	34,186	-	-	907,191
Tools and work equipment	382,791	3,189	1,265	-	384,715
Communication equipment	95,586	-	-	-	95,586
	22,181,409	$ 1,942,955	$ 168,356	$ -	23,956,008
ACCUMULATED DEPRECIATION	(7,897,921)				(8,444,369)
	14,283,488				15,511,639
CONSTRUCTION IN PROGRESS	336,043				83,860
TOTAL UTILITY PLANT AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION	$ 14,619,531				$ 15,595,499

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF PLANT AND EQUIPMENT - TELECOM

June 30, 2015

	COST						ACCUMULATED DEPRECIATION			
	Balance 6/30/2014	Additions	Retirements	Reclassifications	Balance 6/30/2015	Depr. Rates	Balance 6/30/2014	Provisions	Retirements & Adjustments	Balance 6/30/2015
Distribution plant:										
Aerial hdwe., broadband hdwe., eng. & design	$ 3,939,322	$ 19,305	$ 15,327	$ (42,700)	$ 3,900,600	2.5 & 5	$ 1,630,082	$ 148,376	$ 15,465	$ 1,762,993
Customer equip., installation labor, and materials	1,955,335	144,976	22,314	42,700	2,120,697	6.7 & 20	1,640,874	141,906	24,146	1,758,634
Headend electronics, equip., and production equip.	2,068,069	192,885	388,233	-	1,872,721	10	2,059,412	153,823	388,234	1,825,001
Headend site, towers, antennae, and earth stns.	440,509	-	-	-	440,509	2.5 & 6.7	171,295	13,549	-	184,844
Vehicles	170,058	-	-	-	170,058	20	82,390	11,478	-	93,868
TOTAL DISTRIBUTION PLANT	8,573,293	357,166	425,874	-	8,504,585		5,584,053	469,132	427,845	5,625,340
General plant:										
Tools and test equipment	102,462	6,122	-	-	108,584	10	102,462	5,429	-	107,891
Communications equipment	10,221	-	-	-	10,221	15	6,558	1,022	-	7,580
Office furniture and fixtures	320,900	23,683	5,000	-	339,583	5	292,677	45,349	5,000	333,026
TOTAL GENERAL PLANT	433,583	29,805	5,000	-	458,388		401,697	51,800	5,000	448,497
TOTAL PLANT IN SERVICE	9,006,876	386,971	430,874	-	8,962,973		$ 5,985,750	$ 520,932	$ 432,845	$ 6,073,837
Construction in progress	-	143,555	132,599	-	10,956					
	$ 9,006,876	$ 530,526	$ 563,473	$ -	$ 8,973,929					

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF PLANT AND EQUIPMENT - WATER

June 30, 2015

	COST					ACCUMULATED DEPRECIATION			
	Balance 6/30/2014	Additions	Retirements	Balance 6/30/2015	Depr. Rates	Balance 6/30/2014	Provisions	Retirements & Adjustments	Balance 6/30/2015
General Plant									
Office equipment	$ 8,212	$ 1,444	$ -	$ 9,656	5 - 20%	$ 3,877	$ 1,314	$ -	$ 5,191
Transportation equipment	747,806	-	-	747,806	5 - 20%	657,051	19,783	-	676,834
Maintenance equipment	217,731	19,175	-	236,906	2.5 - 33%	89,260	19,343	-	108,603
Communication equipment	33,106	-	-	33,106	20%	31,879	1,227	-	33,106
Water Plant									
Land and land rights	69,357	-	-	69,357		-	-	-	-
Treatment plant	4,545,095	20,037	-	4,565,132	2.5 - 20%	3,689,297	126,667	-	3,815,964
Pumps and storage	1,883,689	1,082,079	65,508	2,900,260	2.5 - 20%	636,957	52,746	61,293	628,410
Distribution equipment	9,504,327	251,007	8,507	9,746,827	2.5 - 10%	4,628,733	277,172	9,242	4,896,663
Services	410,409	101,798	2,247	509,960	10%	161,249	45,921	5,761	201,409
Meter equipment	675,701	95,616	27,798	743,519	5%	127,065	35,803	25,125	137,743
Wastewater Plant									
Land and land rights	17,170	-	-	17,170		-	-	-	-
Treatment plant	6,204,974	67,498	-	6,272,472	2.5 - 20%	3,367,536	233,139	-	3,600,675
Lift stations	2,353,509	-	-	2,353,509	2.5 - 10%	448,461	82,218	-	530,679
Collection equipment	8,708,785	2,912,624	536,852	11,084,557	2.50%	3,073,421	223,299	656,336	2,640,384
Services	292,617	752,469	38,238	1,006,848	2.5 - 5%	144,610	10,482	46,997	108,095
	35,672,488	5,303,747	679,150	40,297,085		$ 17,059,396	$ 1,129,114	$ 804,754	$ 17,383,756
Construction in Progress	3,554,740	5,910,801	5,103,039	4,362,502					
	$ 39,227,228	$ 11,214,548	$ 5,782,189	$ 44,659,587					

