

**PRELIMINARY OFFICIAL STATEMENT**

**\$8,975,000\***

**ANDERSON COUNTY WATER AUTHORITY  
(TENNESSEE)**

**Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016**

OFFERED FOR SALE NOT SOONER THAN

Wednesday, June 29, 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

June 21, 2016

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\* Preliminary, subject to change.



# PRELIMINARY OFFICIAL STATEMENT DATED JUNE 21, 2016

## **NEW ISSUE**

### **Book-Entry-Only**

Rating: S&P: "AA- / Stable"  
(See "MISCELLANEOUS-Rating")

*In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the Authority, 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).*

## **\$8,975,000\***

### **ANDERSON COUNTY WATER AUTHORITY (TENNESSEE)** **Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016**

Dated: Date of Issuance (assume July 22, 2016).

Due: June 1 (as shown below)

The \$8,975,000\* Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016 (the "Bonds") of Anderson County Water Authority, Tennessee (the "Authority") will be issued as fully registered Bonds in denominations of \$5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on December 1, 2016 and thereafter on each June 1 and December 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds are payable from and secured by a pledge of revenues to be derived from the operation of the Authority's Water and Sewer System (the "System"), on a parity and equality of lien with the Parity Obligations (as defined herein), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System.

Bonds maturing June 1, 2023 and thereafter are subject to redemption prior to maturity on or after June 1, 2022.

<u>Due</u> <u>(Jun 1)</u>	<u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIPs**</u>	<u>Due</u> <u>(Jun 1)</u>	<u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIPs**</u>
2017	\$ 180,000				2027	\$ 500,000			
2018	165,000				2028	500,000			
2019	165,000				2029	515,000			
2020	165,000				2030	525,000			
2021	445,000				2031	545,000			
2022	450,000				2032	560,000			
2023	455,000				2033	570,000			
2024	465,000				2034	585,000			
2025	475,000				2035	600,000			
2026	485,000				2036	625,000			

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

The Bonds are offered when, as and if issued by the Authority, 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 in connection with the Bonds are subject to the approval of C. Coulter Gilbert, Esq., Knoxville, Tennessee, as counsel to the Authority. It is expected that the Bonds will be available for delivery through the facilities of DTC, New York, New York, on or about July \_\_, 2016.

**Cumberland Securities Company, Inc.**  
*Financial Advisor*

June \_\_, 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 Preliminary Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Preliminary Official Statement. The Authority 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 Authority'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 Authority, the Bonds, the Resolution, the Disclosure Certificate, and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions and statutes, the Resolution, the Disclosure Certificate, and other documents are intended as summaries only and are qualified in their entirety by reference to such documents and laws, and references herein to the Bonds are qualified in their entirety to the forms thereof included in the Bond Resolution.

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

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

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

\*\* These CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a division of the McCraw-Hill Companies, Inc., and are included solely for the convenience of the Bond holders. The Authority 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.

# ANDERSON COUNTY WATER AUTHORITY

## **BOARD OF DIRECTORS**

Zenith R. Rose, *Chairman*  
Jack Shelton, *Vice Chairman*  
Rex Lynch, *Secretary*

Jack D. Hill  
Duane Stooksbury

## **GENERAL MANAGER**

Larry Clowers

## **COUNSEL TO THE AUTHORITY**

C. Coulter “Bud” Gilbert  
Knoxville, Tennessee

## **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*.

The Authority .....	Anderson County Water Authority (the "Authority" or "Issuer"). See APPENDIX B contained herein.
Securities Offered.....	\$8,975,000 Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016 (the "Bonds") of the Authority will be dated the date of issuance (assume July 22, 2016) and maturing June 1, 2017 through June 1, 2036, inclusive. See the section entitled "SECURITIES OFFERED" for additional information.
Security .....	The Bonds are payable from and secured by a pledge of revenues to be derived from the operation of the Authority's Water and Sewer System (the "System"), on a parity and equality of lien with the Parity Obligations (as defined herein), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System.
Purpose .....	The Bonds are being issued for the purpose of (i) refinancing the Refunded Bonds (as described herein); (ii) financing certain extensions and improvements to the System (as hereinafter defined); and (iii) paying costs incurred in connection with the issuance and sale of the Bonds.
Optional Redemption .....	The Bonds are subject to redemption, in whole or in part, at a price of par plus accrued interest on June 1, 2022, in whole or in part, and at anytime thereafter at the price of par plus accrued interest to the redemption date. See the section entitled "SECURITIES OFFERED-Optional Redemption."
Tax Matters.....	In the opinion of bond counsel, based on existing law and assuming compliance with certain tax covenants of the Authority, 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 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.....	S&P: "AA- / Stable". 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 Parties; Others" herein.
Underwriter.....	_____.

Book-Entry-Only System.....	The Bonds will be issued under the Book-Entry System. For additional information, see the section entitled “BASIC DOCUMENTATION – Book-Entry-Only System.”
General.....	The Bonds are being issued in full compliance with applicable provisions of Chapter No. 40 of the Tennessee Private Acts of 2007, as supplemented and revised. See “SECURITIES OFFERED” herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of The Depository Trust Company, New York, New York.
Disclosure .....	In accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the Authority will provide the Municipal Securities Rulemaking Board (“MSRB”) through the operation of the Electronic Municipal Market Access system (“EMMA”) and the State Information Depository (“SID”) established in Tennessee, if any, annual financial statements and other pertinent credit information, including the Comprehensive Annual Financial Reports. For additional information, see the section entitled “MISCELLANEOUS - Continuing Disclosure” for additional information.
Other Information.....	The information in the <i>Preliminary Official Statement</i> 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 Authority or the <i>Preliminary Official Statement</i> , contact Curtis Perez, Chairman, P.O. Box 70, Clinton, Tennessee 37717, Telephone: 865-457-3033 or the Authority's Financial Advisor, Cumberland Securities Company, Inc., Telephone: 865-988-2663. Additional information regarding <b>BIDCOMP™/PARITY®</b> may be obtained from <b>PARITY®</b> , 1359 Broadway - 2 <sup>nd</sup> 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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beginning Net Assets	\$15,851,606	\$15,863,687	\$16,078,442	\$16,722,776	\$17,054,842
Revenues	4,620,181	5,009,134	5,029,783	5,256,763	5,659,530
Expenditures	4,541,004	4,749,711	4,915,180	5,317,586	5,507,867
Non-Operating Revenue (Expense)	(303,896)	(166,467)	(301,964)	(321,480)	(340,189)
Net Income before Contributions	(224,719)	92,956	(187,361)	(382,303)	(188,526)
Capital Contributions	236,800	121,799	803,425	535,688	262,293
Prior Period Adjustments	<u>-</u>	<u>-</u>	<u>(125,115)</u>	<u>-</u>	<u>258,299</u>
<b>Ending Net Assets</b>	<b><u>\$15,863,687</u></b>	<b><u>\$16,078,442</u></b>	<b><u>\$16,569,391</u></b>	<b><u>\$16,722,776</u></b>	<b><u>\$17,054,842</u></b>

Source: Financial Statements with Report of Certified Public Accountants.

## SUMMARY NOTICE OF SALE

**\$8,975,000\***

### **ANDERSON COUNTY WATER AUTHORITY (TENNESSEE) Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016**

NOTICE IS HEREBY GIVEN that the Chairman of the Anderson County Water Authority (Tennessee) (the "Authority") will receive electronic or written bids until **10:15 a.m. E.D.T. on Wednesday, June 29, 2016** for the purchase of all, but not less than all, of the Authority's \$8,975,000\* Water and Sewer System Revenue Refunding and Improvement 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 Authority's Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the Authority reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY®** System not later than 9:00 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY®** System.

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

The Bonds will be issued in book-entry form (except as otherwise described in the Detailed Notice of Sale) and dated the date of issuance (assume July 22, 2016). The Bonds will mature on June 1 in the years 2017 through 2036, 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, 2022. 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 Authority 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 Chairman of the Authority 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](http://www.prospectushub.com) or from the Authority's Financial Advisor, Cumberland Securities Company, Inc., Telephone: 865-988-2663. Further information regarding **PARITY®** may be obtained from i-Deal LLC, 1359 Broadway, 2<sup>nd</sup> Floor, New York, New York 10018, Telephone: 212-849-5000.

ANDERSON COUNTY WATER AUTHORITY  
By: Zenith R. Rose, Chairman

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\* Preliminary, subject to change.

## DETAILED NOTICE OF SALE

**\$8,975,000\***

### **ANDERSON COUNTY WATER AUTHORITY (TENNESSEE) Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016**

NOTICE IS HEREBY GIVEN that the Chairman of the Anderson County Water Authority (Tennessee) (the “Authority”) will receive electronic or written bids until **10:15 a.m. E.D.T. on Wednesday, June 29, 2016** for the purchase of all, but not less than all, of the Authority's \$8,975,000\* Water and Sewer System Revenue Refunding and Improvement 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 Authority’s Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the Authority reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth herein, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY®** System not later than 9:00 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY®** System.

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

<b>YEAR (JUN 1)</b>	<b><u>Amount*</u></b>	<b>YEAR (JUN 1)</b>	<b><u>Amount*</u></b>
2017	\$ 180,000	2027	\$ 500,000
2018	165,000	2028	500,000
2019	165,000	2029	515,000
2020	165,000	2030	525,000
2021	445,000	2031	545,000
2022	450,000	2032	560,000
2023	455,000	2033	570,000
2024	465,000	2034	585,000
2025	475,000	2035	600,000
2026	485,000	2036	625,000

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

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 system maintained by DTC (the “Book-Entry-Only System”). One fully-registered

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\* Preliminary, subject to change.

bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC. The book-entry system will evidence beneficial ownership interests of the Bonds in the principal amount of \$5,000 for the Bonds and any integral multiple of \$5,000, with transfers of beneficial ownership interest effected on the records of DTC participants and, if necessary, in turn by DTC pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., nominee of DTC. The Bonds will be payable, at maturity or upon earlier redemption to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments (as applicable) to beneficial owners of the Bonds by Participants of DTC, will be the responsibility of such participants and of the nominees of beneficial owners. The Authority 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 Authority, 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 Authority 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.

Purpose. The Bonds are being issued pursuant to a Master Resolution of the Authority adopted November 13, 2008 (the “Master Resolution”) and a Supplemental Resolution of the Authority adopted May 31, 2016 (the “Supplemental Resolution”; together with the Master Resolution, the “Resolution”) for the purpose of (i) refinancing the Authority’s Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2010, dated November 30, 2010, maturing on and after June 1, 2021 (the “Refunded Bonds”); (ii) financing certain extensions and improvements to the System (as hereinafter defined); and (iii) paying costs incurred in connection with the issuance and sale of the Bonds.

Security Pledged. The Bonds shall be payable solely from and secured by a pledge of the income and revenues to be derived from the operation of the System on a parity and complete equality of lien with respect to such revenues with the Authority's (i) Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2010, dated November 30, 2010, maturing on and before June 1, 2020 (the “Unrefunded Bonds”) (ii) Revolving Fund Loan Agreement dated September 5, 2013, among the Authority, the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority (the “State Revolving Loan”) and (iii) any additional Senior Lien Revenue Obligations hereafter issued on a parity therewith under the terms of the Resolution (collectively, the “Parity Obligations”), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring said System. As provided in the Resolution, the punctual payment of principal of and interest on the series of Bonds, of which this Bond is one, and the Parity Obligations shall be secured equally and ratably by said revenues without priority by reason of series, number or time of sale or delivery. The Authority has no taxing power. The Authority 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. For a more complete statement of the revenues from which and conditions on which obligations may hereafter be issued on a parity with this Bond, the general

covenants and provisions pursuant to which this Bond is issued and the terms upon which the Resolution may be modified, reference is hereby made to the Resolution.

Optional Redemption. The Bonds maturing on June 1, 2023, and thereafter, will be subject to redemption prior to maturity at the option of the Authority on and after June 1, 2022, in whole or in part, at the redemption price of par plus accrued interest as provided herein.

Term Bond Option; Mandatory Redemption. Bidders shall have the option to designate certain consecutive serial maturities of the Bonds as one or more term bonds ("Term Bonds") bearing a single interest rate. If the successful bidder for the Bonds designates certain consecutive serial maturities of such Bonds to be combined as one or more Term Bonds as allowed herein, then each Term Bond shall be subject to mandatory sinking fund redemption by the Authority 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 Authority 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 Authority will not confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. For the purposes of the bidding process, the time as maintained by **PARITY**® shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in **PARITY**® conflict with the terms of the Detailed Notice of Sale, this Notice shall prevail. An electronic bid made through the facilities of **PARITY**® shall be deemed an offer to purchase in response to the Detailed Notice of Sale and shall be binding upon the bidder as if made by a signed, written bid delivered to the Authority. The Authority 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, 2<sup>nd</sup> 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 Authority'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 Authority 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 Authority's Financial Advisor, at 865-988-1863. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

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

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

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

Adjustment and/or Revision. While it is the Authority'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 Chairman 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 Chairman 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 Authority. The maximum adjustment will only occur if a bidder bids the maximum price of 125% of par. Additionally, the Chairman reserves the right to change the dated date of the Bonds.

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

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

Good Faith Deposit. No good faith check will be required to accompany any bid submitted. The successful bidder shall be required to deliver to the Authority'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 Authority'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 Authority as liquidated damages.

In the event of the failure of the Authority 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 Authority 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 Authority.

In addition, within two hours of the award of the Bonds, the successful bidder shall furnish to the Authority 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 Authority 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 Authority. 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 Authority will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Authority by not later than twelve months after each of the Authority's fiscal years, (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events. The Annual Report (and audited financial statements, if filed separately) will be filed with the Municipal Securities Rulemaking Board ("MSRB") and any State Information Depository established in the State of Tennessee (the "SID"). If the Authority is unable to provide the Annual Report to the MSRB and the SID by the date required, notice of each failure will be sent to the MSRB and the SID on or before such date. The specific nature of the information to be contained in the Annual Report or the notices of events will be

summarized in the Authority's *Official Statement* to be prepared and distributed in connection with the sale of each series of Bonds.

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

CUSIP Numbers. CUSIP numbers will be assigned to the Bonds at the expense of the Authority. The Authority 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 Authority 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 Authority will furnish the successful bidder at the expense of the Authority a reasonable number of copies of *Official Statement* in final form, containing the pricing and other information to be supplied by the successful bidder and to be dated the date of the sale, to be delivered by the successful bidder to the persons to whom such bidder and members of its bidding group initially sell the Bonds. Acceptance of the bid will constitute a contract between the Authority and the successful bidder for the provision of such copies within seven business days of the sale date.

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

ANDERSON COUNTY WATER AUTHORITY (TENNESSEE)

By: Zenith R. Rose  
Chairman

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# BID FORM

Zenith R. Rose, Chairman  
P.O. Box 70  
Clinton, Tennessee 37717

June 29, 2016

Dear Mr. Perez:

For your legally issued, properly executed \$8,975,000\* Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016 (the "Bonds") of Anderson County Water Authority (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 July 22, 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:

<b>Maturity</b>			<b>Maturity</b>		
<b>(Jun 1)</b>	<b>Amount*</b>	<b>Rate</b>	<b>(Jun 1)</b>	<b>Amount*</b>	<b>Rate</b>
2017	\$ 180,000	—	2027	500,000	—
2018	165,000	—	2028	500,000	—
2019	165,000	—	2029	515,000	—
2020	165,000	—	2030	525,000	—
2021	445,000	—	2031	545,000	—
2022	450,000	—	2032	560,000	—
2023	455,000	—	2033	570,000	—
2024	465,000	—	2034	585,000	—
2025	475,000	—	2035	600,000	—
2026	485,000	—	2036	625,000	—

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

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

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, Nashville, Tennessee, whose opinion together with the executed Bonds, will be furnished by the Authority 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  
Anderson County Water Authority  
this 29<sup>th</sup> day of June, 2016.

Respectfully submitted,

\_\_\_\_\_

\_\_\_\_\_  
Zenith R. Rose, Chairman

Total interest cost from

July 22, 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.*



**\$8,975,000**  
**ANDERSON COUNTY WATER AUTHORITY (TENNESSEE)**

**Water and Sewer System Revenue Refunding and  
Improvement Bonds, Series 2016**

**SECURITIES OFFERED**

**AUTHORITY AND PURPOSE**

This *Preliminary Official Statement* which includes the “Summary Statement” and appendices is furnished in connection with the offering by Anderson County Water Authority (the “Authority” or “Issuer”) of its \$8,975,000 Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016 (the “Bonds”).

The Authority is a governmental authority created and established pursuant to Chapter 40 of the 2007 Private Acts of the State of Tennessee (the “Act”) for the purpose of planning, acquiring, constructing, improving, extending, furnishing, equipping, financing, owning, operating and maintaining a water and wastewater system (the “System”) in Anderson County, Tennessee and the geographic region. The Act became effective upon ratification by the County Commission of Anderson County, Tennessee (the “County”) on July 16, 2007.

The Bonds are authorized to be issued pursuant to the Act and other applicable provisions of law and pursuant a Master Resolution duly adopted by the Board of Commissioners (the “Governing Body”) of the Authority on November 13, 2008 (the “Master Resolution”) and a Supplemental Resolution adopted May 31, 2016 (the “Supplemental Resolution”; together with the Master Resolution, the “Resolution”).

The Bonds are being issued for the purpose of (i) refinancing the Authority’s Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2010, dated November 30, 2010, maturing on and after June 1, 2021 (the “Refunded Bonds”); (ii) financing certain extensions and improvements to the System; and (iii) paying costs incurred in connection with the issuance and sale of the Bonds.

**REFUNDING PLAN**

The Authority is proposing to refinance the Refunded Bonds by depositing proceeds of the Bonds into an escrow fund (the “Escrow Fund”) with Regions Bank, as escrow agent, in an amount which together with investment earnings thereon will be sufficient to pay debt service on and to redeem the Refunded Bonds to the redemption date of June 1, 2020. The Authority’s Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2010, maturing on and before June 1, 2020 (the “Unrefunded 2010 Bonds”) will not be refunded.

Southern & Newhouse, P.C., Knoxville, Tennessee (the “Verification Agent”), a firm of independent public accountants, will deliver to the Authority, on or before the issue date of the

\* Preliminary, subject to change.

Bonds, its attestation report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Authority and its representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on, the investments in the Escrow Fund to pay, when due, the maturing principal of, interest on the Refunded Bonds; and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not “arbitrage bonds” under the Code and the regulations promulgated thereunder.

The examination performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the Authority and its representatives. The verification report of its examination will state that the Verification Agent has no obligation to update such report because of events occurring, or data or information coming to their attention, subsequent to the date of the report.

## **THE PROJECT**

A portion of the net proceeds from the sale of the Bonds are being used to construct certain improvements and additions to the System, the acquisition of all property real and personal appurtenant thereto, and the payment of legal, fiscal, engineering, architectural and administrative fees in connection therewith. This portion of the Bond proceeds will be deposited in a Construction Fund (as hereinafter defined) and invested by the Authority pending use for such purposes. The Project includes various water line rehabilitations and replacements to older portions of the System, water line extensions to new areas, improvements of certain storage water tanks, and other capital improvements to the System.

## **SOURCES AND USES**

The sources and uses of funds in connection with the issuance of the Bonds are estimated below:

### *Sources of Funds:*

Par Amount of Bonds	\$8,975,000.00
Original Issue Premium (Discount)	
Total Sources of Funds	

### *Uses of Funds:*

Deposit to Construction Fund
Deposit to Escrow Fund
Costs of Issuance including the Underwriter Discount
Total Uses of Funds

## **DESCRIPTION OF THE BONDS**

The Bonds will be initially dated and bear interest from the date of issuance (assume July 22, 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 form only and in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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

## **SECURITY AND SOURCES OF PAYMENT OF THE BONDS**

### **General**

The Bonds are Senior Lien Revenue Obligations under the Resolution and limited obligations of the Authority, payable solely from the Net Revenues of the System. In accordance with the Resolution and subject to the restrictive provisions therein, the Authority may hereafter issue additional Senior Lien Revenue Obligations on a parity of lien with the Bonds. No owner of any Bond has the right to compel any exercise of the taxing power of the State of Tennessee, Anderson County, Campbell County or any political subdivision or instrumentality thereof to pay the Bonds, the interest thereon or any other amount due with respect to the Bonds. The Authority has no taxing power.