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS

June 30, 2015

Year Ending	Electric		Gas		Telecom		Water		Total	
	Total All Debt		Series 2009		Series 2011		Total All Debt			
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 1,055,000	$ 681,919	$ 295,000	$ 114,620	$ 330,000	$ 26,115	$ 627,130	$ 311,453	$ 2,307,130	$ 1,134,107
2017	1,085,000	650,269	300,000	105,768	335,000	22,320	629,398	294,585	2,349,398	1,072,942
2018	1,120,000	616,363	300,000	95,270	340,000	17,965	656,232	276,727	2,416,232	1,006,325
2019	1,160,000	578,562	310,000	84,768	345,000	12,865	683,221	258,012	2,498,221	934,207
2020	1,200,000	536,512	315,000	74,694	350,000	7,000	679,813	239,882	2,544,813	858,088
2021	1,245,000	491,512	310,000	63,668	-	-	342,687	219,934	1,897,687	775,114
2022	1,295,000	441,712	320,000	52,432	-	-	350,174	212,447	1,965,174	706,591
2023	1,345,000	389,499	330,000	40,432	-	-	357,845	204,776	2,032,845	634,707
2024	1,405,000	334,238	325,000	27,232	-	-	365,171	197,450	2,095,171	558,920
2025	1,525,000	276,050	345,000	14,232	-	-	294,309	189,226	2,164,309	479,508
2026	1,600,000	212,762	-	-	-	-	220,918	183,530	1,820,918	396,292
2027	1,675,000	145,562	-	-	-	-	226,334	178,114	1,901,334	323,676
2028	1,750,000	74,375	-	-	-	-	231,423	173,025	1,981,423	247,400
2029	-	-	-	-	-	-	237,569	166,879	237,569	166,879
2030	-	-	-	-	-	-	243,421	161,027	243,421	161,027
2031	-	-	-	-	-	-	249,422	155,026	249,422	155,026
2032	-	-	-	-	-	-	255,171	149,277	255,171	149,277
2033	-	-	-	-	-	-	261,899	142,549	261,899	142,549
2034	-	-	-	-	-	-	268,396	136,052	268,396	136,052
2035	-	-	-	-	-	-	237,253	129,580	237,253	129,580
2036	-	-	-	-	-	-	239,810	123,562	239,810	123,562
2037	-	-	-	-	-	-	246,669	116,704	246,669	116,704
2038	-	-	-	-	-	-	253,380	109,992	253,380	109,992
2039	-	-	-	-	-	-	260,278	103,094	260,278	103,094
2040	-	-	-	-	-	-	267,107	96,265	267,107	96,265
2041	-	-	-	-	-	-	274,647	88,725	274,647	88,725
2042	-	-	-	-	-	-	282,135	81,237	282,135	81,237
2043	-	-	-	-	-	-	289,832	73,540	289,832	73,540
2044	-	-	-	-	-	-	297,566	65,806	297,566	65,806
2045	-	-	-	-	-	-	305,867	57,505	305,867	57,505
2046	-	-	-	-	-	-	314,224	49,148	314,224	49,148
2047	-	-	-	-	-	-	322,813	40,559	322,813	40,559
2048	-	-	-	-	-	-	331,560	31,812	331,560	31,812
2049	-	-	-	-	-	-	340,714	22,658	340,714	22,658
2050	-	-	-	-	-	-	350,042	13,330	350,042	13,330
2051	-	-	-	-	-	-	231,886	4,918	231,886	4,918
2052	-	-	-	-	-	-	43,854	190	43,854	190
	$ 17,460,000	$ 5,429,335	$ 3,150,000	$ 673,116	$ 1,700,000	$ 86,265	$ 12,070,170	$ 5,058,596	$ 34,380,170	$ 11,247,312

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS - ELECTRIC

June 30, 2015

Year Ending	Series 2007		Series 2009		Total Electric	
June 30,	Principal	Interest	Principal	Interest	Total Principal	Total Interest
2016	$ -	$ 414,725	$ 1,055,000	$ 267,194	$ 1,055,000	$ 681,919
2017	-	414,725	1,085,000	235,544	1,085,000	650,269
2018	-	414,725	1,120,000	201,638	1,120,000	616,363
2019	-	414,725	1,160,000	163,837	1,160,000	578,562
2020	-	414,725	1,200,000	121,787	1,200,000	536,512
2021	775,000	414,725	470,000	76,787	1,245,000	491,512
2022	825,000	383,725	470,000	57,987	1,295,000	441,712
2023	875,000	350,312	470,000	39,187	1,345,000	389,499
2024	925,000	314,438	480,000	19,800	1,405,000	334,238
2025	1,525,000	276,050	-	-	1,525,000	276,050
2026	1,600,000	212,762	-	-	1,600,000	212,762
2027	1,675,000	145,562	-	-	1,675,000	145,562
2028	1,750,000	74,375	-	-	1,750,000	74,375
	$ 9,950,000	$ 4,245,574	$ 7,510,000	$ 1,183,761	$ 17,460,000	$ 5,429,335

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS - WATER

June 30, 2015

Year Ending June 30,	Series 2009 Principal	Series 2009 Interest	TDOT Utility Reloc Loan Principal	TDOT Utility Reloc Loan Interest	State Revolving Fund Loan CWO 2013-315 Principal	State Revolving Fund Loan CWO 2013-315 Interest
2016	$ 320,000	$ 55,962	$ 133,829	$ 24,344	$ 33,036	$ 8,040
2017	315,000	46,362	136,326	21,847	33,420	7,656
2018	335,000	35,338	138,869	19,304	33,816	7,260
2019	355,000	23,612	141,460	16,713	34,212	6,864
2020	345,000	12,074	144,100	14,073	34,620	6,456
2021	-	-	146,788	11,385	35,028	6,048
2022	-	-	149,527	8,646	35,436	5,640
2023	-	-	152,317	5,856	35,856	5,220
2024	-	-	155,159	3,014	36,276	4,800
2025	-	-	78,662	425	36,696	4,380
2026	-	-	-	-	37,128	3,948
2027	-	-	-	-	37,572	3,504
2028	-	-	-	-	38,016	3,060
2029	-	-	-	-	38,460	2,616
2030	-	-	-	-	38,916	2,160
2031	-	-	-	-	39,372	1,704
2032	-	-	-	-	39,828	1,248
2033	-	-	-	-	40,308	768
2034	-	-	-	-	40,788	288
2035	-	-	-	-	3,461	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
2045	-	-	-	-	-	-
2046	-	-	-	-	-	-
2047	-	-	-	-	-	-
2048	-	-	-	-	-	-
2049	-	-	-	-	-	-
2050	-	-	-	-	-	-
2051	-	-	-	-	-	-
2052	-	-	-	-	-	-
	$ 1,670,000	$ 173,348	$ 1,377,037	$ 125,607	$ 702,245	$ 81,660

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS - WATER (CONTINUED)