### **Pledge of Net Revenues**

Under the terms of the Resolution, the Bonds and the Parity Obligations (as defined below) are secured by a Senior Lien on the Net Revenues of the System and constitute Senior Lien Revenue Obligations under the Resolution. Following issuance of the Bonds and the defeasance of the Refunded Bonds on the issue date, the Authority will have outstanding the following Senior Lien Revenue Obligations which are secured on a parity and equality of lien with the Bonds: (1) the Revolving Fund Loan Agreement dated September 5, 2013, among the Authority, the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority (the "State Revolving Loan") and (2) the Unrefunded 2010 Bonds. The State Revolving Fund Loan, the Unrefunded 2010 Bonds and any additional Senior Lien Revenue Obligations hereafter issued pursuant to the Resolution are herein referred to as the "Parity Obligations." See Appendix B for information regarding the Authority, the Parity Obligations, the Authority's service area and the System.

### **Funds and Accounts; Flow of Funds**

The Resolution requires the Authority to deposit all Revenues of the System to the Revenue Fund. From the Revenue Fund, the Authority is to make the following payments:

- (1) Pay Operating Expenses.
- (2) Deposit to a Sinking Fund amounts necessary for payment of debt service obligations on Senior Lien Revenue Obligations, including the Bonds. The Sinking Fund is reserved solely for the payment of debt service on Senior Lien Revenue Obligations. The

Resolution requires that deposits for the Bonds be made to the Sinking Fund in equal monthly installments sufficient to accrue for the semiannual payment of interest and the annual payment of principal of the Bonds.

(3) Deposit to a Debt Service Reserve Account for Senior Lien Revenue Obligations, if established by the Authority. The Authority has established a Debt Service Reserve Account for the Bonds. Commencing with the Authority's annual audit for the fiscal year ending June 30, 2017, if the Authority receives an annual audit showing that for the audited fiscal year the Net Revenues of the System are less than 1.75 times the maximum annual Debt Service Requirement of all Senior Lien Revenue Obligations, then commencing on the first day of the first month following receipt of such audit, the Authority shall begin making monthly deposits to the Series 2010 Debt Service Reserve Account in amounts not less than 1/24<sup>th</sup> of the amount necessary to fully fund the Debt Service Reserve Account, such that the Debt Service Requirement will be fully satisfied in a period of not more than 24 months from the commencement of funding, and the Authority shall be required to maintain the Debt Service Reserve Account thereafter until the Authority delivers an annual audit showing that the Net Revenues of the System are more than 1.75 times the maximum annual Debt Service Requirement of all Senior Lien Revenue Obligations, at which time amounts held in the Debt Service Reserve Account may be withdrawn by the Authority. To the extent funded, the Debt Service Reserve Account for the Bonds is reserved solely for the payment of debt service on the Bonds, and the amounts in the Debt Service Reserve Account for the Bonds will not secure payment of any Parity Obligations.

(4) Pay debt service on Subordinate Lien Revenue Obligations and other System indebtedness and contractual obligations.

(5) Make any other lawful payments.

### **Rate Covenant**

The Resolution requires the Authority to maintain rates, fees, and other charges for the services and facilities furnished by the System fully sufficient at all times:

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

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

(1) will equal at least 120% of the Debt Service Requirement on all Senior Lien Revenue Obligations, plus 100% of the Debt Service Requirement on all other Revenue Obligations then Outstanding for such Fiscal Year; and

(2) will enable the Authority to make all required payments, if any, into the Debt Service Reserve Account and the Rebate Fund established by the Resolution and on any Contract or Other System Obligation; and

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

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

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

### **Parity Bonds**

The Resolution does not permit the Authority to issue additional bonds with a lien on Net Revenues senior to that of the Bonds. The Resolution permits the issuance of additional Senior Lien Revenue Obligations on parity with the Bonds if:

(1) the additional Senior Lien Revenue Obligations are refunding obligations, and the refunding will reduce the total debt service payments on Outstanding Senior Lien Revenue Obligations, including payments on related Contracts, which are secured on parity with the Revenue Obligations to be refunded, on a present value basis; or

(2) the additional Senior Lien Revenue Obligations are improvement bonds, and the historical Net Revenues for either (i) a period of 12 consecutive months of the most recent 18 consecutive months prior to the issuance of the proposed Additional Obligations or (ii) the most recent audited Fiscal Year, were equal to at least 120% of the maximum annual Debt Service Requirement on all Senior Lien Revenue Obligations which will be Outstanding immediately after the issuance of the proposed Additional Obligations and secured on a parity therewith, in the then current and each succeeding Fiscal Year, provided, however, (x) the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to 100% of the increased annual amount attributable to any revision in the schedule of rates, fees, and charges for the services and facilities furnished by the System, imposed prior to the date of delivery of the proposed Additional Obligations and not fully reflected in the historical related Net Revenues actually received during such historical period used; (y) if the Authority has a contract to purchase or otherwise acquire an Acquired System that will become part of the System, the historical Net Revenues may be adjusted to include the anticipated Net Revenues from the Acquired System; and (z) if the Authority has entered into a contract to furnish services of the System that is not fully reflected in the historical Net Revenues of the System, such historical Net Revenues may be adjusted to include the anticipated Net Revenues from such contract.

### **Additional Borrowing Plans**

The Authority anticipates no additional borrowing for System improvements at this time.

## **OPTIONAL REDEMPTION OF THE BONDS**

The Bonds maturing on or prior to June 1, 2017 through June 1, 2022 are not subject to redemption prior to maturity. The Bonds maturing June 1, 2023 and thereafter shall be subject to redemption, in whole or in part, at a price of par plus accrued interest to the redemption date, on or after June 1, 2022. If less than all of the Bonds within a single maturity shall be called for redemption, the Bonds within the maturity to be redeemed shall be selected as follows:

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

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

## **NOTICE OF REDEMPTION**

Notice of call for redemption, whether optional or mandatory, shall be given by the Registration Agent on behalf of the Authority 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 affect 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 Authority 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 Authority pursuant to written instructions from an authorized representative of the Authority (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 Authority to make funds available in part or in whole on or before the redemption date shall not constitute an event of default, and the Registration Agent shall give immediate notice to the Depository or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain outstanding.

## **PAYMENT OF BONDS**

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

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## BASIC DOCUMENTATION

### REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the Authority 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 follows. However, if the winning bidder certifies to the Authority 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-Only 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 Authority 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 Authority 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-only 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 Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://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-only 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 Authority 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 for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 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 Authority 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 AUTHORITY, 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 Authority, 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 Authority 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 Authority 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-only system has been obtained from sources that the Authority believes to be reliable, but the Authority, the Bond Counsel, the Registration Agent and the Financial Advisor 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 Authority, the Bond Counsel, the Registration Agent or the Financial Advisor 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 (net of any underwriter's discount and/or bond insurance premiums withheld from such proceeds) shall be used and applied as follows:

- (a) the portion of the proceeds of the Bonds, which, together with other legally available funds of the Authority and earnings on said proceeds and funds, will be sufficient to pay principal, accrued interest and redemption premium, as appropriate, on the Refunded Bonds will be deposited in escrow with Regions Bank, as escrow agent;
- (b) the remainder of the Bond proceeds shall be deposited with a financial institution regulated by and the deposits of which are insured by the Federal Deposit Insurance Corporation or similar federal agency, in a separate account within the Project Fund to be known as the “Series 2016 Account” (the “Construction Fund”) to be kept separate and apart from all other funds of the Authority. Moneys in the Construction Fund shall be disbursed solely to pay the costs of the Project and the balance of any costs related to the issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, bond insurance premiums, if any, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds and construction of the Project, except that, upon the occurrence and continuance of an Event of Default or the occurrence and continuance of an event which with notice or lapse of time or both would constitute an Event of Default, amounts on deposit in the Series 2016 Account shall be transferred to the Sinking Fund. If, upon payment of all Costs of the Project and issuance costs related to the Series 2016 Bonds, any amount shall remain in the Series 2016 Account, such amounts shall be transferred to the Series 2016 Account Sinking Fund.

## **DISCHARGE AND SATISFACTION OF BONDS**

All or any portion of the Bonds the payment, prepayment or redemption of which sufficient moneys or sufficient Defeasance Obligations (as hereinafter defined) shall have been deposited with the Registration Agent or an escrow agent selected by the Authority (whether upon or prior to the maturity or the redemption date of such Revenue Obligations) shall be deemed to be paid and no longer Outstanding under the Resolution; provided, however, that if

the Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given as provided in the Resolution or firm and irrevocable arrangements shall have been made for the giving of such notice. Defeasance Obligations shall be considered sufficient for purposes of this section only: (i) if such Defeasance Obligations are not callable by the issuer of the Defeasance Obligations prior to their stated maturity, and (ii) if such Defeasance Obligations fall due and bear interest in such amounts and at such times as will assure sufficient cash (whether or not such Defeasance Obligations are redeemed by the Authority pursuant to any right of redemption) to pay currently maturing interest and to pay principal and redemption premiums, if any, when due on the Revenue Obligations without rendering the interest on the Bonds includable in gross income of any owner thereof for federal income tax purposes.

For the purposes hereof, Defeasance Obligations shall mean (i) direct obligations of the United States of America for the full and timely payment of which the full faith and credit of the United States of America is pledged or (ii) obligations issued by a person controlled or supervised by and acting as an instrumentality of the United States of America, the full and timely payment of the principal of and the interest on which is fully and unconditionally guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (i) or (ii) issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), which obligations, in either case, (y) are not subject to redemption or prepayment prior to maturity except at the option of the holder of such obligations and (z) may include U.S. Treasury Trust Receipts.

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## LEGAL MATTERS

### LITIGATION

There is no litigation now pending or, to the knowledge of the Authority, threatened which restrains or enjoins the issuance or delivery of the Bonds, the power of the Authority to levy and collect rates and fees to pay the Bonds, or the use of the proceeds of the Bonds or which questions or contests the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, nor the existence of the Authority, nor the title of the present officials of the Authority to their respective offices, is being contested or questioned.

### TAX MATTERS

#### Federal

*General.* Bass, Berry & Sims PLC, is Bond Counsel for the Bonds. Their opinion under existing law, relying on certain statements by the Authority and assuming compliance by the Authority with certain covenants, is that interest on the Bonds:

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

The Code imposes requirements on the Bonds that the Authority 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 Authority 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 Authority has covenanted to do everything necessary to meet these requirements of the Code.

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

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

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

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

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

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

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

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

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

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

### **State Taxes**

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

### **CHANGES IN FEDERAL AND STATE TAX LAW**

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

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

### **CLOSING CERTIFICATES**

Upon delivery of the Bonds, the Authority 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 Authority's Chairman and Secretary acting in his official capacity to the effect that to the best of his knowledge and belief, and after reasonable investigation, (a) neither the *Official Statement*, in final form, nor any amendment or supplement thereto, contains any untrue statements of material fact or omits to state any material fact necessary to make statements therein, in light of the circumstances in which they are made, misleading, (b) since the date of the *Official Statement*, in final form, no event has occurred which should have been set forth in such a memo or supplement, (c) there has been no material adverse change in the operation or the affairs of the Authority 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 Authority's Chairman and Secretary acting in his official capacity, evidencing delivery of and payment for the Bonds; (iii) a signature identification and incumbency certificate, signed by the Authority's Chairman and Secretary acting in their official capacities certifying as to the due execution of the Bonds; and, (iv) a Continuing Disclosure Certificate regarding certain covenants of the Authority 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, Nashville, 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

S&P Global Ratings (“S&P”) has given the Bonds the rating of “AA- / Stable”.

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

The rating reflects only the views of S&P and any explanation of the significance of such rating should be obtained from S&P.

### COMPETITIVE PUBLIC SALE

The Bonds will be offered for sale at competitive public bidding on June 29, 2016. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated June 21, 2016.

The successful bidder for the Bonds was an account led by \_\_\_\_\_, \_\_\_\_\_ (the “Underwriters”) who contracted with the Authority, 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 Authority 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 Authority to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the Authority, including without limitation any of the Authority’s financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the Authority, 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 Financial Advisor as to its accuracy or completeness or

*Regions Bank.* Regions Bank (the “Bank”) is a wholly-owned subsidiary of Regions Financial Corporation. The Bank provides, among other services, commercial banking, investments and corporate trust services to private parties and to State and local jurisdictions, including serving as registration, paying agent, filing agent or escrow agent related to debt offerings. The Bank will receive compensation for its role in serving as Registration and Paying Agent for the Bonds. In instances where the Bank serves the Authority 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 Authority 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 Authority. The information set forth herein has been obtained by the Authority 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 Authority, 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 Authority 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 Authority 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 role as serving as the Authority’s Dissemination Agent. If the Authority chooses to use one or more of these other services provided by Cumberland Securities Company, Inc. and/or the Bank, then Cumberland Securities Company, Inc. and/or the Bank may be entitled to separate compensation for the performance of such services.

## **DEBT RECORD**

There is no record of default or nonpayment of any legal obligations of the Authority.

## **ADDITIONAL DEBT**

The Authority also has ongoing projects that may or may not require additional debt in the future.

## CONTINUING DISCLOSURE

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

*Five-Year History of Filing.* For the past five years, the Authority has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

*Content of Annual Report.* The Authority's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the Authority for the fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the Authority'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 may be incorporated by reference from other documents, including Official Statements in final form for debt issues of the Authority or related public entities, which have been submitted to the MSRB or the U.S. Securities and Exchange Commission. If the document incorporated by reference is a final Official Statement, in final form, it will be available from the MSRB. The Authority shall clearly identify each such other document so incorporated by reference.

*Reporting of Significant Events.* The Authority 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 Authority 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 Authority 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 Authority'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 Authority 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 Authority 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 Authority. 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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.

*{The remainder of this page left blank intentionally.}*

## CERTIFICATION

On behalf of the Authority, 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.

ANDERSON COUNTY WATER AUTHORITY

/s/

\_\_\_\_\_  
Chairman  
Board of Commissioners

ATTEST:

/s/

\_\_\_\_\_  
Secretary  
Board of Commissioners



## **APPENDIX A**

### **LEGAL OPINION**



\_\_\_\_\_, 2016

Anderson County Water Authority  
Clinton, Tennessee

[Underwriter]

Re: Anderson County Water Authority Water and Sewer System Revenue Refunding  
and Improvement Bonds, Series 2016

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Anderson County Water Authority (the "Authority") of \$ \_\_\_\_\_ Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016, dated the date hereof (the "Bonds"). 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 furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, 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 constitute valid and binding obligations of the Authority.

2. The Master Resolution duly adopted by the Authority on November 13, 2008 (the "Master Resolution") and a Supplemental Resolution adopted May 31, 2016 (the "Supplemental Resolution"; together with the Master Resolution, the "Resolution") authorizing the Bonds have been duly and lawfully adopted, are in full force and effect and are valid and binding agreements of the Authority enforceable in accordance with their terms.

3. The principal of and interest on the Bonds are payable solely from and secured by a pledge of revenues to be derived from the operation of the water and sewer system of the Authority, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring said system, on a parity and equality of lien with the Authority's outstanding (1) Revolving Fund Loan Agreement dated September 5, 2013, among the Authority, the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority, (2) the Water and Sewer System Revenue Refunding and

Improvement Bonds, Series 2010, maturing on and before June 1, 2020 and (3) any additional Senior Lien Revenue Obligations hereafter issued on a parity therewith under the terms of the Resolution. We express no opinion as to the sufficiency of such revenues for the payment of principal of and interest on the Bonds.

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, 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 Authority 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. 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. The Authority has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4 and 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 taxes 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 of 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 subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of 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 any changes in law that may hereafter occur.

Yours truly,

## **APPENDIX B**

### **SUPPLEMENTAL INFORMATION STATEMENT**



# ANDERSON COUNTY WATER AUTHORITY

## HISTORY

The Anderson County Water Authority (the “Authority”) was created on July 16, 2007, by the Anderson County Commission and significant operations began on January 1, 2009. On July 10, 2008, the board of commissioners for the North Anderson County Utility District (the “NACUD”) and Anderson County Utilities Board (the “ACUB”), a part of Anderson County, entered into a consolidation agreement to merge their operations into the Authority with an effective date of January 1, 2009.

## DESCRIPTION OF AUTHORITY SERVICE AREA

Located in East Tennessee, the Authority presently serves an area including all of Anderson County (excluding within the City limits of both Clinton, Oak Ridge, Norris and Rocky Top, formerly Lake City) and a small portion of Campbell and Union Counties along the county line to the north. Union and Knox Counties make up the County's eastern border while Roane County provides its southwestern border. Morgan and Scott County make up Anderson County's northwestern border.

As of June 30, 2015 the Authority serves a population of approximately 9,399 water customers and 1,012 wastewater customers in Anderson, Campbell and Union Counties. The County is officially a part of the Knoxville Metropolitan Statistical Area. The population of the County is estimated to be 75,542 persons per the U.S. Bureau of the Census estimate as of December 31, 2013.

## ORGANIZATION

The Anderson County Water Authority (the “Authority”) is a governmental authority created and established pursuant to Chapter 40 of the 2007 Private Acts of the State of Tennessee (the “Act”) for the purpose of planning, acquiring, constructing, improving, extending, furnishing, equipping, financing, owning, operating and maintaining a water and wastewater system in Anderson County, Tennessee and the geographic region. The Act became effective upon ratification by the County Commission of Anderson County, Tennessee (the “County”) on July 16, 2007. The Authority was created upon issuing the Series 2008 Bonds to acquire the existing water and sewer systems serving residents and businesses within certain portions of Anderson County, Tennessee and Campbell County, Tennessee (the “System”). The systems acquired consisted of the water and sewer system owned by the County and operated by the Anderson County Utility Board and the water system owned and operated by the North Anderson County Utility District of Anderson County, Tennessee.

The Act provides that, as long as the Authority continues to furnish any of the services which it is authorized to furnish, it shall continue to be the sole public corporation having the power to furnish such services within the boundaries of the Authority, and no other person, firm or corporation shall furnish or attempt to furnish any of such services in the Authority, unless

and until it shall have been established that the public convenience and necessity require other or additional services.

## **POWERS**

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

## **GOVERNING BODY**

Anderson County Water Authority is a quasi-governmental Utility Authority governed by a Board of Directors. The Directors establish the governing policies of Anderson County Water Authority and determine administrative policy for senior management.

The Authority's Board of Directors serves staggered four-year terms. The Anderson County Mayor appoints all five Directors. Therefore, the Authority is considered a related organization of Anderson County as defined in Governmental Accounting Standards Board Statement No. 14 paragraph 68. However, Anderson County does not have any fiscal or budgetary control over the Authority. In addition, Anderson County does not approve or pledge assets to secure the debts of the Authority. The operations of the Authority are funded by water and wastewater rates established by the Authority's Board of Directors.

Each member of the Board of Directors, upon expiration of his/her term, shall continue to hold office until the successor shall have been elected. A Board member may succeed himself in office.

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

The individual commissioners receive compensation for their services on a per diem basis in the maximum amount allowable by the Act for each day's attendance of the meetings of the Board in the performance of their official duties. No member of the Board shall draw compensation in excess of one hundred monthly dollars (\$100.00) for such service during any one calendar year. In addition, Board members are eligible for group medical insurance

coverage as may be provided other employees, or payment of premiums for any equivalent or similar group coverage under the terms of Tennessee Code Annotated, section 7-82-308.

## **AUTHORITY BOARD OF DIRECTORS**

The following are the current members of the Board of Directors:

<b><u>Board of Directors</u></b>		<b><u>Expiration of Term</u></b>
Chairman	Duane Stooksbury	September 30, 2017
Vice-Chairman	Jack Shelton	September 30, 2015
Secretary-Treasurer	Zenith R. Rose	September 30, 2015
Commissioner	Jack D. Hill	September 30, 2016
Commissioner	Rex Lynch	September 30, 2017

## **MANAGEMENT**

Larry Clowers has served as the Authority's General Manager since January 2009. Before then he was the General Manager for Anderson County Utilities Board (ACUB) from 1999 until the merger of the two entities. Mr. Clowers was previously employed by the ACUB as the Chief Water Plant Operator. Mr. Clowers has a total of 30 years' experience with the Anderson County Water Authority and ACUB.