June 30, 2015

Year Ending June 30,	RUS Phase I Series 2008 Principal	RUS Phase I Series 2008 Interest	RUS Phase II Series 2009 Principal	RUS Phase II Series 2009 Interest	Total Water Total Principal	Total Water Total Interest
2016	$ 64,015	$ 75,845	$ 76,250	$ 147,262	$ 627,130	$ 311,453
2017	65,678	74,182	78,974	144,538	629,398	294,585
2018	67,171	72,689	81,376	142,136	656,232	276,727
2019	68,698	71,162	83,851	139,661	683,221	258,012
2020	70,069	69,791	86,024	137,488	679,813	239,882
2021	71,853	68,007	89,018	134,494	342,687	219,934
2022	73,486	66,374	91,725	131,787	350,174	212,447
2023	75,157	64,703	94,515	128,997	357,845	204,776
2024	76,693	63,167	97,043	126,469	365,171	197,450
2025	78,609	61,251	100,342	123,170	294,309	189,226
2026	80,396	59,464	103,394	120,118	220,918	183,530
2027	82,224	57,636	106,538	116,974	226,334	178,114
2028	83,940	55,920	109,467	114,045	231,423	173,025
2029	86,001	53,859	113,108	110,404	237,569	166,879
2030	87,956	51,904	116,549	106,963	243,421	161,027
2031	89,956	49,904	120,094	103,418	249,422	155,026
2032	91,870	47,990	123,473	100,039	255,171	149,277
2033	94,089	45,771	127,502	96,010	261,899	142,549
2034	96,228	43,632	131,380	92,132	268,396	136,052
2035	98,416	41,444	135,376	88,136	237,253	129,580
2036	100,546	39,314	139,264	84,248	239,810	123,562
2037	102,939	36,921	143,730	79,783	246,669	116,704
2038	105,279	34,581	148,101	75,411	253,380	109,992
2039	107,672	32,188	152,606	70,906	260,278	103,094
2040	110,040	29,820	157,067	66,445	267,107	96,265
2041	112,622	27,238	162,025	61,487	274,647	88,725
2042	115,182	24,678	166,953	56,559	282,135	81,237
2043	117,801	22,059	172,031	51,481	289,832	73,540
2044	120,427	19,433	177,139	46,373	297,566	65,806
2045	123,216	16,644	182,651	40,861	305,867	57,505
2046	126,017	13,843	188,207	35,305	314,224	49,148
2047	128,882	10,978	193,931	29,581	322,813	40,559
2048	131,792	8,068	199,768	23,744	331,560	31,812
2049	134,808	5,052	205,906	17,606	340,714	22,658
2050	137,873	1,987	212,169	11,343	350,042	13,330
2051	13,264	28	218,622	4,890	231,886	4,918
2052	-	-	43,854	190	43,854	190
	$ 3,390,865	$ 1,517,527	$ 4,930,023	$ 3,160,454	$ 12,070,170	$ 5,058,596

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF ELECTRIC UTILITY RATES IN EFFECT

June 30, 2015

Residential

Customer Charge	$21.10 per month
Energy Charge	7.135 cents per KWH per month
TVA Total Monthly Fuel Cost	2.262 cents per KWH

General Services

LESS THAN 50 KW

Customer Charge	$35.15 per month
Energy Charge	8.177 cents per KWH
TVA Total Monthly Fuel Cost	2.227 cents per KWH

51 KW TO 1,000 KW

Customer Charge	$175.00 per month
Demand Charge	First 50 KW of billing demand per month at $1 per KW, excess over 50 KW of billing demand per month at $15.01 per KW.
Energy Charge	First 15,000 KWH at 8.164 cents per KWH. Additional KWH at 4.219 cents per KWH
TVA Total Monthly Fuel Cost	First 15,000 KWH at 2.227 cents per KWH. Additional KWH at 2.188 cents per KWH

1,001 KW TO 5,000 KW

Customer Charge	$400.00 per month
Demand Charge	First 1,000 KW of metered demand at $15.87 per KW, excess over 1,000 KW of billing demand per month at $18.11.
Energy Charge	3.996 cents per KWH.
TVA Total Monthly Fuel Cost	2.188 cents per KWH

General Services - Manufacturing Rates

5,001 KW TO 15,000 KW

Customer Charge	$1,850 per delivery point
Demand Charge	$19.65 per KW of billing demand, plus an additional $19.65 per KW per month for each KW of the amount by which the customer's billing demand exceeds contract demand.
Energy Charge	1.872 cents per KWH.
TVA Total Monthly Fuel Cost	2.175 cents per KWH

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF GAS UTILITY RATES IN EFFECT

June 30, 2015

Residential		
Monthly minimum	$	5.00
Per ccf consumed per month		1.12
General Commercial and Industrial *(Average usage under 500 ccf per day)*		
Monthly minimum	$	5.66
Per ccf consumed per month		1.17
General Commercial and Industrial		
Monthly minimum	$	5.66
Per ccf consumed per month		1.053
Housing Authority		
Monthly minimum	$	5.00
Per ccf consumed per month		1.036
Interruptible Service		
Per ccf consumed per month	$	0.435

Note: ccf represents 100 cubic feet.

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF TELECOM RATES IN EFFECT

June 30, 2015

Cable TV Services	
Budget Basic	$ 26.50
Basic Plus	57.25
Basic Digital	72.00
Digital Service with DVR only	77.00
Digital Service with HD only	73.00
Complete Digital Package	78.00
Digital Premium Channels	
HBO	12.95
Cinemax	10.95
HBO/Cinemax package	19.95
Showtime/Movie Channel/FLIX package	14.95
Encore	7.95
Encore/Starz package	11.95
Additional Cable Equipment Available	
Digital Receiver	6.00
DVR	10.50
HD & DVR with multi channel recording	11.50
Analog Converter	1.50
Inside Wire Maintenance	2.00
Internet Services	
3 Meg	$ 41.99
5 Meg	61.99
10 Meg	74.59
13 Meg	43.99
15 Meg	63.99
17 Meg	76.59
Cable modem *(may be purchased for $50.00)*	5.00
VOIP Phone Services	
Unlimited service	$ 45.95
Basic service	43.95
With internet and cable	
Unlimited service	30.95
Basic service	28.95
With internet or cable	
Unlimited service	35.95
Basic service	33.95

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF WATER AND WASTEWATER UTILITY RATES IN EFFECT

June 30, 2015

	RESIDENTIAL		COMMERCIAL				WHOLESALE	
	Inside City	Outside City	Inside City	Outside City	Industrial	Frito Lay	With Contracts	Without Contracts
Water Rates								
First 100 cubic feet	$ 9.18	$ 11.94	$ 10.10	$ 13.13	$ 9.64	$ 10.10	$ 9.54	$ 9.84
All over 100 cubic feet*	3.90	5.07						
Next 900 cubic feet*			4.30	5.59	4.10	4.30	4.00	4.30
All over 1,000 cubic feet*			3.15	4.11	3.10		3.00	3.30
Next 119,000 cubic feet*						3.44		
All over 120,000 cubic feet*						2.29		
Wastewater Rates								
First 100 cubic feet	14.09	16.22	16.07		16.07			
All over 100 cubic feet*	5.99	6.89	6.83		6.83			

**Per 100 Cubic Feet*

Number of water and wastewater customers at June 30,

	2015	2014
Water	4,543	4,514
Wastewater	3,478	3,472

FAYETTEVILLE PUBLIC UTILITIES
ADMINISTRATION

June 30, 2015

The affairs of the System are administered by the Board of Public Utilities of the City of Fayetteville, Tennessee. The following individuals constitute the board at June 30, 2015:

Michael Whisenant	Fayetteville, Tennessee	Project Manager
Micky Lawson	Fayetteville, Tennessee	Merchant
William Hurd	Fayetteville, Tennessee	Retired Procurement Specialist
Glenn Oldham	Fayetteville, Tennessee	Insurance
Paul Richardson	Fayetteville, Tennessee	Realtor/Insurance Agent
Linda Schoenrock	Fayetteville, Tennessee	Owner/Whole Foods Farmacy
Janine Wilson	Fayetteville, Tennessee	Educator