## **EMPLOYEES**

The Authority has 32 full-time employees as of June 30, 2015. The breakdown of employment by job description is as follows:

	<b><u>Number</u></b>
<b>WATER AND WASTEWATER</b>	
Water and Wastewater Systems.....	24
<b>ADMINISTRATION</b>	
Billing and Customer Service .....	5
Finance and Accounting .....	2
Administrative.....	<u>1</u>
<b>TOTAL .....</b>	<b>32</b>

At the present time, no employees of the Authority are represented by unions. Officials of the Authority are unaware of any attempts by any union to organize employees of the Authority, and the Authority characterizes its relationship with its employees as satisfactory.

## **REGULATION**

*State and Local Regulation* - The Authority is required by law to establish and maintain a set of rules and regulations regarding an adjustment of all complaints which may be made to the Authority concerning the availability of utility services to persons in need thereof, the

quality of service performed, the adjustment of bills and all other complaints of any nature, with provisions relating to the manner of resolution of individual complaints, the types of complaints which may be resolved by salaried employees of the Authority, and those which may be resolved only by the Board. Such rules must be posted or otherwise available in the offices of the Authority for inspection by customers and members of the public. The District Act provides that the Authority may not contractually bind itself to issue bonds which would require a rate increase until the users of the system are given notice thereof. The Authority has complied with this requirement with respect to all current water user rates (which rates become effective October 1, 1988) by publishing notice of same on all customers' bills. Pursuant to the District Act, rates charged and services provided by the Authority may be renewed by the Utility Management Review Board of the State (the "Review Board") upon the filing with the Review Board of a petition signed by a least ten percent of the users within the authorized area of the Authority (see the discussion under "THE AUTHORITY" - Regulation - Review Board). In addition, the Authority is required to have its books and records audited annually by a certified public accountant, or by the Department of Audit of the Comptroller of the Treasury of the State. The Comptroller of the Treasury of the State, through the Department of Local Government Audit, makes a determination as to whether the annual audit of the Authority has been prepared in accordance with generally accepted governmental auditing standards and whether the audits meet the minimum standards prescribed by the Comptroller. The Comptroller has promulgated rules and regulations to assure that the books and records of utility district are kept in accordance with generally accepted accounting procedures and that audit standards prescribed by the Comptroller are met. The Authority must file a copy of the audit with the Comptroller and with the County Mayor of Anderson County.

*Rate Regulation* - The Authority is required by the District Act to charge such rates as shall be sufficient to pay operation and maintenance expenses and to pay principal of and interest on all bond or notes secured by revenues of the System. The Board determines the rates paid by the Authority's customers. The Authority is required to publish within ninety days after the close of its fiscal year a statement showing the financial condition of the Authority, the earnings of the Authority, the water rates then being charged by the Authority and the method used in arriving at such rates for such fiscal year. Within thirty days of the date such statement is published, any water user customer of the Authority may file with the Board a protest concerning the rates. The Board must then give notice of a hearing to determine the validity of the protest and whether the published rates are reasonable. After the Board makes its determination, the customer may seek judicial review of the Board's action by common law writ of certiorari to the Circuit Court of Anderson County.

*Utility Management Review Board* - The Utility Management Review Board (UMRB) of the State of Tennessee was established by an act of the State legislature for the purpose of advising utility district boards of commissioners throughout the State in the area of utility management. The Review Board consists of seven (7) members appointed by the Governor, four (4) of whom must be experienced utility district managers and three (3) whom must be experienced utility district commissioners. The District Act requires a utility district to charge such rates, fees, tolls, or charges as to produce revenues at least sufficient to pay for operation and maintenance of the system, including reserves therefor, as well as to pay all bonds and interest thereon secured by the revenues of the system, including reserves therefor. Primary mission of the Review Board is to investigate and propose (and enforce by court action,

if necessary) a new rate structure for a utility district whose rates have not met the statutory requirement for (3) consecutive years. The Review Board also has authority to review water rates of the Authority. Review may be instituted upon a single written request of any customer or any member of the public to review any decision of the Board with regard to a protest of rates. The Review Board may not take any action which would adversely impair the obligations of contract or the payment of outstanding bonds of the Authority. Any party to a proceeding before the Review Board may appeal to a local court seeking review of any action taken.

*Licenses, Permits and Approvals* - In the opinions of the General Manager and Counsel to the Authority, the Authority has received all licenses, permits and approvals necessary for the operation of the System.

*[balance of sheet left blank]*

## THE SYSTEM

The Authority provides for the treatment, distribution and storage of water to its customers through its waterworks system. The Authority also sells water to The Authority also sells water on a month-to-month basis to Caryville-Jacksboro Utility District (the “CJUD”) and the Town of Rocky Top (formerly Lake City), Tennessee.

The Authority covers all of the unincorporated areas of Anderson County and a small portion of Campbell and Union Counties. The area is approximately 220 square miles.

### WATERWORKS SYSTEM

*Physical Plant #1* - The Water System consists of a 3 MGD conventional media filtration plant and intake on the Clinch River and 6 high level reservoirs holding 3 M gallons of water and approximately 630 miles of water lines sized 1 inch to 18 inch. The plant produces an average of 3.0 million gallons per day (MGD).

Water taken from the Clinch River is treated at both of the Authority’s Filtration Plants. The raw water intake for Plant #1 is located approximately 15 miles downstream from Norris Dam.

*Physical Plant #2* - The filtration plant is a Trident Package plant having a high rate filtration capacity of 1,100,000 gallons per day. The plant has two filter basins, each having a capacity of 700 gallons per minute at a rate of 5 gallons per minute per square foot of filter area. After filtration, water flows to a clearwell from which it is then pumped into the distribution system by three high service pumps, each rated at 800 gallons per minute. The filtration plant presently operates 12 hours per day and can meet the maximum day demand of the District with the need for additional storage for fire protection.

Water taken from the Clinch River is treated at both of the Authority’s Filtration Plants. The raw water intake for the plant #2 is located at approximately 4.5 miles downstream from Norris Dam.

The Authority does buy water in an emergency from the City of Norris and the Clinton Utilities Board (CUB). CUB’s water source is from an intake on the Clinch River and their water treatment plant has a capacity of 3 MGD, and the treatment processes are disinfection by chlorine, coagulation, flocculation, sedimentation, filtration, fluoridation and corrosion control.

*[balance of sheet left blank]*

**WATER PURCHASED AND SOLD**  
**ANDERSON COUNTY WATER AUTHORITY**  
(For the Fiscal Years Ended June 30)

<b><u>Year</u></b>	<b><u>Purchased in Dollars</u></b>	<b><u>Purchased in Gallons</u></b>	<b><u>Sold in Dollars</u></b>	<b><u>Sold in Gallons</u></b>
2010	\$108,000	61,438,160	\$3,894,824	659,156,096
2011	\$170,617	64,546,770	\$3,713,110	669,030,550
2012	\$196,122	66,415,880	\$3,965,496	707,840,700
2013	\$191,864	67,567,841	\$3,993,754	706,260,500
2014	\$174,807	67,386,004	\$4,194,593	693,383,800
2015	\$120,594	66,740,303	\$4,481,189	718,973,300

*Billing Units of the Water System* - The following table sets forth the average number of billing units served by the Water System during each of the five fiscal years indicated and categorized by type of unit for the same periods.

**AVERAGE WATER SYSTEM BILLING UNITS**  
(For the Fiscal Years Ended June 30)

<b><u>YEAR</u></b>	<b><u>RESIDENTIAL &amp; COMMERCIAL*</u></b>	<b><u>INDUSTRIAL</u></b>	<b><u>TOTAL</u></b>
2010	9,126	10	9,136
2011	9,122	10	9,132
2012	9,116	10	9,126
2013	9,217	10	9,227
2014	9,273	10	9,283
2015	9,389	10	9,399

*[balance of sheet left blank]*

*Water Consumption* - For each of the fiscal years indicated, the following table sets forth the number of gallons of water pumped by the Authority, the total number of gallons of water consumed by the Authority's customers, and the number of gallons consumed by each billing unit type.

**WATER CONSUMPTION**  
**ANDERSON COUNTY WATER AUTHORITY**  
(For the Fiscal Years Ended June 30 in gallons)

<b><u>YEAR</u></b>	<b>WATER TO OPERATE</b>		<b><u>TOTAL WATER PUMPED</u></b>	<b><u>WATER LOST</u></b>
	<b><u>TOTAL WATER BILLED RESIDENTIAL &amp; COMMERCIAL</u></b>	<b><u>PLANT, BLOWOFFS AND FIRE DEPARTMENT</u></b>		
2010	659,156,096	25,047,260	953,933,400	331,169,204
2011	669,030,550	19,176,550	983,021,500	359,361,170
2012	707,840,700	40,789,324	1,065,511,000	383,147,656
2013	706,260,500	43,064,877	1,116,746,841	367,421,354
2014	693,383,800	59,425,805	1,131,480,124	378,670,519
2015	718,973,300	68,904,700	1,147,559,000	359,681,000

*Major Water Customers* - For each of the fiscal years indicated, the following table sets forth the major water customers of the Authority for the fiscal year ended June 30, 2015.

**LARGEST WATER CUSTOMERS**

	<b><u>CUSTOMER</u></b>	<b><u>BUSINESS TYPE</u></b>	<b><u>ANNUAL REVENUES</u></b>	<b><u>% OF TOTAL SALES</u></b>
1.	City of Lake City	Municipality	\$ 177,392	3.96%
2.	Clinton Utility Board	Municipality	60,494	1.35%
3.	Stardust Marina	Recreation	51,514	1.15%
4.	Waterside Marina	Recreation	35,681	.80%
5.	Mariner Health	Health Care	112,101	2.50%
6.	Mountain Lake Marina	Recreation	70,693	1.58%
7.	TVA	Power Utility	25,403	0.57%
8.	City of Caryville	Municipality	10,221	0.23%
9.	Shoney's	Restaurant	30,563	0.68%
10.	Meadowview Sr. Living	Healthcare	<u>11,590</u>	<u>0.26%</u>
	<b>TOTAL</b>		<b><u>\$585,652</u></b>	<b><u>13.08%</u></b>

## WASTEWATER SYSTEM

The existing Wastewater System consists of collection sewers and interceptor sewer mainly located within the northeast portion of the District, and flows are diverted through 19 wastewater pump stations. The collected sewage is pumped (at 180 GPM) into an eight inch force main to the Clinton Utilities Board System (CUB) wastewater treatment plant. ACWA and CUB have a contract in place to treat ACWA's flows at a rate of \$ 6.90/100.

*Billing Units of the Wastewater System* - The following table sets forth the average number of billing units served by the Wastewater System during each of the five fiscal years indicated and categorized by type of unit for the same periods.

### AVERAGE WASTEWATER SYSTEM BILLING UNITS

(Fiscal Year Ended June 30)

<b><u>YEAR</u></b>	<b><u>RESIDENTIAL &amp; COMMERCIAL</u></b>
2010	1,060
2011	1,059
2012	928
2013	986
2014	1,014
2015	1,012

## RATES

Set forth below is the rate schedule presently in effect for the Authority. The Authority's presently existing rate structure produces an average residential water service bill that is comparable to all other water utilities having customers within twenty miles of the Authority.

### WATER RATE SCHEDULE

From July 1, 2014 through June 30, 2015: All Customers:

1 <sup>st</sup> 1,200 gallons -	\$18.00 minimum bill.
All over 1,200 gallons -	\$6.20 per 1,000 gallons.

### WASTEWATER RATE SCHEDULE

From July 1, 2014 through June 30, 2015:

Sewer Residential:

1 <sup>st</sup> 1,200 gallons of water used -	\$24.48 minimum bill.
All over 1,200 gallons of water used -	\$9.32 per 1,000 gallons.

Sewer Commercial:

1 <sup>st</sup> 1,200 gallons of water used -	\$24.48 minimum bill.
All over 1,200 gallons of water used -	\$10.32 per 1,000 gallons.

## OPERATING AND FINANCIAL HISTORY OF THE AUTHORITY

### BILLINGS AND COLLECTIONS

The Authority handles its own billings with the use of its own computer system. During the three fiscal years ended June, 30, 2015, June 30, 2014 and June 30, 2013, uncollected accounts charged against the allowance for doubtful accounts amounted to \$58,214, \$44,441 and \$20,608, respectively.

### WATER AND WASTEWATER OPERATING REVENUES

The following table sets forth for each of the fiscal years indicated gross operating revenues for the Water and Sewer Systems.

**WATER AND WASTEWATER OPERATING REVENUES**  
**ANDERSON COUNTY WATER AUTHORITY**  
(For the Fiscal Year Ended June 30)  
Billings

<u>YEAR</u>	<u>WATER</u>	<u>WASTEWATER</u>	<u>TOTAL</u>
2010	\$3,894,824	\$578,261	\$4,473,085
2011	3,713,110	641,015	4,354,125
2012	3,965,496	732,686	4,698,182
2013	3,993,754	735,767	4,729,521
2014	4,194,593	699,653	4,894,246
2015	4,481,189	967,440	5,448,629

### COMPETITION AND FRANCHISE RIGHTS

The District Act provides that as long as the Authority continues to furnish any of the services which it is authorized to furnish, it shall continue to be the sole public corporation having the power to furnish such services within the boundaries of the Authority, and no other person, firm or corporation shall furnish or attempt to furnish any of such services within said boundaries. The District Act provides certain limited exceptions to the exclusive service right. The District Act provides that the exclusive right to serve may be lost if it can be established that the public convenience and necessity requires other or additional services. The District's right to serve also is subject to prior rights of a municipality to serve newly annexed territories pursuant to Section 6-51-101 *et. seq.*, Tennessee Code Annotated. The District Act further grants to municipalities the prior right to serve areas outside their boundaries if the areas are not within the boundaries of a utility district authorized to provide the service or are not already being served by a utility district. Further, any acquisition of service area must be done in such a way as to fully preserve and protect the contract rights vested in owners of bonds or other obligations of the Authority.

## METHOD OF ACCOUNTING

This Authority utilizes the accrual method of accounting. Provision for depreciation of the utility plant in service has been made on the straight-line method over the estimated useful lives of the assets. Depreciation is not considered on any capital item until the same is actually placed in operation. Plant contributed by developers is included at the developer's cost. Material and supply inventories are stated at the lower of cost (first in, first out method) or market. Sales revenue is recorded monthly based on meter readings subsequent to the delivery and consumption of the product by the customer. Revenues are accrued for usage in the annual reports of the Authority from the last meter reading date to June 30. Amounts received from developers and customers for capital improvements are recorded as contributions in-aid-of construction. Bond discounts and premiums are amortized during the period bonds are outstanding using the stated interest required method of amortization. The Authority capitalizes bond interest expenses during the construction phase of expansion of the distribution system.

## SUMMARY OF OPERATIONS

The financial statements of the Authority for the year ended June 30, 2015 and 2014 has been audited by Parsons & Wright, CPA's, whose report thereon appears in the Authority's attached comprehensive annual financial report. In addition, the Authority has been awarded the GFOA Certificate of Excellence in Financial Reporting for the fifth year in row.

## MANAGEMENT DISCUSSION OF OPERATING RESULTS

Peak usage for fiscal year ending June 30, 2015 was 97,313,305 gallons in the month of May 2015 with an average daily demand was 3,143,998 gallons.

## UTILITY PLANT

The cost of the Authority's utility plant as of June 30, 2015, is as follows:

<b>System</b>	
Property Plant & Equipment	\$ 40,271,593
Construction in Progress	352,775
Land and Easements	504,359
Accumulated Depreciation	<u>(19,370,986)</u>
<b>TOTAL</b>	<b><u>\$ 21,757,741</u></b>

*[balance of sheet left blank]*

**ANDERSON COUNTY WATER AUTHORITY OF ANDERSON COUNTY, TENNESSEE**  
**SUMMARY OF BONDED INDEBTEDNESS**

<b>AMOUNT ISSUED</b>	<b>PURPOSE</b>	<b>DUE DATE</b>	<b>INTEREST RATE(S)</b>	<b>As of June 01, 2016 (1) OUTSTANDING</b>
\$ 8,650,000	Water and Sewer Revenue Bonds, Series 2010	June 2036	Fixed	\$ 7,420,000
3,512,571	(2) Water and Sewer Revenue Loan, Series 2013 (SRF)	June 2045	Fixed	2,723,019
<u>\$ 12,162,571</u>	<b>TOTAL BONDED DEBT</b>			<u>\$ 10,143,019</u>
\$ 8,975,000	Water and Sewer Revenue Refunding and Improvement Bonds, Series 2016	June 2036	Fixed	\$ 8,975,000
(6,390,000)	Less: Refunded Bonds			(6,390,000)
<u>\$ 14,747,571</u>	<b>TOTAL BONDED DEBT</b>			<u>\$ 12,728,019</u>

**NOTES:**

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

(2) The Series 2013 SRF Loan included \$702,514 of principal forgiveness.

**ANDERSON COUNTY WATER AUTHORITY OF ANDERSON COUNTY, TENNESSEE**  
**BONDED DEBT SERVICE REQUIREMENTS**

F.Y. Ended	As of June 01, 2016 Existing Water & Sewer Revenue Debt (1)				Less: Refunded Debt			Water and Sewer Revenue Refunding & Improvement Bonds, Series 2016				Percent 2016 Principal Repaid		Total Bonded Debt Service Requirements			Percent Total Principal Repaid		
	Principal	Interest	TOTAL		Principal	Interest (2)	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL
2017	\$ 332,474	\$ 321,302	\$ 653,776	\$ -	\$ (280,750)	\$ (280,750)	\$ (280,750)	\$ 180,000	\$ 177,256	\$ 357,256	2.01%	\$ 512,474	\$ 217,809	\$ 730,282			\$ 730,282		4.03%
2018	342,912	315,351	658,264	-	(280,750)	(280,750)	(280,750)	165,000	197,888	362,888		507,912	232,489	740,401			740,401		
2019	348,353	308,536	656,889	-	(280,750)	(280,750)	(280,750)	165,000	194,175	359,175		513,353	221,961	735,314			735,314		
2020	358,796	300,943	659,739	-	(280,750)	(280,750)	(280,750)	165,000	190,463	355,463		523,796	210,656	734,451			734,451		
2021	369,241	292,398	661,639	(280,000)	(280,750)	(560,750)	(560,750)	445,000	186,750	631,750	12.48%	534,241	198,398	732,639			732,639		20.36%
2022	379,688	280,751	660,439	(290,000)	(269,550)	(559,550)	(559,550)	450,000	176,738	626,738		539,688	187,938	727,626			727,626		
2023	395,137	268,701	663,839	(305,000)	(257,950)	(562,950)	(562,950)	455,000	166,613	621,613		545,137	177,364	722,501			722,501		
2024	410,589	256,050	666,639	(320,000)	(245,750)	(565,750)	(565,750)	465,000	156,375	621,375		555,589	166,675	722,264			722,264		
2025	426,043	242,796	668,839	(335,000)	(232,950)	(567,950)	(567,950)	475,000	145,913	620,913		566,043	155,758	721,801			721,801		
2026	441,499	228,939	670,439	(350,000)	(219,550)	(569,550)	(569,550)	485,000	135,225	620,225	38.44%	576,499	144,614	721,114			721,114		42.23%
2027	461,958	214,481	676,439	(370,000)	(205,550)	(575,550)	(575,550)	500,000	124,313	624,313		591,958	133,243	725,201			725,201		
2028	472,419	199,220	671,639	(380,000)	(190,750)	(570,750)	(570,750)	500,000	113,063	613,063		592,419	121,533	713,951			713,951		
2029	492,882	183,557	676,439	(400,000)	(175,550)	(575,550)	(575,550)	515,000	101,813	616,813		607,882	109,819	717,701			717,701		
2030	503,347	167,091	670,439	(410,000)	(159,550)	(569,550)	(569,550)	525,000	90,225	615,225		618,347	97,766	716,114			716,114		
2031	528,815	150,224	679,039	(435,000)	(143,150)	(578,150)	(578,150)	545,000	78,413	623,413	67.24%	638,815	85,486	724,301			724,301		66.19%
2032	549,285	132,353	681,639	(455,000)	(125,750)	(580,750)	(580,750)	560,000	66,150	626,150		654,285	72,753	727,039			727,039		
2033	574,758	109,131	683,889	(480,000)	(103,000)	(583,000)	(583,000)	570,000	53,550	623,550		664,758	59,681	724,439			724,439		
2034	595,233	84,656	679,889	(500,000)	(79,000)	(579,000)	(579,000)	585,000	40,725	625,725		680,233	46,381	726,614			726,614		
2035	620,710	59,179	679,889	(525,000)	(54,000)	(579,000)	(579,000)	600,000	27,563	627,563		695,710	32,741	728,451			728,451		
2036	651,190	32,449	683,639	(555,000)	(27,750)	(582,750)	(582,750)	625,000	14,063	639,063	100.00%	721,190	18,762	739,951			739,951		93.03%
2037	96,672	4,217	100,889	-	-	-	-	-	-	-		96,672	4,217	100,889			100,889		
2038	97,156	3,733	100,889	-	-	-	-	-	-	-		97,156	3,733	100,889			100,889		
2039	97,643	3,246	100,889	-	-	-	-	-	-	-		97,643	3,246	100,889			100,889		
2040	98,132	2,756	100,889	-	-	-	-	-	-	-		98,132	2,756	100,889			100,889		
2041	98,624	2,265	100,889	-	-	-	-	-	-	-		98,624	2,265	100,889			100,889		96.86%
2042	99,118	1,770	100,889	-	-	-	-	-	-	-		99,118	1,770	100,889			100,889		
2043	99,615	1,274	100,889	-	-	-	-	-	-	-		99,615	1,274	100,889			100,889		
2044	100,114	774	100,889	-	-	-	-	-	-	-		100,114	774	100,889			100,889		
2045	100,616	273	100,889	-	-	-	-	-	-	-		100,616	273	100,889			100,889		100.00%
	\$ 10,143,019	\$ 4,168,417	\$ 14,311,436	\$ (6,390,000)	\$ (3,893,550)	\$ (10,283,550)	\$ (10,283,550)	\$ 8,975,000	\$ 2,437,269	\$ 11,412,269		\$ 12,728,019	\$ 2,712,136	\$ 15,440,155			\$ 15,440,155		

**NOTES:**

- (1) The above figures do not include any short-term debt, if any. For more information, see the notes to the Financial Statements in the FINANCIAL STATEMENTS included herein.  
(2) Estimated Interest Rates. Estimated Average Coupon 2.25%.

**ANDERSON COUNTY WATER AUTHORITY OF ANDERSON COUNTY, TENNESSEE**

Five Year Summary of Revenues, Expenditures and  
Changes In Retained Earnings  
For the Fiscal Year Ended June 30

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Revenues:</b>					
Water Revenue	\$ 3,713,110	\$ 3,965,496	\$ 3,993,754	\$ 4,194,593	\$ 4,480,748
Wastewater Revenue	641,015	732,686	735,767	699,653	855,701
Connection Fees	105,190	123,143	87,590	90,920	95,450
Customer Forfeited Discounts	87,518	111,258	105,100	110,039	118,050
Tap Fees	55,620	68,650	91,210	150,250	97,850
Miscellaneous Revenue	17,728	7,901	16,362	11,308	11,731
<b>Total Operating Revenues</b>	<b>\$ 4,620,181</b>	<b>\$ 5,009,134</b>	<b>\$ 5,029,783</b>	<b>\$ 5,256,763</b>	<b>\$ 5,659,530</b>
<b>Operating Expenses:</b>					
Water Treatment, Transmission & Distribuion	\$ 2,470,739	\$ 2,539,744	\$ 2,607,827	\$ 2,818,994	\$ 2,929,398
Wastewater Treatment	462,561	533,027	522,323	600,936	642,206
Customer Accounting and Collection	100,940	31,152	9,843	15,882	20,629
Administrative and General	591,386	681,855	701,094	769,654	780,742
Depreciation	915,378	963,933	1,074,093	1,112,120	1,134,892
<b>Total Operating Expenses</b>	<b>\$ 4,541,004</b>	<b>\$ 4,749,711</b>	<b>\$ 4,915,180</b>	<b>\$ 5,317,586</b>	<b>\$ 5,507,867</b>
Operating Earnings	\$ 79,177	\$ 259,423	\$ 114,603	\$ (60,823)	\$ 151,663
<b>Other Income (Expenses):</b>					
Disposal of Capital Assets	\$ 12,000	\$ 36,915	\$ 53,126	\$ (18,498)	\$ -
Investment Income	24,253	(1,828)	4,997	9,183	12,576
Other Income/Expenses	-	-	-	71,233	20,208
Interest	(340,149)	(201,554)	(360,087)	(383,398)	(372,973)
Non-Operating Revenues (Expenses)	\$ (303,896)	\$ (166,467)	\$ (301,964)	\$ (321,480)	\$ (340,189)
Increase in Net Assets before Capital Contributions	\$ (224,719)	\$ 92,956	\$ (187,361)	\$ (382,303)	\$ (188,526)
<b>Capital Contributions:</b>					
Cash	\$ 236,800	\$ 121,799	\$ 197,528	\$ 160,590	\$ -
Non-Cash	-	-	605,897	375,098	262,293
<b>Total Other Income (Expenses)</b>	<b>\$ 236,800</b>	<b>\$ 121,799</b>	<b>\$ 803,425</b>	<b>\$ 535,688</b>	<b>\$ 262,293</b>
Net Assets Increase / Decrease	\$ 12,081	\$ 214,755	\$ 616,064	\$ 153,385	\$ 73,767
Net Assets, Beginning of Year Adjustment	\$ 15,851,606	\$ 15,863,687	\$ 16,078,442	\$ 16,569,391	\$ 16,722,776
	-	-	(125,115)	-	258,299
<b>Net Assets, End of Year</b>	<b>\$ 15,863,687</b>	<b>\$ 16,078,442</b>	<b>\$ 16,569,391</b>	<b>\$ 16,722,776</b>	<b>\$ 17,054,842</b>

Source: Financial Statements for Anderson County Water Authority of Anderson County, Tennessee.

**Note:**

Anderson County Water Authority operations began in January 1, 2009. The Authority was created by merging Anderson County Utility Board (part of Anderson County, Tennessee) and North Anderson County Utility District on January 1, 2009 the effective date of significant operations.

**ANDERSON COUNTY WATER AUTHORITY OF ANDERSON COUNTY, TENNESSEE**  
**HISTORICAL DEBT SERVICE COVERAGE ON BONDS**

For the Fiscal Year Ended June 30

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Gross Revenue	\$ 4,620,181	\$ 5,009,134	\$ 5,029,783	\$ 5,256,763	\$ 5,659,530
Operating Expenses	3,625,626	3,785,778	3,841,087	4,205,466	4,372,975
Other Income	<u>24,253</u>	<u>(1,828)</u>	<u>4,997</u>	<u>9,183</u>	<u>12,576</u>
Income Available For Debt Service	1,018,808	1,221,528	1,193,693	1,060,480	1,299,131
Capital Contributions - Cash Only	<u>236,800</u>	<u>121,799</u>	<u>197,528</u>	<u>160,590</u>	<u>-</u>
Income Available For Debt Service Includes Cash Contributions	1,255,608	1,343,327	1,391,221	1,221,070	1,299,131
Actual Debt Service Requirements	427,947	524,188	530,955	531,188	536,989
Bond Coverage - Without Cash Contributions	2.38 X	2.33 X	2.25 X	2.00 X	2.42 X
Bond Coverage - With Cash Contributions	2.93 X	2.56 X	2.62 X	2.30 X	2.42 X
Maximum Estimated Debt Service Requirements on Outstanding and Proposed Bonds (FY 2036)	739,951	739,951	739,951	739,951	739,951
Maximum Senior Bond Coverage	1.70 X	1.82 X	1.88 X	1.65 X	1.76 X

Source: Annual Financial Reports for the District

## ANDERSON COUNTY GENERAL INFORMATION

### LOCATION

Anderson County (the "County") is located in the northeastern portion of the State of Tennessee. To the north, the County is bordered by Campbell County. Union and Knox Counties make up the County's eastern border while Roane County provides its southwestern border. Morgan and Scott County make up Anderson County's northwestern border. The City of Clinton, the county seat, is situated about 17 miles northwest of Knoxville. Other incorporated towns in the County are Lake City, Norris, Oliver Springs and Oak Ridge. The City of Oak Ridge is approximately 20 miles from the City of Knoxville.

A portion of the City of Oak Ridge is also located in Roane County. This portion includes facilities run by the U.S. Department of Energy (the "DOE"): the Oak Ridge National Laboratory (the "ORNL") and the Y-12 National Security Complex (the "Y-12"). These facilities were built during World War II and produced uranium 235 for the first atomic bomb. The project was known as the "The Manhattan Project"

### GENERAL

Approximate land area of Anderson County is 216,320 acres with the proportion in farms being 57.0%. Major crops are tobacco, corn, wheat and rye. The County is located almost precisely in the center of the eastern half of the United States, equidistant between the southernmost tip of Florida and the northernmost corner of Maine. The area is also the population center of the country with more than 70 million people living within a 500-mile radius, only one day's drive from this central location. This makes Anderson County an ideal distribution center for more than 76% of the major markets in eastern America and a leading area in Tennessee, a state that ranks 15th in industry.

The County is part of the Knoxville Metropolitan Statistical Area (the "MSA") that had a population of 837,571 according to the 2010 US Census. The MSA includes Knox (Knoxville and Farragut), Anderson (Oak Ridge and Clinton), Blount (Maryville and Alcoa), Campbell (LaFollette), Grainger (Rutledge), Loudon (Loudon), Morgan (Wartburg), Roane (Harriman) and Union (Maynardville) Counties.

The County is also part of the Knoxville-Sevierville-Harriman Combined Statistical Area (the "CSA"). According to the 2010 Census, the CSA had a population of 1,056,442. The CSA includes Roane, Anderson, Blount, Knox, Loudon, Union, Grainger, Hamblen, Jefferson, Campbell, Cocke and Sevier Counties. The City of Knoxville is the largest city in the CSA with a population of 178,874 according to the 2010 Census. The population of Anderson County is estimated to be 75,129 persons per the U.S. Bureau of the Census in 2010. The population of the City of Oak Ridge in 2010, according to the U.S. Bureau of the Census, was 29,330.

## TRANSPORTATION

The County has access to several transportation facilities. Four state highways, Route 95, 61, 58, and 62, intersect in the County, and access to Interstates 75 and 40 is also available. The County is served by the CSX Railroad, Norfolk Southern Railroad, and L & N Railroad, bus lines and numerous truck lines. The nearest general aviation airport is located at Jacksboro, Tennessee, approximately 15 miles away from the County. There is also an airstrip at Oliver Springs, 5 miles outside Oak Ridge. Commercial air service is provided by McGhee Tyson Airport, a major commercial and freight air terminal at Alcoa, Tennessee about 25 miles away.

Oak Ridge borders the Clinch River's navigable waterway for 42 miles along the shores of Watts Bar and Melton Hill Lakes. These TVA waterways connect to the Tennessee River. Channelization of the Tennessee River to a 9-foot minimum navigable depth from its junction with the Ohio River at Paducah, Kentucky to Knoxville, Tennessee gives the County the benefits of year round, low cost water transportation and a port on the nation's 10,000 mile-inland waterway system. This system formed largely by the Mississippi River and its tributaries, effectively links the County with the Great Lakes to the north and the Gulf of Mexico to the south.

## EDUCATION

There are two school systems located within the County. *Anderson County School System* has a very extensive school system made up of 17 schools countywide. These schools can be broken down into nine elementary schools, four middle schools, two high schools, and one vocational school. Anderson County had a fall 2014 enrollment of about 6,651 students for 480 teachers. The *Oak Ridge City School System* operates seven schools covering pre-school through 12. The fall 2014 enrollment was about 4,438 students with 322 teachers. In addition to the City system, a parochial school also exists within the City limits covering grades one through eight with an enrollment of approximately 200 students.

*Source:* Tennessee Department of Education.

*Oak Ridge Associated Universities (the "ORAU")* is a consortium of 100 colleges and universities and a contractor for the DOE located in Oak Ridge, Tennessee. Founded in 1946, ORAU works with its member institutions that include the University of Tennessee and its satellite campuses. The purposes are to help their students and faculty gain access to federal research facilities throughout the country; to keep its members informed about opportunities for fellowship, scholarship, and research appointments; and to organize research alliances among its members. ORAU has contracted with the U.S. Nuclear Regulatory Commission since 1992 for radiation training and managing the Radiation Emergency Center / Training Site in Oak Ridge and the Technical Training Center in Chattanooga. Through the Oak Ridge Institute for Science and Education, the DOE facility that ORAU operates, undergraduates, graduates, postgraduates, as well as faculty enjoy access to a multitude of opportunities for study and research. A pioneer in technology transfer, with historic contributions in nuclear medicine and health physics, ORAU today conducts specialized training in nuclear related areas of energy, health and the environment. Appointment and program length range from one month to four years. Many of these programs are especially designed to increase the numbers of underrepresented minority students pursuing degrees in science - and engineering - related disciplines. ORAU currently

does about \$100 million in work annually that falls outside the contract for managing the Oak Ridge Institute for Science and Education.

*Source:* Oak Ridge Associated Universities, University of Tennessee at Chattanooga.

*Roane State Community College Oak Ridge Campus.* Roane State Community College, which began operation in 1971 in Harriman, Tennessee, is a two-year higher education institution which serves a fifteen county area. Fall 2014 enrollment was about 5,832 students. Designed for students who plan to transfer to senior institutions, the Roane State academic transfer curricula include two years of instruction in the humanities, mathematics, natural sciences, and social sciences. Approximately 21 college transfer programs and/or options are offered by the college.

Roane State's 104-acre main campus is centrally located in Roane County where a wide variety of programs are offered. Roane State has nine locations across East Tennessee – the Roane County flagship campus; an Oak Ridge campus; campuses in Campbell, Cumberland, Fentress, Loudon, Morgan and Scott Counties; and a center for health science education in West Knoxville.

*Source:* Roane State Community College.

*The Tennessee Technology Center at Harriman.* The Tennessee Technology Center at Harriman 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 Harriman serves the eastern region of the state including Anderson, Loudon, Meigs, Morgan, Rhea, and Roane Counties. The Technology Center at Harriman began operations in 1970, and the main campus is located in Roane County. Fall 2013 enrollment was 550 students.

*Source:* Tennessee Technology Center at Harriman.

## **MEDICAL**

The *Methodist Medical Center of Oak Ridge* has 301 beds and 188 physicians representing at least 30 specialties from primary health care to open heart surgery. It is a full-service regional medical facility. Methodist Medical Center dates back to 1942 and became part of Covenant Health in 1996.

Covenant Health is a comprehensive health system established in 1996 by the consolidation of Fort Sanders Health System, Knoxville, Tennessee, and MMC HealthCare System, parent company of Methodist Medical Center of Oak Ridge, Tennessee. With headquarters located in nearby Knoxville, the system provides comprehensive services throughout East Tennessee. It is also the largest employer in the area. The organization is governed by a voluntary board of directors composed of community leaders and medical professionals.

*Source:* Covenant Health and Methodist Medical Center.

## SCIENCE AND ENERGY

### *History*

The City of Oak Ridge has a unique history. This area was selected by the United States government in 1942 as the location for its production plants for uranium 235, a component of the first atomic bomb. The original town site was built during World War II to house and furnish necessary facilities for the employees of the uranium plants. This project (known as the "Manhattan Project") was transferred to the Atomic Energy Commission in 1947, and the community was operated by contractors under the control of the Atomic Energy Commission. In 1955 the Atomic Energy Commission sold the homes and land to the residents. By 1959 the residents voted in favor of incorporation under a modified city manager-council form of government.

Since the 1940's, the nuclear industry has been the largest employer for the City of Oak Ridge and Roane and Anderson Counties when a weapons fabrication division was built by the U.S. Corps of Engineers. As part of the secret World War II "Manhattan Project", the early task of the plant was the separation of fissionable uranium-235 from the more stable uranium-238 by an electro-magnetic process to be utilized in the world's first atomic bomb. Some 80,000 workers were hired for emergency construction of the laboratories and offices on the 56,000 acre site. At the peak of production during the war, 23,000 employees kept the separation units working at a cost of \$500 million for the entire project.

Today, the DOE occupies approximately 33,000 acres and almost 1,200 buildings within the Oak Ridge city limits, and employs over 13,000 in engineering, skilled and semi-skilled crafts, technical and administrative support. Since October 1999 The DOE has contracted with the University of Tennessee and Battelle to manage the ORNL. UT-Battelle began management of the lab on June 1, 2000. Consolidated Nuclear Security, a Bechtel-led contractor team, took over management of the Y-12 nuclear weapons plant effective July 1, 2014 (BWXT, Inc. was the appointed contractor for the Y-12 Plant). DOE awarded its environmental cleanup contract to Bechtel Jacobs from 1997 to 2011. URS-CH2M Oak Ridge took over the cleanup contract in 2011.

### *Research*

The extensive energy research and development conducted by private and public agencies make the city one of the world's great research centers. The presence of the University of Tennessee, the ORNL, Oak Ridge Associated Universities and the Tennessee Valley Authority (the "TVA") makes Oak Ridge a prime location for research facilities, as well as technology-based and conventional manufacturing industries. Science is a worldwide business, and the facilities at the DOE in the City have attracted a large number of technical people and their families. ORNL campus also houses visiting scientists and researchers that come to work at the world-class facility in an \$8.9 million Guest House (built in 2010) with 47 units. The City is well prepared to accommodate families from abroad and the school system is equipped to ease language and cultural differences.

BioEnergy Sciences Center (the "BESC"). BESC is one of only three sites in the country operated by one of the DOE's new bioenergy research centers. It opened in ORNL in 2007. BESC works to accelerate research in the development of cellulosic ethanol and other biofuels,

and make biofuel production cost competitive on a national scale. The new site received \$135 million in federal funding. The University of Tennessee serves as one of the academic partners, providing specialized instrumentation, plant breeding technologies and new microbe discovery. Energy crops like switchgrass, which can be grown on marginal crop land, can produce affordable, domestic renewable fuel without raising food or feed costs. The BESC is dedicated to studying how to economically break down the cellulose in those sources to convert it into usable sugars for ethanol production.

Roane and Anderson Counties are also able to benefit from many other advanced technology and research and development based companies located in the area. The University of Tennessee, the Technology 2020 project and TVA are some of these companies that are in the area.

Oak Ridge National Lab. The ORNL is a multiprogram science and technology laboratory managed for the DOE by UT-Battelle, LLC. Scientists and engineers at ORNL conduct basic and applied research and development to create scientific knowledge and technological solutions that strengthen the nation's leadership in key areas of science; increase the availability of clean, abundant energy; restore and protect the environment; and contribute to national security. ORNL also performs other work for the DOE, including isotope production, information management, and technical program management, and provides research and technical assistance to other organizations. The laboratory is a program of DOE's Oak Ridge Field Office.

ORNL also boasts having the Spallation Neutron Source accelerator project and several supercomputers for scientific purposes. These unique projects bring about 3,000 scientists to visit each year for varying periods of time, and numerous small industries to be spun off from the experiments and findings. Each job created is expected to have an impact on housing, retail banking, automobile and transportation, hotels, restaurants, hospitals, and business services.

The world's most powerful neutron science project is the *Spallation Neutron Source* (the "SNS") at ORNL. The giant research complex, spread across 75 acres on Chestnut Ridge a couple of miles from the main ORNL campus, is the world's top source of neutrons for experiments. The SNS is an accelerator-based neutron source built in Roane County by the DOE. The SNS provides the most intense pulsed neutron beams in the world for scientific research and industrial development. At a total cost of \$1.4 billion, construction began in 1999 and was completed in 2006. In 2009, SNS reached full power when it set the world record in producing beam power three times more powerful than the previous world record. More neutrons are produced with a higher beam power.

Neutron-scattering research has a lot to do with everyday lives. For example, things like jets; credit cards; pocket calculators; compact discs, computer disks, and magnetic recording tapes; shatter-proof windshields; adjustable seats; and satellite weather information for forecasts have all been improved by neutron-scattering research. Neutron research also helps researchers improve materials used in high-temperature superconductors, powerful lightweight magnets, aluminum bridge decks, and stronger, lighter plastic products. The medical field will also be impacted with new drugs and medicines expected from experiments at the SNS.

ORNL is also completing a series of upgrades at the *High Flux Isotope Reactor*. This ORNL facility is sometimes referred to as the lab's "other" billion-dollar machine. It is the world's most powerful research reactor, and it is used to perform experiments similar to - but different from - those to be done at the Spallation Neutron Source.