Ex-Officio

John Ed Underwood	Fayetteville, Tennessee	Mayor

The officers and CEO/general manager elected by the board are as follows:

Janine Wilson	Chairman
William Hurd	Vice Chairman
Glenn Oldham	Secretary/Treasurer
Britt Dye	CEO/General Manger

OTHER INFORMATION

FAYETTEVILLE PUBLIC UTILITIES
ELECTRIC DEPARTMENT STATISTICAL DATA - UNAUDITED
June 30, 2015

Schedule of power sold, used by the System and line losses expressed in KWH's for the past five years ended June 30, are as follows:

	2015	2014	2013	2012	2011
Total power sales	442,354,190	444,002,237	425,169,605	420,137,961	447,769,391
Line Losses	25,307,967	20,191,401	20,318,051	21,153,514	21,151,097
Total power purchased	467,662,157	464,193,638	445,487,656	441,291,475	468,920,488
Percent of line losses to power purchased	5.41%	4.35%	4.56%	4.79%	4.51%

Breakdown of power sales by consumer classification expressed in KWH's is as follows:

	2015	2014	2013	2012	2011
Residential or Domestic	244,092,067	250,412,738	240,294,576	232,338,047	258,063,929
Commercial	34,168,948	34,019,848	33,232,899	33,386,270	33,618,385
Industrial	158,335,394	153,846,782	145,891,953	148,670,515	150,446,312
Street and outdoor lights	5,757,781	5,722,869	5,750,177	5,743,129	5,640,765
TOTAL POWER SALES	442,354,190	444,002,237	425,169,605	420,137,961	447,769,391

Average sale price per KWH and purchase price per KWH is as follows:

	2015	2014	2013	2012	2011
Average sale price, cents per KWH	10.1625	10.2392	10.3297	10.0114	10.0207
Average purchase price cents per KWH	7.4129	7.4321	7.4044	7.3097	7.3596
Percent of purchase price to sales price	72.94%	72.58%	71.68%	73.01%	73.44%
Number of customers as of June 30:					
Electric department	18,028	17,925	17,939	17,963	17,740
Telecom department-Cable	3,202	3,196	3,158	3,145	3,182
Telecom department-Internet	2,236	2,098	2,026	1,967	1,886
Telecom department-Phone	296	272	268	221	166

FAYETTEVILLE PUBLIC UTILITIES

GAS DEPARTMENT STATISTICAL DATA - UNAUDITED

June 30, 2015

	AVERAGE NUMBER OF CUSTOMERS				
			Increase	Percent	
	2015	2014	(Decrease)	2015	2014
CLASSIFICATION OF CUSTOMERS					
Residential	5,204	5,070	134	84.04 %	84.23 %
Public housing	258	259	(1)	4.17 %	4.30 %
Commercial/Industrial	723	683	40	11.68 %	11.35 %
Interruptible	7	7	-	0.11 %	0.12 %
Total	6,192	6,019	173	100.00 %	100.00%
	MCF SOLD				
CLASSIFICATION OF CUSTOMERS					
Residential	251,607	264,345	(12,738)	30.18 %	31.64 %
Public housing	12,380	13,186	(806)	1.48 %	1.58 %
Commercial/Industrial	181,202	175,604	5,598	21.73 %	21.02 %
Interruptible	388,510	382,245	6,265	46.60 %	45.76 %
Total	833,699	835,380	(1,681)	100.00%	100.00%

The gas department had 6,193 and 5,978 customers at June 30, 2015 and 2014, respectively.

AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0

? Click to access definition
+ Click to add a comment

Water Audit Report for: Fayetteville Public Utilities (0000242)
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.