Neutron-scattering research has a lot to do with everyday lives. For example, things like jets; credit cards; pocket calculators; compact discs, computer disks, and magnetic recording tapes; shatter-proof windshields; adjustable seats; and satellite weather information for forecasts have all been improved by neutron-scattering research. Neutron research also helps researchers improve materials used in high-temperature superconductors, powerful lightweight magnets, aluminum bridge decks, and stronger, lighter plastic products. The medical field will also be impacted with new drugs and medicines expected from experiments at the SNS.

ORNL's *Supercomputers* are housed in a 170,000-square-foot facility that includes 449 staff and 40,000 square feet of space for computer systems and data storage. The facility will house or has housed four supercomputers, the planned "Summit", the "Titan" (currently the world's second fastest supercomputer), the "Kraken", and the now dismantled "Jaguar" (which at one point was the world's fastest supercomputer). The machines will work on breakthrough discoveries in biology, fusion energy, climate prediction, nanoscience and many other fields that will fundamentally change both science and its impact across society.

The DOE awarded IBM an estimated \$162 million contract to build the new "Summit" supercomputer (expected to be completed in 2017) at ORNL to be used for a wide range of scientific applications including combustion science, climate change, energy storage and nuclear power. The "Summit" is expected to be five times faster than the "Titan" supercomputer already online at ORNL, which was ranked the fastest supercomputer in the world in 2012.

The National Oceanic and Atmospheric Administration's (the "NOAA") sponsor the supercomputer, called "Titan", funded with Recovery Act money. NOAA awarded Cray and ORNL a \$47 million contract to provide the supercomputer "Titan" to work on climate research. The Cray supercomputer, the "Titan", was online in late 2012 after several years of development to replace the "Jaguar" supercomputer at ORNL. When the "Titan" was listed as the world's fastest computer in late 2012 it marked the fourth time a computer from ORNL has achieved that distinction since 1953. The "Titan's" purpose is to support research in energy, climate change, efficient engines and materials science. "Titan" has been billed as a 17.5-petaflops machine, which means it is capable of a peak performance of about 17,500 trillion (or 17.5 quadrillion) mathematical calculations per second. That speed is about 10 times the capability of the first "Jaguar", which at one time was the world's fastest computer. The total cost of the "Titan" was estimated to be about \$100 million, but about \$20 million was saved by reusing much of the "Jaguar" structure.

The DOE and the National Science Foundation (the "NSF") sponsor the supercomputer "Kraken" which came on line in 2009. The NSF awarded the University of Tennessee (the "UT"), ORNL and other institutions a \$65 million grant to build "Kraken" to work on a range of scientific challenges, such as climate change and new medicines. UT's "Kraken" is housed with the ORNL's "Titan".

The DOE awarded ORNL and its development partners – Cray Inc., IBM Corp. and Silicon Graphics Inc. - \$25 million in funding to build the “Jaguar” supercomputer, which is now obsolete and replaced as of 2012.

A dedicated effort by the DOE to transfer technology to the private sector that was heretofore held as proprietary to the U.S. Government alone has led to an unparalleled growth in new business development in the area. Licenses have been granted to existing firms as well as start-up firms to manufacture for commercial use products using state-of-the-art technology in robotics, ceramics and nuclear medicine.

Through interagency agreements, DOE's Oak Ridge facilities have launched a highly successful "work for others" program. Local firms contract with numerous federal agencies to provide services and products. The value of these contracts have grown from approximately \$50 million in 1983 to \$270 million in recent years.

Technology 2020. The Technology 2020 project was initiated in 1993 to capitalize on the unique resources of the East Tennessee region: the presence of the ORNL, UTK, the headquarters of the TVA, and a significant number of both large and small technology companies in the region. A \$4.5 million investment has been made by DOE, South Central Bell, the Tennessee Public Service Commission and Lockheed-Martin to set up a regional telecommunications laboratory and has been termed the area's "on-ramp to the information highway". This economic development resource center is located in Oak Ridge's Commerce Park. An 18,000 square foot facility has been constructed on the 5.2 acre site. The facility is used for testing and demonstrating new communications technologies and applications. It offers video conferencing, training and multi-media presentation capabilities and a new business incubator for emerging companies. The facility is expected to be particularly important to rural communities that might not otherwise have access to advanced communications resources.

Tennessee Valley Authority (the “TVA”). TVA provides support, technology, expertise, and financial resources to existing businesses and industries in the Valley to help them grow and be more efficient and profitable. These resources include technical assistance, low-interest loans, and other tools needed by businesses for successful operation.

University of Tennessee. The University of Tennessee's flagship campus in Knoxville is home to a wide array of vigorous programs doing research on issues vital to the community, the state, the nation, and the world. The university has collaborative relationships with public and private agencies including ORNL, Battelle Memorial Institute (forming UT-Battelle), St. Jude Children's Research Hospital, the Memphis Bioworks Foundation, and the Boston-Baskin Cancer group (forming UT Cancer Institute).

*National Institute for Mathematical and Biological Synthesis (NIMBioS)* is a first-of-its-kind institute dedicated to combining mathematics and biology to solve problems in both scientific fields. The center is funded by a 2008 \$16 million award from the National Science Foundation and is located at the University of Tennessee. A unique aspect of NIMBioS will be its partnership with the Great Smoky Mountains National Park. The park and its Twin Creeks Science Center play a key role in the institute's work, with the park serving as a testing ground for many of the ideas that come from NIMBioS. Partners in NIMBioS include the US

Department of Agriculture and the US Department of Homeland Security, IBM and ESRI, a developer of software and technology related to geographic information systems. It draws over 600 researchers each year to Knoxville.

*Source:* City of Oak Ridge, ORNL, Y-12 National Security Complex and the Knoxville News Sentinel.

### *Nuclear*

Integrated Facilities Disposition Program. The DOE approved a massive \$18 billion Oak Ridge cleanup campaign. The cleanup program would demolish more than 400 contaminated building at ORNL and the Y-12 nuclear weapons plan. The program would also focus on mitigating polluted ground water at the sites and other actions to reduce environmental damage. The work began in 2011 and could take up to 45 years to complete.

In 2015 \$424 million was set aside for the environmental cleanup activities in Oak Ridge.

The 2009 stimulus act passed by Congress gave the DOE Oak Ridge's office \$1.9 billion for environmental cleanup projects. The stimulus money sent directly for projects in Oak Ridge, \$1.2 billion, saved or created about 3,863 new jobs through sub-contracting construction-type jobs as well as technical and specialty positions associated with handling radioactive materials and evaluating environmental risks. The clean-up money was divided among four sites: \$239 million to ORNL, \$292 million to Y-12, \$144 million to East Tennessee Technology Park and \$80 million to the Transuranic Waste Processing Center. At Y-12 alone, seven cleanup projects created 2,000 jobs, demolished about 150,000 square feet of old buildings and got rid of about 74,000 cubic meters of waste.

A former gaseous diffusion building was torn down by the DOE as part of its program to convert the former K-25 site for use by private industry. The K-29 Building was part of a series of mammoth buildings to enrich uranium for weapons and fuel for nuclear power plants. The building went into operation in 1951 and was shut down in 1987. The building in size equates to 6 1/2 football fields under one roof. Demolition was completed at the end of 2007. The gigantic K-25 building, a mile long U-shaped structure that processed the uranium in WWII, was demolished in 2010.

Y-12 National Security Complex. The Y-12 National Security Complex is another large federal plant in Oak Ridge. The ongoing functions of the Y-12 plant are to support the DOE's weapons design labs, recover U-235 from spent nuclear weapons and provide support to other government agencies.

Y-12 has been undergoing a major modernization program. Y-12 is a key facility in the U.S. Nuclear Weapons Complex and is responsible for ensuring the safety, reliability, and security of the nuclear weapons stockpile and serves as the nation's primary repository of highly enriched uranium. Y-12 houses the country's stockpile of bomb-grade uranium, builds uranium bomb parts and dismantles nuclear weapon systems as needed to support a much smaller nuclear arsenal. National Nuclear Security Administration's (the "NNSA") is planning to transform the nuclear weapons complex to be smaller, more efficient and more cost effective. The goal is by 2020 to have only two facilities where there used to be 700 buildings.

Contractors have already demolished dozens of World War II era buildings at Y-12, about a million square feet since 2001, to reduce the surveillance and maintenance costs, and to support the new programs. Some new office buildings already have been built, including the Jack Case Center that holds about a third of the workforce, or around 1,500 employees. This \$58 million, 420,000-square-foot office building was completed in the summer of 2007. A new 137,000-square-foot visitor's center and auditorium, for about \$18 million, was also completed in 2007.

A planned \$120 Million water treatment plant to capture Y-12 mercury runoff is expected to begin construction in 2017 and begin filtering 1,500 gallon a minute of water by 2020.

The \$549 million *Highly Enriched Uranium Materials Facility* at Y-12, a storage complex for weapons-grade uranium, was completed in late 2008. This storage facility replaced multiple aging facilities and allows for storage of its uranium stocks in one central location that represents maximized physical security with minimal vulnerabilities and operating costs. It is designed to protect the large cache of U-235 against any type of terrorist assault. The facility is currently over 85% storage capacity of bomb-grade uranium.

The *Uranium Processing Facility* (the "UPF") Project, cornerstone of Y-12's new modernization strategy, will replace current enriched uranium and other processing operations. It will replace Y-12's main production center and cost billions of dollars. The design phase began in 2006, construction began in 2009, and should be operation by 2025. Construction of the UPF will accelerate consolidation of aging facilities, bringing production operations currently housed in multiple buildings together, reducing the size of the plant's highest security area by 90 percent, improving the overall security posture, making the plant more secure and saving millions of dollars in annual operating costs.

*Source:* City of Oak Ridge, ORNL, Y-12 National Security Complex and the Knoxville News Sentinel.

## **POWER PRODUCTION**

*Bull Run Fossil Plant.* TVA's Bull Run Fossil Plant is located on Bull Run Creek near Oak Ridge in Anderson County. It is the only single-generator coal-fired power plant in the TVA system. When the generator went into operation in 1967, it was the largest in the world in the volume of steam produced. Bull Run has a single coal-fired generating unit. The winter net dependable generating capacity is about 870 megawatts. The plant consumes about 7,300 tons of coal a day. Bull Run's boiler, one of the largest in the United States, contains about 300 miles of tubes.

Electricity is generated at Bull Run by the process of heating water in a boiler to produce steam. Under extremely high pressure, the steam flows into a turbine that spins a generator to make electricity. Bull Run generates more than six billion kilowatt-hours of electricity a year, enough to supply about 430,000 homes. It has been ranked the most-efficient coal-fired plant in the nation 13 times and is consistently in the top five each year. In 2005, the plant achieved its best summer reliability ever, and in November of that year it set a plant record for continuous operation when it ran nonstop for 189 days with no unscheduled outages for maintenance or repairs.

To reduce sulfur dioxide (SO<sub>2</sub>) emissions, Bull Run burns a blend of low-sulfur coal. Construction of a scrubber to further reduce SO<sub>2</sub> began in 2005 and is scheduled for completion in 2009. To reduce nitrogen oxides (NO<sub>x</sub>), the plant uses a selective catalytic reduction system as well as combustion and boiler optimization controls. By 2010, TVA will have spent about \$5.7 billion on emission controls at its fossil-fuel plants to ensure that this power supply is generated as cleanly as possible, consistent with efficiency.

*Norris Dam.* TVA's Norris Dam, the first dam TVA built, is located in Anderson County on the Clinch River. Construction of the Dam began in 1933, just a few months after the creation of TVA, and was completed in 1936. Norris Dam is 265 feet high and stretches 1,860 feet across the Clinch River. The generating capacity of Norris is 131,400 kilowatts of electricity. Norris Dam is a popular tourist and recreation destination, and in summer 2005 TVA opened a new visitor center at the dam. Visitors can learn about the history of Norris, hydropower operations, and TVA's management of the river system.

*Source:* Tennessee Valley Authority.

## MANUFACTURING AND COMMERCE

A dedicated effort by the DOE to transfer technology to the private sector that was heretofore held as proprietary to the U.S. Government alone has led to an unparalleled growth in new business development in the City. Licenses have been granted to existing firms as well as start-up firms to manufacture for commercial use products using state-of-the-art technology in robotics, ceramics and nuclear medicine.

Currently, there are several industrial parks in the County which were developed by the municipality, and a few parks which were developed by private firms. The number of tenants, the diversity of their products and total employment in these parks point to a stable and thriving economic sector. The *Municipal Industrial Park* was the first park to be developed by the County and has been fully privatized for some years.

The activities undertaken by these firms include generalized and highly specific tooling and machining operations; design and manufacture of instrumentation and measurement devices; design and fabrication of metal bellows, piping and damping systems; custom fabrication of aluminum and zinc die cast parts, design and manufacture of food packaging systems; superconducting magnet design and fabrication; and decontamination, restoration and recycling of nuclear equipment components and materials.

Oak Ridge completed building the infrastructure for the 118-acre *Bethel Valley Industrial Park* in 1989. All of the park's 28 sites, totaling approximately 80 acres, have been sold to industries.

The *Clinch River Industrial Park* is a 100-acre site that has been fully privatized since 1990. The Scientific Ecology Group, Inc. and International Technology Corporation (IT) occupy the 8 lots within this park resulting in employment of approximately 1,300 individuals. Both firms operate decontamination waste facilities. The *Clinton / I-75 Industrial Park* has about 40 acres near Interstate 75.

*Commerce Park*, a 300-acre fully planned industrial/research and development park developed by Lockheed Martin is strategically located as the northern anchor to the Technology Corridor. The Technical Center is a 262,000 square foot office complex consisting of five structures, all of which are fully leased. Additionally, the park is home to the Technology 2020, a \$4.5 million state of the art telecommunication center. The project was completed in early 1996.

Located on the west side of Oak Ridge, *The East Tennessee Technology Park* (the “ETTP”) is a compilation of resource-rich industrial facilities which have their beginnings in the Manhattan Project during World War II. The site's original mission was to enrich uranium in the uranium 235 isotope for use in atomic weapons and subsequently for use in the commercial nuclear power industry. The plant was permanently shut down in 1987 and in 1996 reindustrialization went into effect with efforts focusing on restoration of the environment, decontamination and decommissioning of the facilities, and management of legacy wastes. The biggest task includes dismantlement and demolition of the K-25 building – a mile-long, U-shaped structure that was built to process uranium.

The ETTP site also serves as the test location of the next-generation enrichment technology under the U.S. Enrichment Corporation's American Centrifuge Program. This technology will allow the United States to maintain energy security through use of state-of-the-art materials, control systems and manufacturing processes to enrich uranium. Centrifuges are presently tested at the site for eventual use in a full-scale American Centrifuge Plant by the end of the decade.

The goal is to create a brownfields industrial park known as *Heritage Center* under coordination of the Community Reuse Organization of East Tennessee. Also, near the ETTP site is Horizon Center, which includes more than 1,000 acres of pristine greenfield land that is available for private industrial use.

*The Horizon Center* is a greenfield industrial park with more than 1,000 acres ready for immediate development. Horizon Center is a designed to provide building sites and amenities desired by high-tech companies while still preserving the area's scenic beauty. There is one corporate headquarters located in the park, Carbon Fiber Technology, which opened in 2013.

The *Valley Industrial Park*, a 90-acre site has more than 20 industrial facilities located within the Parks. The activities undertaken by firms in this park include development and manufacturing of robotics devices; development of coating materials; manufacturing of security devices; integrated information management services; manufacturing of precision measuring devices; tooling and machining operations; rolling and fabrication of metal sheet products; and a waste management facility. See “RECENT DEVELOPMENTS” for more information.

*Source:* Knoxville News Sentinel.

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Listed below are the larger employers located in the County:

<b>Major Employers in Anderson County<sup>1</sup></b>		
<b><u>Name</u></b>	<b><u>Product</u></b>	<b><u>Employment</u></b>
Consolidated Nuclear Services	National Security	4,500
Oak Ridge National Lab <sup>2</sup>	National Security	4,400
Anderson County	Government	1,716
UCOR	Environmental Management	1,383
Methodist Medical Center	Health Care	1,175
Anderson County Schools	Education	1,050
SL Tennessee <sup>3</sup>	Manufacturing	750
Eagle Bend Manufacturing	Manufacturing	671
Oak Ridge Schools	Public School System	652
Energy Solutions	Nuclear Engineering Services	625
Aisin Automotive Casting	Automotive Parts	580
Oak Ridge Associated Universities	Research & Development	549
Science Applications, Int'l. Corp.	IT Research & Engineering	546
Sitel (Client Logic)	Customer/Technical Service	500
Navarro Research & Engineering	Engineering & Administrative Services	445
Department of Energy (2 departments)	National Security	440
ORNL Federal Credit Union	Financial Institution	412
City of Oak Ridge	Government Administration	401
Carlisle Tire & Wheel	Manufacturing	400
Faris Enterprises (McDonalds)	Restaurants	400
Southern Tube Form	Metal Tubing for Auto Industry	365
Leidos Engineering	National Security & Engineering	350
Jacobs Engineering	Environmental Management	322
Washington Group	Waste Management	300
Pro2Serve	National Security	250
Food Lion Corporation	Distribution	250

<sup>1</sup> Contains employers located in both the counties the City of Oak Ridge lies in.

<sup>2</sup> ORNL is a joint venture of University of Tennessee and Battelle

<sup>3</sup> SL Tennessee will have an estimated 1,750 employment once its next expansion is completed.

Source: Knoxville News Sentinel, Anderson County Audit and the City of Oak Ridge – 2015.

## EMPLOYMENT INFORMATION

For the month of February 2016, the unemployment rate for Oak Ridge stood at 3.9% with 13,600 persons employed out of a labor force of 14,150. For the month of February 2016 the unemployment rate for Anderson County stood at 4.5% with 32,450 persons employed out of a labor force of 33,990.

The Knoxville MSA's unemployment for February 2016 was at 4.2% with 396,070 persons employed out of a labor force of 413,350. As of February 2016, the unemployment rate in the Knoxville-Sevierville-Harriman CSA stood at 4.6%, representing 503,800 persons employed out of a workforce of 528,160.

	Unemployment				
	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
National	8.9%	8.1%	7.4%	6.2%	5.3%
Tennessee	9.2%	8.0%	8.2%	6.7%	5.8%
<b>Oak Ridge</b>	<b>7.7%</b>	<b>7.4%</b>	<b>7.6%</b>	<b>6.2%</b>	<b>5.3%</b>
Index vs. National	87	91	103	100	100
Index vs. State	84	92	93	93	91
<b>Anderson County</b>	<b>8.4%</b>	<b>7.8%</b>	<b>7.9%</b>	<b>6.8%</b>	<b>6.0%</b>
Index vs. National	94	96	107	110	113
Index vs. State	91	97	96	101	103
<b>Knoxville MSA</b>	<b>7.3%</b>	<b>6.6%</b>	<b>6.9%</b>	<b>6.2%</b>	<b>5.4%</b>
Index vs. National	82	81	93	100	102
Index vs. State	79	82	84	93	93
<b>Knoxville-Sevierville- Harriman CSA</b>	<b>8.3%</b>	<b>7.5%</b>	<b>7.7%</b>	<b>6.5%</b>	<b>6.5%</b>
Index vs. National	93	93	104	105	123
Index vs. State	90	94	94	97	112

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

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## ECONOMIC DATA

### Per Capita Personal Income

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
National	\$40,277	\$42,453	\$44,266	\$44,438	\$46,049
Tennessee	\$35,601	\$37,323	\$39,137	\$39,312	\$40,457
<b>Anderson County</b>	<b>\$36,005</b>	<b>\$38,201</b>	<b>\$39,245</b>	<b>\$39,047</b>	<b>\$40,361</b>
Index vs. National	89	90	89	88	88
Index vs. State	101	102	100	99	100
<b>Knoxville MSA</b>	<b>\$34,799</b>	<b>\$36,850</b>	<b>\$38,557</b>	<b>\$38,359</b>	<b>\$39,530</b>
Index vs. National	86	87	87	86	86
Index vs. State	98	99	99	98	98
<b>Knoxville-Sevierville-Harriman CSA</b>	<b>\$33,312</b>	<b>\$35,215</b>	<b>\$36,675</b>	<b>\$36,614</b>	<b>\$37,718</b>
Index vs. National	83	83	83	82	82
Index vs. State	94	94	94	93	93

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

### Social and Economic Characteristics

	<u>National</u>	<u>Tennessee</u>	<u>Anderson County</u>	<u>Clinton</u>	<u>Oak Ridge</u>
Median Value Owner Occupied Housing	\$175,700	\$139,900	\$131,700	\$135,400	\$152,000
% High School Graduates or Higher Persons 25 Years Old and Older	86.3%	84.9%	85.9%	88.3%	92.0%
% Persons with Income Below Poverty Level	14.8%	18.3%	15.6%	13.2%	16.8%
Median Household Income	\$53,482	\$44,621	\$44,199	\$40,194	\$52,534

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

## TOURISM AND RECREATION

*American Museum of Science and Energy.* Drawing thousands of visitors from across the United States and abroad are the American Museum of Science and Energy and the Oak Ridge Graphite Reactor. More than 225,000 persons visit the Museum annually. The museum opened in 1949 in an old wartime cafeteria of the ORNL. Its guided tours took visitors through the peaceful uses of atomic energy. The present facility, opened in 1975, continues to provide the general public with energy information. The museum includes historical photographs, documents

and artifacts explaining the story of Oak Ridge and the Manhattan Project. There is an Exploration Station that offers self-directed activities which explore light and color, sound, problem-solving, static electricity, robotics, vision and more. It also includes exhibits on Y-12 and National Defense, the Earth's energy resources and nuclear reactors and energy.