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

Master Meter and Supply Error Adjustments

WATER SUPPLIED

	Grading	Volume		Pcnt	Value	
Volume from own sources:	10	741.420	MG/Yr	1.00%		MG/Yr
Water Imported:	n/a		MG/Yr			MG/Yr
Water exported:	10	159.980	MG/Yr	-0.90%		MG/Yr

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

WATER SUPPLIED: 572.647 MG/Yr

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

	Grading	Volume		Pcnt	Value	
Billed metered:	10	422.436	MG/Yr			
Billed unmetered:	n/a		MG/Yr			
Unbilled metered:	9	11.153	MG/Yr			
Unbilled unmetered:	8	14.261	MG/Yr		14.261	MG/Yr

Unbilled Unmetered volume entered is greater than the recommended default value

Use buttons to select percentage of water supplied OR value

AUTHORIZED CONSUMPTION: 447.850 MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption) 124.797 MG/Yr

Apparent Losses

	Grading	Volume		Pcnt	Value	
Unauthorized consumption:		1.432	MG/Yr	0.25%		MG/Yr

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

	Grading	Volume		Pcnt	Value	
Customer metering inaccuracies:	7	8.849	MG/Yr	2.00%		MG/Yr
Systematic data handling errors:		1.056	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: 11.336 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 113.460 MG/Yr

WATER LOSSES: 124.797 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 150.211 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

	Grading	Volume	
Length of mains:	5	142.1	miles
Number of active AND inactive service connections:	7	4,990	
Service connection density:		35	conn./mile main

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

Average length of customer service line: (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

	Grading	Volume	
Average operating pressure:	3	76.2	psi

COST DATA

	Grading	Volume	
Total annual cost of operating water system:	10	$2,597,758	$/Year
Customer retail unit cost (applied to Apparent Losses):	10	$4.18	$/100 cubic feet (ccf)
Variable production cost (applied to Real Losses):	10	$2,466.55	$/Million gallons

☐ Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 90 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: Unauthorized consumption
2: Systematic data handling errors
3: Customer metering inaccuracies

AWWA Free Water Audit Software:

WAS v5.0

System Attributes and Performance Indicators

Water Audit Report for: Fayetteville Public Utilities (0000242)
Reporting Year: 2015 | 7/2014 - 6/2015

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 90 out of 100 ***

System Attributes:

	Apparent Losses:	11.336	MG/Yr
+	Real Losses:	113.460	MG/Yr
=	**Water Losses:**	**124.797**	MG/Yr
?	Unavoidable Annual Real Losses (UARL):	42.21	MG/Yr
	Annual cost of Apparent Losses:	$63,346	
	Annual cost of Real Losses:	$279,855	Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:	Non-revenue water as percent by volume of Water Supplied:	26.2%	
	Non-revenue water as percent by cost of operating system:	15.6%	Real Losses valued at Variable Production Cost
Operational Efficiency:	Apparent Losses per service connection per day:	6.22	gallons/connection/day
	Real Losses per service connection per day:	62.29	gallons/connection/day
	Real Losses per length of main per day*:	N/A	
	Real Losses per service connection per day per psi pressure:	0.82	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL):	113.46	million gallons/year
? Infrastructure Leakage Index (ILI) [CARL/UARL]:	2.69	

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

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INDEPENDENT AUDITORS' 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*

Board of Public Utilities
City of Fayetteville
Fayetteville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Fayetteville Public Utilities (the "System") as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon, dated December 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Putman & Hancock