The X-10 Graphite Reactor at ORNL, formerly known as the Clinton Pile and X-10 Pile, was the world's second artificial nuclear reactor and was the first reactor designed and built for continuous operation. The Graphite Reactor is open to the public and a National Historic Landmark. Also, an overlook display at the Oak Ridge Gaseous Diffusion Plant and facilities of the TVA is available for visitors.

*Source:* American Museum of Science and Energy.

*Arboretum.* The Arboretum is a project of the University of Tennessee Forest Resources Research and Education Center located in Oak Ridge. It generally hosts more than 30,000 visitors annually. This 250 acre research and education facility has over 2,500 native and exotic woody plant specimens that represent 800 species, varieties, and cultivars. The Arboretum serves as an outdoor classroom to university students in a variety of fields. It is also a place that provides a natural laboratory for research in plant uses, genetics and adaptability, insect and disease control, and the management of associated natural resources. The facility is recognized as an official Wildlife Observation Area and part of the National Watchable Wildlife Program by the Tennessee Wildlife Resources Agency. It is also recognized by the Holly Society of America as an official Holly test garden and the trails are part of the Tennessee Recreational Trail System.

*Source:* Forest Resources Research and Education Center.

*Melton Hill Reservoir.* TVA's Melton Hill Dam is located in Loudon County on the Clinch River. Melton Hill Reservoir extends almost 57 miles upstream from Melton Hill Dam to Norris Dam along the county lines of Loudon, Roane, Knox and Anderson Counties. Unlike other TVA reservoirs, Melton Hill is not used for flood control. But because it's used for power production, the level of the water in the reservoir fluctuates about four feet throughout the year. Melton Hill Reservoir has a nationally recognized rowing course and is a spring training site for collegiate teams from throughout the eastern United States. The reservoir has hosted a number of national championships. Melton Hill Reservoir extends the reach of barge traffic 38 miles up the Clinch River to Clinton, Tennessee, making the area attractive to industries that rely on this mode of transportation.

*Source:* Tennessee Valley Authority.

*Parks nearby.* Within 50 miles of the County are over a dozen lakeside resorts and State parks with cabins for rent, camping facilities, or both. The State parks - Cove Lake and Norris Dam in Campbell County, Big Ridge in Union County and Cumberland Mountain in Cumberland County - all offer cabins, camping and restaurants. Great Smoky Mountains National Park is a scenic seventy-five minute drive south of the County. Big South Fork National Recreation Area, with its top rated white water rafting, is only a sixty minute drive north.

*Norris Reservoir.* Norris Reservoir extends 73 miles up the Clinch River and 56 miles up the Powell from Norris Dam. It covers 5 counties: Anderson, Campbell, Union, Claiborne and Grainger Counties. Norris provides 809 miles of shoreline and 33,840 acres of water surface. It is the largest reservoir on a tributary of the Tennessee River. Norris Reservoir is an important

component of the system TVA set up to reduce the risks of these disasters. The area around the Clinch River receives more than 45 inches of rain a year. In the past, floodwaters on the Clinch sometimes inundated areas hundreds of miles downstream. The recreational use of Norris Reservoir exceeds that of any other tributary reservoir in the TVA river system. Water sports at Norris include boating, water skiing, swimming, and excellent fishing.

*Source: Tennessee Valley Authority.*

*Watts Bar Reservoir.* TVA's Watts Bar Dam is located along the Meigs and Rhea County line on the Tennessee River. Watts Bar Reservoir extends 72.4 miles northeast from the Dam to Fort Loudoun Dam through Rhea, Meigs, Roane and Loudon Counties. Watts Bar, located about midway between Knoxville and Chattanooga, is one of nine TVA dams on the Tennessee River. The reservoir attracts millions of recreation visits each year for boating, fishing, swimming, camping, and other outdoor activities. Watts Bar also creates a slack-water channel for navigation more than 20 miles up the Clinch River and 12 miles up its tributary, the Emory. The lock at Watts Bar handles more than a million tons of cargo a year, and the reservoir plays an important role in flood control. In conjunction with other tributary and main-river reservoirs above Chattanooga, it is of special value to that city, which is the point of greatest flood hazard in the Valley.

*Source: Tennessee Valley Authority.*

## **OTHER DEVELOPMENTS**

*Becromal.* In 2012 Becromal, a manufacturer of aluminum foils for electrolytic capacitors, closed its facility in the Yarnell Industrial Park in Clinton. The company is moving the manufacturing to Iceland. About 30 workers were laid off.

*CVMR.* CVMR is working with the State of Tennessee to establish its global headquarters in Oak Ridge, moving all of its current operations from Toronto, Canada. This can potentially result in 620 new jobs. CVMR is intending to invest \$313 million in the new facility for the production of advanced metal materials for a variety of industries, including aerospace, energy, automotive and medical devices. CVMR plans to quadruple its production capacity at the site over the next three years and will begin construction of additional facility in 2016. Company officials cited the proximity of the Oak Ridge National Laboratory in its decision to move from Canada.

The Oak Ridge facility will house CVMR USA's corporate headquarters, research and development, production of nano materials and metallurgical coating services, customer support, product development and planning for US production facilities. The CVMR Centre of Excellence for Innovation in Powder Metallurgy will collaborate with academic, industrial, government and businesses entities interested in the development of advanced materials and innovative technologies. The Centre will focus on production of new metallurgical products that can benefit the metal industry.

CVMR® Corporation is a privately held multinational, multi-disciplinary organization operating in four continents. The company specializes in project management of large mining operations, mineral processing plant design, construction and commissioning. A large portion of the US plant will be dedicated to the production of metal powders used in 3D Printing (Additive

Manufacturing) and producing graphene for advanced products.

*Dura-Line.* Headquartered in Knoxville, Dura-Line is a manufacturer of conduit products for the telecommunications industry. In 2015 the company announced a new \$25 million facility in Clinton that will create 70 new jobs.

*Eagle Bend Manufacturing Inc.* Eagle Bend began an expansion project to the 25-year-old plant in Clinton in 2012. The \$64 million project will create 188 new jobs over the next 5 years. The plant added another 100,000 square feet to the current 344,000 square feet. The company is an automotive part supplier for cars and light trucks worldwide. It is a division of Magna International Inc. of Canada.

*Integrated Facilities Disposition Program.* The DOE approved a massive \$14.5 billion Oak Ridge cleanup campaign. The cleanup program would demolish more than 400 contaminated building at ORNL and the Y-12 nuclear weapons plant. The program would also focus on mitigating polluted ground water at the sites and other actions to reduce environmental damage. The work began in 2011 and could take up to 25 years to complete.

The 2009 stimulus act passed by Congress gave the DOE Oak Ridge's office \$1.9 billion for environmental cleanup projects. The stimulus money sent directly for projects in Oak Ridge, \$1.2 billion, saved or created about 3,863 new jobs through sub-contracting construction-type jobs as well as technical and specialty positions associated with handling radioactive materials and evaluating environmental risks. The clean-up money was divided among four sites: \$239 million to ORNL, \$292 million to Y-12, \$144 million to East Tennessee Technology Park and \$80 million to the Transuranic Waste Processing Center. At Y-12 alone, seven cleanup projects created 2,000 jobs, demolished about 150,000 square feet of old buildings and got rid of about 74,000 cubic meters of waste. All clean-up projects have an extended deadline of 2015.

*Oak Ridge Associated Universities (the "ORAU").* In 2015 the ORAU received a five-year \$7.3 million contract for radiation training for the U.S. Nuclear Regulatory Commission (the "NRC"). The new contract with NRC will include training at the contractor's Oak Ridge facilities, as well as development and maintenance of the NRC's Technical Training Center in Chattanooga.

*Oak Ridge National Laboratory.* In 2011 ORNL cut 350 jobs to prepare for anticipated federal budget cuts in the Fiscal Year 2011-2012. In late 2014 the national lab employed 4,374.

ORNL is in the final stages of a \$300 million project to provide a modern campus for the next generation of great science. A unique combination of federal, state and private funds is building 13 new facilities. Included in these new facilities will be the Laboratory for Comparative and Functional Genomics, the Center for Nanophase Materials Sciences, the Advanced Microscopy Laboratory, the Oak Ridge Center for Advanced Studies and the joint institutes for computational sciences, biological sciences, and neutron sciences. ORNL has been selected as the site of the Office of Science's National Leadership Computing Facility for unclassified high-performance computing.

In early 2009 and in 2012 ORNL dedicated two solar arrays, respectively. The first one is a 288-foot span of solar array panels that provides 51.25 kilowatts of power to the lab's grid. The latest array cost \$800,000 and provides 200 kilowatts. These arrays will offset nearly half of the power use in one of ORNL's research facilities and expand a green initiative known as the "sustainable campus" project.

In the summer of 2009 ORNL broke ground on a \$95 million chemistry laboratory funded with federal stimulus money. The new 160,000-square-foot Chemical and Materials Science Building replaced old labs in a 1950s-era structure across the street from the construction site. Completion was in the summer of 2011. In 2010 the \$8.9 million Guest House was built on the ORNL campus. It houses visiting scientists and researchers that come to work at the world-class facility. The min-hotel has 47 units.

*ORNL Credit Union.* The ORNL Credit Union opened its \$30 million corporate headquarters in the Horizon Center in 2011. The consolidation of operations in Anderson and Knox Counties employ about 257 people, with an additional 100 more workers hired in the next 10-15 years.

*SL Tennessee.* An automotive parts supplier, SL Tennessee, will invest \$80.5 million and create 1,000 jobs to expand its Clinton facility in the Eagle Bend Industrial Park, which will be operational by April 2015. This 2015 expansion will add 250,000 more square feet to its existing 500,000 square feet under roof. The company already has made \$50 million in expansions and added 400 workers since 2010. This will make it the largest employer in Anderson County. In 2013 the company leased a 65,000-square-foot facility in the Eagle Bend Industrial Park and added 250 new jobs. A 2010 expansion cost about \$35 million and added another 100,000 square feet to the existing 164,000-square-foot plant. The expansions are due to the new Volkswagen automotive plant north of Chattanooga. SL America Corporation has three facilities in North America and more than 6,000 employees world-wide.

*Source:* City of Oak Ridge, the OakRidger, ORNL, Y-12 National Security Complex and the Knoxville News Sentinel.

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## **APPENDIX C**

### **SUMMARY OF BOND RESOLUTION**



## **APPENDIX C**

### **SUMMARY OF RESOLUTION**

The Authority's Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016 (the "Series 2016 Bonds") are authorized and issued pursuant to a resolution of the Board of Directors of the Authority adopted on November 13, 2008 (the "Master Resolution"), as supplemented by a resolution adopted by the Board of Directors of the Authority on May 31, 2016 (the "2016 Supplemental Resolution"; together with the Master Resolution, the "Resolution"). The following statements are brief summaries of certain provisions of the Resolution, copies of which are available for examination at the offices of the Authority. Terms defined in the Resolution and not defined elsewhere in this Official Statement shall have the meaning set forth in the Resolution. Section numbers refer to sections of the Master Resolution unless otherwise indicated.

#### Definitions

The following are definitions of certain terms contained in the Resolution and used herein:

"Accreted Value" means, with respect to each Compound Interest Bond, the principal amount of such Compound Interest Bond, plus, on the date of calculation, the interest accrued thereon to such date compounded at the interest rate thereof on each compounding date contained in such Compound Interest Bond, and, with respect to any calculation on a date other than a compounding date, the Accreted Value means the Accreted Value as of the preceding compounding date plus interest on such amount from such compounding date to the date of calculation at a rate equal to the interest rate on such Compound Interest Bond.

"Acquired System" means any other water or sewer system or facility, including any distribution, collection, treatment or general or transmission facility, acquired by the Authority pursuant to State law.

"Act" means Chapter 40 of the 2007 Private Acts of the State of Tennessee, as amended.

"Additional Interest" means, for any period during which any Pledged Bonds are owned by a Credit Issuer pursuant to a Credit Facility or Credit Facility Agreement, the amount of interest accrued on such Pledged Bonds at the Pledged Bond Rate less the amount of interest which would have accrued during such period on an equal principal amount of Bonds at the Bond Rate.

"Additional Obligations" means Revenue Obligations issued pursuant to the Additional Senior Lien Obligation, the Additional Subordinate Lien Obligation or the Additional Special Purpose Obligation provisions of the Master Resolution.

"Annual Budget" means the annual budget of the Authority relating to the System (which shall specify all costs, obligations, and expenses properly allocable to the System), as amended or supplemented in accordance with established procedures of the Authority, adopted or in effect for a particular Fiscal Year.

"Authority" means the Anderson County Water Authority, a governmental authority authorized and established by the Act.

"Balloon Date" means any Principal Maturity Date or Put Date for Balloon Obligations in a Balloon Year.

"Balloon Obligations" means any Revenue Obligations 25% or more of the original principal amount of which (i) is due in any 12-month period or (ii) may, at the option of the holders thereof, be required to be redeemed, prepaid, purchased directly or indirectly by the Authority, or otherwise paid in any 12-month period; provided that, in calculating the principal amount of such Revenue Obligations due or required to be redeemed, prepaid, purchased, or otherwise paid in any 12-month period, such principal amount shall be reduced to the extent that all or any portion of such amount is required to be redeemed or amortized prior to such 12-month period.

"Balloon Year" means any 12-month period in which more than 25% of the original principal amount of related Balloon Obligations mature or are subject to mandatory redemption or could, at the option of the holders thereof, be required to be redeemed, prepaid, purchased directly or indirectly by the Authority, or otherwise paid.

"Beneficial Owner" means the actual purchasers of such Bonds.

"Beneficiaries" means the holders of any Revenue Obligations and the parties to Contracts.

"Bond Counsel" means any firm of nationally recognized bond counsel experienced in matters relating to tax-exempt financing retained by the Authority.

"Bondholder" or "holder" means the registered owner or the holder of one or more Revenue Obligations.

"Bond Rate" means the rate of interest per annum payable on specified Revenue Obligations other than Pledged Bonds.

"Bond Register" means the registration books maintained and to be maintained by the Bond Registrar.

"Bond Registrar" means any bank or trust company designated as such by the Authority with respect to any of the Bonds. Such Bond Registrar shall perform the duties required of the Bond Registrar in the Resolution.

"Bonds" means any revenue bonds or notes authorized by and authenticated and delivered pursuant to the Resolution.

"Book Value" means the value of the real property and the personal property comprising the System, net of accumulated depreciation and amortization, as reflected in the most recent audited financial statements of the System which have been prepared in accordance with generally accepted accounting principles.

The term "category" or "category of Revenues" means an objectively definable portion of Revenues related to a particular type of service, activity or facility, including the categories of General Revenues, Released Revenues and Special Purpose Revenues and subcategories within such categories. A "category of Revenues," unless otherwise determined by the Authority, includes Investment Earnings or other moneys in funds or amounts derived from such portion of Revenues.

"Chairman" means the Chairman of the Authority.

"Code" means the Internal Revenue Code of 1986, as amended, and any applicable regulations thereunder.

"Commitment," when used with respect to Balloon Obligations, means a binding written commitment from a financial institution, surety, or insurance company to refinance such Balloon Obligations on or prior to any Balloon Date thereof, including without limitation any Credit Facility for such Balloon Obligations.

"Compound Interest Bonds" means Bonds that bear interest which is calculated based on periodic compounding, payable only at maturity or earlier redemption.

"Conditional Redemption" means an optional redemption described in Section 3.05 of the Master Resolution.

"Conduit Bonds" means bonds, notes or other obligations issued by a Conduit Issuer to provide proceeds to be loaned by the Conduit Issuer to the Authority pursuant to a Loan Agreement.

"Conduit Issuer" means a governmental entity or instrumentality of any governmental entity that issues Conduit Bonds at the request of the Authority.

"Consulting Engineer" means (i) an engineering firm or individual engineer employed by the Authority with substantial experience in advising utilities similar to the System operated by the Authority as to the construction and maintenance of the System and in the projection of relative costs of expansion in the System or (ii) an engineer or engineers who are employees of the Authority whose reports or projections are certified by a Financial Adviser.

"Contracts" means all Credit Facility Agreements, including any related Reimbursement Obligations, all agreements with respect to Reserve Account Credit Facilities, including any related Reimbursement Obligations and all Qualified Hedge Agreements.

"Contract Payments Account" means the Contract Payments Account within the Sinking Fund established in the Resolution.

"Costs," with respect to any Project, means the total cost, paid or incurred, to study, plan, design, finance, acquire, construct, reconstruct, install or otherwise implement the Project, including improvements to another Project, and shall include, but shall not be limited to, the following costs and expenses relating to such Project and the reimbursement to the Authority for any such items previously paid by the Authority:

- (i) the cost of all lands, real or personal properties, rights, easements and franchises acquired;
- (ii) the cost of all financing charges and interest prior to, during construction and after;
- (iii) the cost of the acquisition, construction, reconstruction, implementation or installation of any Project;
- (iv) the cost of engineering, architectural, planning, development, and supervisory services, fiscal agents' and legal expenses, plans and specifications, and other expenses necessary or incident to determining the feasibility or practicability of any Project, administrative expenses, and such other expenses as may be necessary or incident to any financing with proceeds of Revenue Obligations;
- (v) the cost of placing any Project in operation;
- (vi) the cost of condemnation of property necessary for construction implementation and operation;
- (vii) the costs of issuing any Revenue Obligations to finance or to refinance any Project;
- (viii) any other costs which may be incident to any Project prior to completion and implementation; and
- (ix) interest on the Revenue Obligations during the construction and installation of any Project and for up to six (6) months thereafter; and
- (x) any other costs permitted by the Act.

“County” means Anderson County, Tennessee

"Credit Facility" means any letter of credit, insurance policy, guaranty, surety bond, standby bond purchase agreement, line of credit, revolving credit agreement, or similar obligation, arrangement, or instrument issued by a bank, insurance company, or any entity that is used by the Authority to perform one or more of the following tasks: (i) enhancing the Authority's credit by assuring owners of any of the Revenue Obligations that principal of and interest on such Revenue Obligations will be paid promptly when due; (ii) providing liquidity for the owners of Revenue Obligations through undertaking to cause Revenue Obligations to be bought from the owners thereof when submitted pursuant to an arrangement prescribed by a Supplemental Resolution; or (iii) remarketing any Revenue Obligations so submitted to the Credit Issuer (whether or not the same Credit Issuer is remarketing the Revenue Obligations). The term Credit Facility shall not include a Reserve Account Credit Facility.

"Credit Facility Agreement" means an agreement between the Authority and a Credit Issuer pursuant to which the Credit Issuer issues a Credit Facility and may include a related

Reimbursement Obligation. The term Credit Facility Agreement shall not include an agreement with respect to a Reserve Account Credit Facility.

"Credit Issuer" means any issuer of a Credit Facility then in effect for all or part of the Revenue Obligations. The term Credit Issuer shall not include any Reserve Account Credit Facility Provider. Whenever in the Resolution the consent of the Credit Issuer is required, such consent shall only be required from the Credit Issuer whose Credit Facility is issued with respect to the Revenue Obligations for which the consent is required.

"Current Interest Bonds" means those Bonds which are not Compound Interest Bonds.

"Debt Service Requirement" means the total principal 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 Authority or the Trustee), in any specified period, provided:

(i) If any Revenue Obligations Outstanding or proposed to be issued shall bear interest at a Variable Rate, including Hedged Obligations if the interest thereon calculated as set forth below is expected to vary and Revenue Obligations secured by a Credit Facility if the interest thereon calculated as set forth below is expected to vary, the interest coming due in any specified future period shall be determined as if the Variable Rate in effect at all times during such future period equaled, at the option of the Authority either (1) the average of the actual Variable Rates which were in effect (weighted according to the length of the period during which each such Variable Rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (2) the current average annual fixed rate of interest on securities of similar quality having a similar maturity date as certified by a Financial Adviser.

(ii) If any Compound Interest Bonds are Outstanding or proposed to be issued, the total principal and interest coming due in any specified period shall be determined in accordance with the Supplemental Resolution of the Authority authorizing such Compound Interest Bonds.

(iii) With respect to any Revenue Obligations secured by a Credit Facility, the Debt Service Requirement therefor shall include (1) any commission or commitment fee obligations with respect to such Credit Facility, (2) the outstanding amount of any Reimbursement Obligation and interest thereon, (3) any Additional Interest owed on Pledged Bonds, and (4) any remarketing agent fees; provided if (a) the Credit Facility requires the Credit Issuer to make all interest payments on the Revenue Obligations, (b) the Reimbursement Obligation provides for payments by the Authority or the Credit Issuer based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices, and (c) the Credit Issuer, upon the execution of the Credit Facility Agreement, would qualify as a Qualified Hedge Provider if the Credit Facility Agreement were to be construed as a Hedge Agreement and the related Revenue Obligations as Hedged Obligations, then interest on such Revenue Obligations shall be

calculated by adding (x) the amount of interest payable on such Revenue Obligations pursuant to their terms and (y) the amount of payments for interest to be made by the Authority under the Credit Facility Agreement, and subtracting (z) the amounts payable by the Credit Issuer to the Authority or as interest on such Revenue Obligations as specified in the Credit Facility Agreement; but only to the extent the Credit Issuer is not in default under the Credit Facility and if such default has occurred and is continuing, interest on such Revenue Obligations shall be calculated as if there were no Credit Facility. In determining the amounts described in this paragraph for any future period, the Authority (A) may assume that any Credit Facility presently in effect will remain in effect even if such Credit Facility has an expiration date prior to the maturity of the related Revenue Obligations and (B) may assume that the current payments relating to the Credit Facility will remain in effect or may estimate such payments in the future provided that the Authority obtains a certificate from a Financial Adviser that such estimates are reasonable.

(iv) With respect to any Hedged Obligations, the interest on such Hedged Obligations during any Hedge Period and for so long as the provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the Authority on such Hedged Obligations pursuant to their terms and (y) the amount of Hedge Payments payable by the Authority 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 Authority on the related Hedged Obligations shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts that are not fixed throughout the Hedge Period (i.e., which are variable), payable or receivable for any future period, such Hedge Payments or Hedge Receipts for any period of calculation (the "Determination Period") shall be computed by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the 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).

(v) For the purpose of calculating the Debt Service Requirement on Balloon Obligations (1) which are subject to a Commitment or (2) which do not have a Balloon Year commencing within 12 months from the date of calculation or (3) which are issued in anticipation of the issuance of Bonds that are not Balloon Obligations, at the option of the Authority, the actual principal and interest on such Balloon Obligations shall be included in the Debt Service Requirement, subject to the other assumptions contained herein, or such Balloon Obligations 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 Authority could reasonably expect to borrow the same amount by issuing Bonds with the same priority of lien as such

Balloon Obligations and with a 20-year term); provided, however, that if the maturity of such Balloon Obligations (taking into account the term of any Commitment) is in excess of 20 years from the date of issuance, then such Balloon Obligations 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 Obligations to maturity (including the Commitment) and at the interest rate applicable to such Balloon Obligations. For the purpose of calculating the Debt Service Requirement on Balloon Obligations not described in the preceding sentence, the principal payable on such Bonds during the Balloon Year shall be calculated as if paid on the Balloon Date.

(vi) The principal of and interest on Revenue Obligations, amounts for interest under a Credit Facility and Hedge Payments shall be excluded from the determination of Debt Service Requirement to the extent that the same were or are expected to be paid with amounts on deposit on the date of calculation (or proceeds of Revenue Obligations to be deposited on the date of issuance of proposed Revenue Obligations) in a fund under the Resolution.

(vii) With respect to a Revenue Obligation that is a Loan Agreement, the Debt Service Requirement shall be calculated in a manner consistent with the calculation of the Debt Service Requirement on other Revenue Obligations and shall include payments under the Loan Agreement which consist of principal, interest, payments made in connection with a Hedge Agreement entered into by a Conduit Issuer in connection with the Conduit Bonds, fees and expenses of any letter of credit, insurance policy, guaranty, surety bond, standby bond purchase agreement, line of credit, revolving credit agreement, remarketing agreement, legal fees and expenses, trustee fees, fees and expenses of the Conduit Issuer, fees and expenses of any administration, rating agency fees, rebate and similar obligations of the Conduit Issuer with respect to the Conduit Bonds, but excluding any Termination Payments to be made in connection with a Hedge Agreement entered into by a Conduit Issuer.

"Debt Service Reserve Account" means the Debt Service Reserve Account within the Sinking Fund established in Article IV of the Resolution.

"Debt Service Reserve Requirement" means an amount determined from time to time by the Authority as a reasonable reserve, if any, for the payment of principal of and interest on Revenue Obligations for which a subaccount in the Debt Service Reserve Account is created or added to pursuant to a Supplemental Resolution.

"Defeasance Obligations" means Government Obligations and such other investments that are from time to time permitted by applicable law to be used by the Authority to provide for the payment of Revenue Obligations in connection with the refunding of such Revenue Obligations.

"Depository" means any depository of a fund established under the Resolution selected in the discretion of the Authority.

"DTC" means The Depository Trust Company, New York, New York, or its nominee, or its successors and assigns, or any other depository performing similar functions under the Resolution.

"Event of Default" means any of the events described below under the heading Events of Default.

"Financial Adviser" means an investment banking or financial advisory firm, commercial bank, or any other Person who or which is retained by the Authority for the purpose of passing on questions relating to the availability and terms of specified types of Revenue Obligations or the financial condition or operation of the System and is actively engaged in and, in the good faith opinion of the Authority, 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.

"Finance Officer" means the Chief Financial Officer of the Authority or such other official that serves as the chief financial officer of the Authority.

"Fiscal Year" means the 12-month period used by the Authority for its general accounting purposes. The Fiscal Year, as required by the Act at the time this Master Resolution was adopted, begins on July 1 and ends on June 30 of the following year.

"Fitch" means Fitch Ratings, a subsidiary, or, if entity is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Authority.

"General Revenue Account" means the General Revenue Account within the Revenue Fund established in Article IV of the Master Resolution.

"General Revenue Obligations" means Revenue Obligations secured by a Senior Lien on General Revenues.

"General Revenue Facilities" means the System, but not including all Special Purpose Facilities and Released Revenue Facilities.

"General Revenues" means all Revenues other than Released Revenues and Special Purpose Revenues.

"Governing Body" means the Board of Directors of the Authority.

"Government Obligations" means (i) direct obligations of the United States of America for the full and timely payment of which the full faith and credit of the United States of America is pledged or (ii) obligations issued by a person controlled or supervised by and acting as an instrumentality of the United States of America, the full and timely payment of the principal of and the interest on which is fully and unconditionally guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (i) or (ii) issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), which obligations, in either case, (y) are not subject to redemption or prepayment

prior to maturity except at the option of the holder of such obligations and (z) may include U.S. Treasury Trust Receipts.

"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 Authority determines is to be used, or is intended to be used, to manage or reduce the cost of any Revenue Obligations, to convert any element of any Revenue Obligations 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 Revenue Obligations for which the Authority shall have entered into a Qualified Hedge Agreement.

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

"Hedge Payments Account" means the Hedge Payments Account within the Sinking Fund established in Article IV of the Master Resolution.

"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.

"Independent Certified Public Accountant" means a certified public accountant, or a firm of certified public accountants, who or which are "independent" as that term is defined in Rule 101 and related interpretations of the Code of Professional Ethics of the American Institute of Certified Public Accountants, of recognized standing, who or which does not devote their full time to the Authority (but who or which may be regularly retained by the Authority).

"Interest Payment Date" means each date on which interest is to become due on any Revenue Obligations, as established in the Supplemental Resolution for such Revenue Obligations.

"Interest Account" means the Interest Account within the Sinking Fund established in Article IV of the Master Resolution.

"Investment Earnings" means all interest received on and profits derived from investments made with Revenues or any other moneys in the funds and accounts established under Article IV or Article XII of the Master Resolution.

"Letter of Representations" means a Blanket Issuer Letter of Representations, between the Authority and DTC.

"Loan Agreement" means any agreement or contract entered into by the Authority whereby another governmental entity or instrumentality of a governmental entity agrees to advance funds to the Authority and the Authority agrees to repay those funds with interest and all costs associated with the Loan Agreement and any bonds, notes or other obligations issued to fund the Loan Agreement.

"Master Resolution" means this Master Resolution adopted on November 13, 2008 by the Authority.

"Moody's" means Moody's Investors Service, Inc. or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Authority.

"Net General Revenues" means Net Revenues that are General Revenues.

"Net Revenues" means, for each category of Revenues, Revenues net of related Operating Expenses.

"Operating 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 Revenue Obligations), the cost of producing potable water and the cost of obtaining treatment of sewage collected and transported by the System, insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of the Authority, any payments made by the Authority during any fiscal year to purchase water for distribution and sale during or after the end of that fiscal year, and other payments made under any water supply contract or commodity swap or other hedging mechanism, and any principal or interest payments made by the Authority 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 water, 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. Operating Expenses do not include depreciation or obsolescence charges or reserves therefore, amortization of intangibles or other bookkeeping entries of a similar nature, on Revenue Obligations or Contracts of the Authority, on behalf of the Authority, 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 Authority or expenses of an Acquired System if revenues of the Acquired System are not included in Revenues at the election of the Authority.

"Other System Obligations" means obligations of any kind, including but not limited to, revenue bonds, capital leases, Hedge Agreements which are not Qualified Hedge Agreements, installment purchase agreements, or notes (but excluding Revenue Obligations and Contracts), incurred or issued by the Authority to finance or refinance the cost of acquiring, constructing, reconstructing, improving, bettering, or extending any part of the System or any other cost relating to the System, which do not have a lien on any category of Revenues.

"Outstanding" means, when used in reference to the Revenue Obligations, all Revenue Obligations that have been duly authenticated and/or delivered under the Resolution, with the exception of (a) Revenue Obligations in lieu of which other Revenue Obligations have been issued under agreement to replace lost, mutilated, stolen, or destroyed obligations, (b) Bonds surrendered by the owners in exchange for other Bonds under the provisions of the Resolution, and (c) Revenue Obligations for the payment of which provision has been made in accordance with Article IX of the Master Resolution. In determining the amount of Compound Interest Bonds Outstanding under the Resolution, the Accreted Value of such Compound Interest Bonds at the time of determination shall be used.

The term "parity" or "parity secured" when applied to two or more series of Revenue Obligations means each such Revenue Obligation has a lien of equal rank on the same category of Revenues.

"Paying Agent" shall mean the paying agent with respect to any Revenue Obligations issued under the Resolution.

"Permitted Investments" means obligations selected by the Authority in which the Authority is permitted to invest moneys pursuant to applicable law.

"Person" or "person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, body, government, or agency or political subdivision thereof.

"Pledged Bond" means any Revenue Obligation purchased and held by a Credit Issuer pursuant to a Credit Facility Agreement. A Revenue Obligation shall be deemed a Pledged Bond only for the actual period during which such Revenue Obligation is owned by a Credit Issuer pursuant to a Credit Facility Agreement.

"Pledged Bond Rate" means the rate of interest payable on Pledged Bonds, as may be provided in a Credit Facility or Credit Facility Agreement.

"Pledged Revenues" means all Net Revenues and all moneys paid or required to be paid into, and all moneys and securities on deposit from time to time in, the funds and accounts specified in the Resolution, but excluding (i) amounts in the Revenue Fund required to be used to pay Operating Expenses and (ii) any amounts required in the Resolution to be set aside pending, or used for, rebate to the United States government pursuant to Section 148(f) of the Code, including, but not limited to, amounts in the Rebate Fund.

The term "principal" means the principal amount of any Revenue Obligations and includes the Accreted Value of any Compound Interest Bonds. All references to principal shall

be construed as if they were also references to Accreted Value with respect to Compound Interest Bonds.

"Principal Maturity Date" means each date on which principal is to become due on any Revenue Obligations, by maturity or mandatory sinking fund redemption, as established in the Supplemental Resolution for such Revenue Obligations.

"Principal Account" means the Principal Account within the Sinking Fund established in Article IV of the Master Resolution.

"Project" means the acquisition of, the construction of improvements and extensions to and the equipping of improvements to the System, in whole or in part, including without limitation the acquisition of one or more existing waterworks or sewer systems, and the acquisition of all property, real and personal, related thereto, with the proceeds of any Revenue Obligations.

"Project Fund" means the Authority's Water and Sewer Project Fund established in Article IV.

"Put Date" means any date on which a holder may elect to have Balloon Obligations redeemed, prepaid, purchased directly or indirectly by the Authority, or otherwise paid.

"Qualified Hedge Agreement" means any Hedge Agreement with a Qualified Hedge Provider.

"Qualified Hedge Provider" means an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under the related Hedge Agreement are absolutely and unconditionally guaranteed or insured or collateralized by an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated either (i) at least as high as the second highest Rating category of each Rating Agency (ignoring any gradations within a Rating category), but, if there is no Credit Facility with respect to the related Hedged Obligations, in no event lower than any Rating on the related Hedged Obligations at the time of execution of the Hedge Agreement, or (ii) in any such lower Rating categories which each Rating Agency indicates in writing to the Authority will not, by itself, result in a reduction or withdrawal of its Rating on the related Hedged Obligations that is in effect prior to entering into the Hedge Agreement. An entity's status as a "Qualified Hedge Provider" is determined only at the time the Authority enters into a Hedge Agreement with such entity and will not be redetermined with respect to that Hedge Agreement.

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

"Rating Agencies" or "Rating Agency" means Fitch, Moody's, and Standard & Poor's or any successors thereto and any other nationally recognized credit rating agency then maintaining a rating on any Revenue Obligations at the request of the Authority. If at any time a particular Rating Agency does not have a rating outstanding with respect to the relevant Revenue

Obligations, then a reference to Rating Agency or Rating Agencies shall not include such Rating Agency.

"Rebate Fund" means the Rebate Fund, established in Article IV of the Master Resolution.

"Record Date" means any record date designated in a Supplemental Resolution for any Revenue Obligations.

"Reimbursement Obligation" means the obligation of the Authority to directly reimburse any Credit Issuer for amounts paid by such Credit Issuer under a Credit Facility, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument. The term Reimbursement Obligation includes obligations pursuant to a Credit Facility Agreement either to make payments for interest based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices, in return for the Credit Issuer's fixed obligations under the Credit Facility or to make fixed payments for interest in return for the Credit Issuer's payments based on such variables.

The term "related" means, when used to refer to Revenue Obligations, subaccounts, category of Revenues or liens, the item modified by such term has a definite relationship to the subject as described in the Resolution. The term "related" means, when used to refer to Operating Expenses, (i) for Released Revenue Obligations or Released Revenues, Operating Expenses with respect to Released Revenue Facilities, (ii) for Special Purpose Revenue Obligations or Special Purpose Revenues, Operating Expenses with respect to Special Purpose Facilities, and (iii) for General Revenue Obligations or General Revenues, all Operating Expenses of the System less Operating Expenses with respect to Related Revenue Facilities and Special Purpose Facilities.

"Released Revenue Account" means the Released Revenue Account within the Revenue Fund established in Article IV of the Master Resolution.

"Released Revenue Facilities" means the portion of the System with respect to which Released Revenues arise or from which they are generated.

"Released Revenue Obligations" means Revenue Obligations secured by a Senior Lien on one or more categories of Released Revenues.

"Released Revenues" means particular categories of Revenues which would otherwise be General Revenues but have been identified in accordance with the provisions described under the Released Revenues heading in this Summary and therefore do not constitute a part of General Revenues, until the Authority has acted to include such categories of Revenues within General Revenues.

"Renewal and Extension Fund" means any System Renewal and Extension Fund established pursuant to Article IV of the Master Resolution.

"Reserve Account Credit Facility" means any letter of credit, insurance policy, line of credit, surety bond, or similar obligation, arrangement or instrument issued by a bank, insurance

company, or other financial institution, together with any substitute or replacement therefor, if any, complying with the provisions of the Resolution, thereby fulfilling all or a portion of a Debt Service Reserve Requirement, if any.

"Reserve Account Credit Facility Provider" means any provider of a Reserve Account Credit Facility.

"Resolution" means the Master Resolution as it may from time to time be modified, supplemented, or amended by Supplemental Resolutions.

"Revenue Fund" means the Revenue Fund established in Article IV of the Master Resolution.

"Revenue Obligations" means any revenue bonds, notes or other obligations authorized by and authenticated and delivered or any loan agreement executed and delivered pursuant to the Resolution.

"Revenues" means (i) all revenues, rentals, income, receipts, accounts receivable and money derived from the ownership and operation of the System, received by the Authority, Investment Earnings and all other income earned and accreted from, and deferred gain from, securities and other investments and amounts earned on amounts deposited in funds and accounts under the Resolution or otherwise maintained with respect to the System, computed in accordance with generally accepted accounting principles (excluding any investment earnings from construction or improvement funds created for the deposit of Revenue Obligation proceeds pending use, to the extent such income is applied to the purposes for which the Revenue Obligations were issued, and funds created to refund any outstanding obligations payable from Revenues of the System), and (ii) all gifts, grants, reimbursements or payments received from governmental units or public agencies for the benefit of the System which are (y) not restricted by law or the payor to application for a particular purpose and (z) otherwise lawfully available for payment of Revenue Obligations or Contracts. The term "Revenues" also does not include proceeds of insurance so long as such proceeds are to be paid to a party separate from the Authority, in respect of a liability or are to be used to repair or replace portions of the System and extraordinary gains from the sale of assets or similar one-time sources of income.

"Senior Lien" means a lien on one or more categories of Revenues that entitles the Beneficiaries of such lien to have a claim on such Revenues prior to any other Person and ahead of the use of such Revenues for any purpose other than payment of Operating Expenses; provided one or more series of Revenue Obligations, Contracts and related Beneficiaries may have parity Senior Liens on the same categories of Revenues pursuant to the terms of the Resolution.

"Senior Lien Revenue Obligations" means General Revenue Obligations, Released Revenue Obligations and Special Purpose Revenue Obligations other than Subordinate Lien Obligations; provided "Senior Lien Revenue Obligations" also includes Additional Senior Lien Obligations issued in compliance with Section 5.02 of the Master Resolution and obligations secured by a Senior Lien pursuant to Section 5.02(c) of the Master Resolution.

"Sinking Fund" means the Sinking Fund established in Article IV of the Master Resolution.

"Special Purpose Facilities" means facilities which (i) will not result, upon completion or acquisition, in a material reduction in Net General Revenues in the judgment of the Board of the Authority, (ii) will not be of such a type or design that the subsequent closing thereof will materially impair the general operations of the System and (iii) the Authority has designated in a Supplemental Resolution, as "Special Purpose Facilities" and may include an Acquired System.

"Special Purpose Revenue Account" means the Special Purpose Revenue Account within the Revenue Fund established in Article IV of the Master Resolution.

"Special Purpose Revenue Obligations" means Obligations secured by a Senior Lien on Special Purpose Revenues.

"Special Purpose Revenues" means Revenues arising from or generated by one or more Special Purpose Facilities. At the election of the Authority, Special Purpose Revenues shall include all fees, notes, rates, charges and income received from an Acquired System.

"Standard and Poor's" or "S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Authority.

"State" means the State of Tennessee.

"Subordinate Lien" means a lien on one or more categories of Revenues which is not a Senior Lien.