Fayetteville, Tennessee
December 11, 2015

SINGLE AUDIT

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor	CFDA Number	Grant/Project/ Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
Federal Awards						
U. S. Department of Agriculture	10.760	Phase II	$ (86,469)	$ 2,715,903	$ 3,270,844	$ (641,410)
	10.760	Phase IV	-	6,000	6,000	-
Total Program 10.760			(86,469)	2,721,903	3,276,844	(641,410)
U.S. Dept. of Homeland Security /						
TN Emergency Management Agency	97.036	PW No. FERH03F	(24,235)	-	-	(24,235)
	97.036	PW No. FERH02F	(1,049)	-	-	(1,049)
	97.036	PW No. FERH01A	(3,113)	-	-	(3,113)
Total Program 97.036			(28,397)	-	-	(28,397)
Environmental Protection Agency /						
TN Dept of Environment and Conservation	66.458	CW0 2013-315	(63,059)	63,059	-	-
	66.458	CG1 2013-316	(678,544)	2,170,756	1,622,530	(130,318)
	66.458	CG2 2015-351	-	-	66,134	(66,134)
Total Program 66.458			(741,603)	2,233,815	1,688,664	(196,452)
Total Federal Awards			(856,469)	4,955,718	4,965,508	(866,259)
State Financial Assistance						
TN Dept. of Environment and Conservation	N/A	CW0 2013-315	(105,108)	105,108	-	-
	N/A	CG1 2013-316	(135,741)	434,256	324,578	(26,063)
	N/A	CG2 2015-351	-	-	13,227	(13,227)
Total State Awards			(240,849)	539,364	337,805	(39,290)
Total Federal & State Awards			$ (1,097,318)	$ 5,495,082	$ 5,303,313	$ (905,549)

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE (CONTINUED)
Year Ended June 30, 2015

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Fayetteville Public Utilities under programs of the federal and state government for the year ended June 30, 2015. The schedule is presented using the accrual basis of accounting.

NOTE B - DEBT OUTSTANDING

In the current year, the System issued a revenue and tax bond in the amount of $4,980,000 through the U.S. Department of Agriculture (USDA) Rural Utilities Service (RUS) to finance various improvements in the water and wastewater system and to refinance interim certificates of indebtedness. The balance at June 30, 2015 was $4,930,023.

In the current year, the System entered into a loan agreement in the amount of $1,900,000 through the U.S. Department of Agriculture (USDA) Rural Utilities Service (RUS) to finance various improvements in the water and wastewater system. Advances in the form of interim certificates of indebtedness totaled $6,000 at June 30, 2015.

At June 30, 2015, there was an outstanding balance of $3,396,065 on loans obtained in previous years through the U. S. Department of Agriculture (USDA) Rural Utilities Service (RUS). Payments during the current year totaled $112,772.

In the current year, the System entered into two loan agreements through the Tennessee Department of Environment and Conservation State Revolving Fund Loan Program for $4,000,000 and $1,700,000 to finance the cost of certain improvements to the water and wastewater system. A portion of this financing is funded through the Environmental Protection Agency (EPA). The system had received no advances on these loans at June 30, 2015.

At June 30, 2015, there were outstanding balances totaling $3,046,756 on loans obtained through the Tennessee Department of Environment and Conservation State Revolving Fund Loan Program in previous years. A portion of this financing is funded through the Environmental Protection Agency (EPA). Payments during the current year totaled $29,942.

NOTE C - COMMITMENTS

At June 30, 2015, the System had outstanding commitments totaling $8,950,587 for engineering services and water and wastewater plant upgrade contracts.

NOTE D - SUBSEQUENT EVENTS

Subsequent to year end, the System obtained a $133,334 Rural Economic Development Loan and Grant (REDLG) through the Rural Business Office of the USDA at zero percent interest rate. This financing was passed to Lincoln County in exchange for a promissory note of equal amount to assist in financing the purchase of two ambulances.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Public Utilities
City of Fayetteville
Fayetteville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Fayetteville Public Utilities' (the "System's") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended June 30, 2015. The System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Putman & Hancock

Fayetteville, Tennessee
December 11, 2015

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the Fayetteville Public Utilities.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' 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.*

3. No instances of noncompliance material to the financial statements of the Fayetteville Public Utilities were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.

5. The auditors' report on compliance for the major federal award programs for Fayetteville Public Utilities expresses an unmodified opinion on all major federal programs.

6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

7. The programs tested as major programs included:
   Water and Waste Disposal Systems for Rural Communities, CFDA #10.760

8. The threshold used for distinguishing between Type A and B programs was $300,000.

9. The Fayetteville Public Utilities did qualify as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2015

Financial Statement Findings

There were no prior year findings reported.

Federal Award Findings and Questioned Costs

There were no prior year findings and questioned costs reported.