"Subordinate Lien Obligations" means Revenue Obligations which only have a Subordinate Lien and obligations secured by a Subordinate Lien pursuant to Section 5.03(g) of the Master Resolution.

"Supplemental Resolution" means a resolution supplemental to the Master Resolution (which itself may be supplemented by one or more resolutions) to be adopted prior to and authorizing the issuance and delivery of any series of Revenue Obligations. Such a resolution as supplemented shall establish or shall establish a method or procedure for establishing the date or dates of the pertinent series of Revenue Obligations, the schedule of maturities of such Revenue Obligations, whether any such Revenue Obligations will be Compound Interest Bonds, the rate or rates of interest to be borne thereby (or a range thereof), whether fixed or variable, the interest payment dates for such Revenue Obligations, the terms and conditions, if any, under which such Revenue Obligations may be made subject to redemption (mandatory or optional) prior to maturity, the form of such Revenue Obligations, the liens relating to such Revenue Obligations, the Contracts, if any, relating to such Revenue Obligations, and such other details as the Authority may determine.

"System" means the complete water and sewer system and facilities of the Authority including, without limitation, all water and sewer treatment plants, pumping stations, tanks and

distribution facilities of the Authority, together with all water and sewer system property of every nature owned by the Authority, including all improvements and extensions made by the Authority while the Revenue Obligations remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the water and sewer system, all administrative and operational support facilities, and including all appurtenances, contracts, leases, franchises and other intangibles; provided however, at the election of the Authority, an Acquired System may be included within the System as defined herein and become a part thereof or, at the election of the Authority, not become a part of the System but be operated as a separate and independent system by the Authority with the continuing right, upon the election of the Authority, to incorporate such separately Acquired System within the System.

"Tax-Exempt Bonds" means any Revenue Obligations the interest on which has been determined, in an unqualified opinion of Bond Counsel, to be excludable from the gross income of the owners thereof for federal income tax purposes.

"Termination Payments" means an amount payable by the Authority or a Qualified Hedge Provider upon termination of a Hedge Agreement and similar payments made by a Conduit Issuer under a Loan Agreement.

"Trustee" means a bank or trust company designated as such by the Authority with respect to the Revenue Obligations issued under the Resolution. Such Trustee shall perform the duties required of the Trustee in the Resolution and any Supplemental Resolution authorizing Revenue Obligations, including serving as the Registration and Paying Agent for the Bonds.

"U.S. Treasury Trust Receipts" means receipts or certificates which evidence an undivided ownership interest in the right to the payment of portions of the principal of or interest on obligations described in clauses (i) or (ii) of the term Government Obligations, provided that such obligations are held by a bank or trust company organized under the laws of the United States acting as custodian of such obligations, in a special account separate from the general assets of such custodian.

"Variable Rate" means a rate of interest applicable to the Revenue Obligations, other than a fixed rate of interest which applies to a particular maturity of Revenue Obligations so long as that maturity of Revenue Obligations remains Outstanding.

## **PLEDGE OF REVENUES**

(a) All Pledged Revenues are pledged to the prompt payment of the principal of, premium, if any, and interest on the Revenue Obligations, obligations treated as Senior Lien Revenue Obligations or Subordinate Lien Obligations and the obligations under the Contracts; provided:

(1) General Revenues shall secure only (A) General Revenue Obligations, (B) Subordinate Lien Obligations which have a lien on General Revenues, and (C) any Contracts with respect to such General Revenue Obligations;

(2) Released Revenues shall secure only (A) the related Released Revenue Obligations, (B) Subordinate Lien Obligations which have a lien on any related Released Revenues, (C) any Contracts with respect to such Released Revenue Obligations, and (D) separate agreements pursuant to Section 5.05 relating to Released Revenues;

(3) Special Purpose Revenues shall secure only (A) the related Special Purpose Revenue Obligations, (B) Subordinate Lien Obligations which have a lien on any related Special Purpose Revenues, and (C) any Contracts with respect to such Special Purpose Revenue Obligations;

(4) A Contract may have a Senior Lien or a Subordinate Lien on a related category of Revenues, or no lien at all on Revenues, but (A) no Contract shall have a lien on Revenues that is senior to the lien on the category of Revenues securing the Revenue Obligations related to the Contract, and (B) the lien of the Contract shall be on parity with the lien of the related Revenue Obligations only to the extent of the payment of principal of, premium, if any, and interest on such Revenue Obligations is made through such Contract as evidenced by Reimbursement Obligations or through a Qualified Hedge; provided other amounts due on a Contract may be secured by a lien ranking immediately thereafter. The provisions of this clause (4) shall not apply to Termination Payments; and

(5) A Termination Payment may have a Subordinate Lien on a related category of Revenues or no lien at all on Revenues, but no Termination Payment shall have a lien on Revenues that is senior to the lien on the category of Revenues securing the Revenue Obligations related to the Termination Payment.

Pledged Revenues shall immediately be subject to the lien of this pledge for the benefit of the Beneficiaries without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding against the Authority and against all other persons having claims against the Authority, whether such claims shall have arisen in tort, contract, or otherwise, and regardless of whether such persons have notice of the lien of this pledge. This pledge shall rank superior to all other pledges which may hereafter be made of any Pledged Revenues. The lien of this pledge does not secure any obligation of the Authority other than the Revenue Obligations, obligations treated as Senior Lien Revenue Obligations or Subordinate Lien Obligations pursuant to the Resolution and the Contracts.

(b) The Revenue Obligations and related Contracts shall be limited obligations of the Authority as provided therein payable solely from the particular Revenues pledged thereto. Except as described below in this paragraph, the Revenue Obligations and the interest thereon and related Contracts shall not constitute a debt of the County, the State, or any political subdivision thereof other than the Authority and shall not constitute an indebtedness within the meaning of any constitutional or statutory provision whatsoever. The Authority has no authority to levy any taxes to pay the Revenue Obligations or the Contracts. Notwithstanding the foregoing, if and to the extent specifically authorized by the County and as may be set forth in a Supplemental Resolution, Revenue Obligations may also be secured by the full faith and credit and unlimited ad valorem taxing power of the County as permitted by the Act. Neither the

members of the Governing Body nor any person executing the Revenue Obligations shall be liable personally on the Revenue Obligations by reason of the issuance thereof or on the Contracts by reason of the execution thereof.

(c) Other System Obligations (other than obligations treated as Senior Lien Revenue Obligations or Subordinate Lien Obligations are not secured by a lien on any category of Revenues, but such obligations, prior to an Event of Default, may be paid from Revenues as described in the Resolution.

### **FUNDS, ACCOUNTS AND SUBACCOUNTS**

The following funds, accounts, and subaccounts are established in the Resolution, and the moneys deposited in such funds, accounts, and subaccounts are in trust for the purposes set forth in the Resolution:

(a) Water and Sewer System Revenue Fund, held by the Authority, and within the Revenue Fund:

- (1) General Revenue Account.
- (2) Released Revenue Account.
- (3) Special Purpose Revenue Account.

(b) Water and Sewer System Sinking Fund, held by the Authority, and within the Sinking Fund:

(1) Interest Account, with further subaccounts therein for each series of Revenue Obligations; provided a subaccount therein may be utilized for more than one series of Revenue Obligations if all such series of Revenue Obligations share exactly the same lien status on the same categories of Revenues.

(2) Hedge Payments Account, with further subaccounts therein for each series of Revenue Obligations; provided a subaccount therein may be utilized for more than one series of Revenue Obligations if all such series share exactly the same lien status on the same categories of Revenues and are secured in parity by the same or identical Qualified Hedge Agreements with the same provider.

(3) Contract Payments Account, with further subaccounts therein for each series of Revenue Obligations; provided a subaccount therein may be utilized for more than one series of Revenue Obligations if all such series of Revenue Obligations share exactly the same lien status on the same categories of Revenues and are secured in parity by the same or identical Contracts with the same provider.

(4) Principal Account, with further subaccounts therein for each series of Revenue Obligations; provided a subaccount therein may be utilized for more than one series of Revenue Obligations if all such series of Revenue Obligations share exactly the same lien status on the same categories of Revenues.

(5) Loan Repayment Account, with further subaccounts therein for each series of Revenue Obligations; provided a subaccount therein may be utilized for more than one series of Revenue Obligations if all such series of Revenue Obligations share exactly the same lien status on the same category of Revenues.

(6) Debt Service Reserve Account, with a subaccount for each series of Revenue Obligations which has a Debt Service Reserve Requirement; provided a subaccount therein may be utilized for more than one series of Revenue Obligations if all such series of Revenue Obligations are specified in the related Supplemental Resolutions to share a pledge of such account and have a combined Debt Service Reserve Requirement.

(7) Termination Payment Account, with further subaccounts therein for each series of Revenue Obligations; provided a subaccount therein may be utilized for more than one Termination Payment if all such Termination Payments share exactly the same lien status on the same category of Revenues and are secured on parity by the same or identical Qualified Hedge Agreements with the same provider.

(c) Water and Sewer System Renewal and Extension Fund, if one is created by the Authority, to be held by the Authority.

(d) Water and Sewer System Rebate Fund, to be held by the Authority.

(e) Water and Sewer System Project Fund, to be held by the Authority.

Revenue Fund. All Revenues are deposited to the Revenue Fund established under the Resolution from time to time as and when received. The amounts deposited shall be immediately allocated to the account within the Revenue Fund designated therefor: General Revenues other than Special Purpose Revenues and Released Revenues to the General Revenue Account; Released Revenues to the Released Revenue Account; and Special Purpose Revenues to the Special Purpose Revenue Account. Moneys in the Revenue Fund shall be applied from time to time to the following purposes and, prior to the occurrence and continuation of an Event of Default, in the order of priority determined by the Authority, in its sole discretion: (a) to pay Operating Expenses; (b) to deposit into the Sinking Fund the amounts described under the heading Sinking Fund and to pay to any party to a Contract the amounts due thereon, including Additional Interest, continuing commission or commitment fees, remarketing agent fees and repayment of amounts equivalent to principal on related Bonds; (c) to deposit into the Debt Service Reserve Account the amounts required by described under the heading Debt Service Reserve Fund; (d) to deposit into the Rebate Fund the amounts required by the Resolution; (e) to pay any amounts required to be paid with respect to any Other System Obligations; (f) for transfer to the Renewal and Extension Fund, if any; and (g) for any other lawful purpose; provided the following strictures shall be applicable for purposes of such use of funds:

(1) For Operating Expenses, (A) amounts in the Released Revenue Account shall be used only for Operating Expenses of Released Revenue Facilities, (B) amounts in the Special Purpose Revenue Account shall be used for Operating Expenses of Special Purpose

Revenue Facilities, and (C) Operating Expenses related to General Revenues shall be paid first from amounts in the General Revenue Account;

(2) For deposits to the Sinking Fund, the Debt Service Reserve Account or the Rebate Fund, (A) amounts in the Released Revenue Account shall be used only for deposits to subaccounts relating to Revenue Obligations which have a lien on any Released Revenues or for other purposes pursuant to Section 5.05 of the Resolution, (B) amounts in the Special Purpose Revenue Account shall be for deposits to subaccounts relating to Revenue Obligations having a lien on Special Purpose Revenues, and (C) deposits to subaccounts relating to Revenue Obligations which have a lien on General Revenues shall be made first from amounts in the General Revenue Account;

(3) For any payments on a Contract, amounts may be drawn only from the account or accounts relating to the revenues securing the Revenue Obligations related to such Contract, only in accordance with the strictures of (2) and, unless otherwise provided in the related Supplemental Resolution because a Credit Facility is intended to be drawn on for payments on Revenue Obligations, only after all payments then due with respect to the related Revenue Obligations have been made;

(4) For any payments with respect to any Other System Obligations, (A) if such Other System Obligations relate to Released Revenue Facilities, then from the Released Revenue Account; (B) if such Other System Obligations relate to Special Purpose Revenue Facilities, from the Special Purpose Revenue Account, and (C) otherwise, from the General Revenue Account;

(5) No payments may be made to a subaccount of the Sinking Fund related to Subordinate Lien Obligations or Termination Payments unless all required payments have been made to other subaccounts with respect to Revenue Obligations, or Contracts related to Revenue Obligations, which have a lien on a category of Revenues ahead of or in parity with the lien of such Subordinate Lien Obligations or Termination Payments and no payments may be made with respect to any Other System Obligations unless all required payments have been made to each subaccount with respect to Revenue Obligations and on all Contracts; provided if required by the terms thereof, obligations treated as Senior Lien Revenue Obligations or Subordinate Lien Obligations shall be paid with the other Senior Lien Revenue Obligations or Subordinate Lien Obligations;

(6) If at any time the amounts in any subaccount of the Sinking Fund are less than the amounts required by the Resolution, and there are not on deposit in any Renewal and Extension Fund available moneys sufficient to cure any such deficiency, then the Authority shall withdraw from subaccounts related to Subordinate Lien Obligations or Termination Payments (taking such amounts first from subaccounts related to Subordinate Lien Obligations or Termination Payments, pro rata,) and deposit in such subaccount of the Sinking Fund, as the case may be, the amount necessary (or all the moneys in such funds and accounts, if less than the amount required) to make up such deficiency.

#### Sinking Fund

(a) General. Sufficient moneys shall be paid in periodic installments from the Revenue Fund into the Interest Account, the Hedge Payments Account, the Principal Account, the Loan Repayment Account and the Termination Payment Account for the purpose of paying the Revenue Obligations as they become due and payable and for the purpose of making payments under Contracts.

(b) Interest Account. Unless otherwise provided in a Supplemental Resolution, on or before each Interest Payment Date for a series of Revenue Obligations, the Authority shall deposit in the related subaccount of the Interest Account an amount which, together with any other moneys already on deposit therein and available to make such payment, is not less than the interest (excluding Additional Interest) coming due on such Revenue Obligations on such Interest Payment Date. Moneys in the related subaccount of the Interest Account shall be used solely to pay interest (excluding Additional Interest) on the Revenue Obligations when due or to pay Reimbursement Obligations for Credit Facilities under which the Credit Issuer makes all interest payments on the Revenue Obligations. The Authority shall also deposit and continue to deposit all Hedge Receipts under related Qualified Hedge Agreements and any payments from a Credit Issuer under a Credit Facility Agreement in the related subaccount of the Interest Account from time to time as and when received.

(c) Hedge Payments Account and Contract Payments Account. Unless otherwise provided in a Supplemental Resolution or a Hedge Agreement, on or before each payment date for Hedge Payments under Qualified Hedge Agreements, the Authority shall deposit in the related subaccount of the Hedge Payments Account an amount which, together with any Hedge Receipts on deposit in the Interest Account and other moneys already on deposit therein and available to make such payment, is not less than such Hedge Payments coming due on such payment date. Moneys in the related subaccount of the Hedge Payments Account shall be used solely to pay Hedge Payments under Qualified Hedge Agreements when due. Unless otherwise provided in a Supplemental Resolution or a Contract, on or before each payment date for amounts, other than for Reimbursement Obligations, due on Contracts other than Qualified Hedge Agreements, including Additional Interest, continuing commission or commitment fees and remarketing fees, the Authority shall deposit in the related subaccount of the Contract Payments Account an amount which, together with any other moneys already on deposit therein and available to make such payment, is not less than the amount coming due on such payment date. Moneys in the related subaccount of the Contract Payments Account shall be used solely for such payments when due.

(d) Principal Account. Unless otherwise provided in a Supplemental Resolution, on or before each Principal Maturity Date for a series of Revenue Obligations, the Authority shall deposit in the related subaccount of the Principal Account an amount which, together with any other moneys already on deposit therein and available to make such payment, is not less than the principal coming due on such Revenue Obligations on such Principal Maturity Date. Moneys in the related subaccount of the Principal Account shall be used solely for the payment of principal of the Revenue Obligations as the same shall become due and payable at maturity or upon redemption or to pay Reimbursement Obligations for Credit Facilities under which the Credit Issuer makes all principal payments on the Revenue Obligations.

(e) Loan Repayment Account. Unless otherwise provided in a Supplemental Resolution, on or before each loan repayment date for a Loan Agreement, the Authority shall deposit in the related subaccount of the Loan Repayment Account an amount which, together with moneys already on deposit therein and available to make such payments is not less than all payments due under a Loan Agreement other than principal, interest and Termination Payments. Moneys in the Loan Repayment Account shall be used solely for such payments.

(f) Termination Payment Account. Unless otherwise provided in a Supplemental Resolution, on or before each payment date for a Termination Payment, the Authority shall deposit in the related subaccount of the Termination Payment Account an amount which, together with any Termination Payments received by the Authority on deposit in the Termination Payment Account and other monies already deposited therein available to make such payment, is not less than such Termination Payment becoming due on such payment date. Monies in the related subaccount of the Termination Payment Account shall be used solely to pay Termination Payments under Qualified Hedge Agreements when due.

(g) Further Payments. No further payments need be made into a subaccount of the Interest Account or the Principal Account whenever the amount available in such subaccount of the Interest Account and the related subaccount of the Principal Account, if added to the amount then in the related subaccount of the Debt Service Reserve Account, if any (without taking into account any amount available to be drawn on any applicable Reserve Account Credit Facility), is sufficient to retire all the Revenue Obligations then Outstanding and Contracts to which such subaccounts relate and to pay all unpaid interest accrued and to accrue prior to such retirement. No moneys in any subaccount of the Interest Account or the Principal Account shall be used or applied to the optional purchase or redemption of or prepayment of Revenue Obligations prior to maturity unless: (i) provision shall have been made for the payment of all of the Revenue Obligations to which such subaccount relates and all other Revenue Obligations having a parity or higher ranking lien on any category of Revenues securing such Revenue Obligations; or (ii) the Revenue Obligations to which such subaccount relates are Senior Lien Revenue Obligations and such moneys are applied to the purchase and cancellation of such Revenue Obligations which are subject to mandatory redemption on the next mandatory redemption date, which falls due within 12 months, such Revenue Obligations are purchased at a price not more than would be required for mandatory redemption, and such Revenue Obligations are canceled upon purchase and credited against the redemption otherwise to be made on such mandatory redemption date; or (iii) the Revenue Obligations to which such subaccount relates are Senior Lien Revenue Obligations and such moneys are applied to the purchase and cancellation of such Revenue Obligations at a price less than the amount of principal which would be payable on such Revenue Obligations, together with interest accrued through the date of purchase, and such Revenue Obligations are canceled upon purchase; or (iv) the Revenue Obligations to which such subaccount relates are Senior Lien Revenue Obligations and such moneys are in excess of the then required balance of the related subaccount in the Interest Account or the Principal Account and are applied to redeem or prepay a part of such Revenue Obligations on the next succeeding redemption date for which the required notice of redemption may be given.

(h) Debt Service Reserve Account. There shall be deposited into the same or separate subaccount of the Debt Service Reserve Account the amounts specified, if any, in Supplemental Resolutions with respect to the first series of Revenue Obligations and any Additional

Obligations. The Authority is not required by the Resolution to establish a subaccount of the Debt Service Reserve Account for any Revenue Obligations, and any such subaccount shall only be established if required by the Supplemental Resolution authorizing the issuance of the Revenue Obligations.

The Authority has established a Debt Service Reserve Account for the Series 2016 Bonds. Commencing with the Authority's annual audit for the fiscal year ending June 30, 2011, if the Authority receives an annual audit showing that for the audited fiscal year the Net Revenues of the System are less than 1.75 times the maximum annual Debt Service Requirement of all Senior Lien Revenue Obligations, then commencing on the first day of the first month following receipt of such audit, the Authority shall begin making monthly deposits to the Series 2016 Debt Service Reserve Account in amounts not less than 1/24th of the amount necessary to fully fund the 2016 Debt Service Reserve Account, such that the Debt Service Requirement will be fully satisfied in a period of not more than 24 months from the commencement of funding, and the Authority shall be required to maintain the Series 2016 Debt Service Reserve Account thereafter until the Authority delivers an annual audit showing that the Net Revenues of the System are more than 1.75 times the maximum annual Debt Service Requirement of all Senior Lien Revenue Obligations, at which time amounts held in the Series 2016 Debt Service Reserve Account may be withdrawn by the Authority. To the extent funded, the Debt Service Reserve Account for the Series 2016 Bonds is reserved solely for the payment of debt service on the Series 2016 Bonds, and the amounts in the Debt Service Reserve Account for the Series 2016 Bonds will not secure payment of any other Obligations.

After the issuance of any Additional Obligations, any increase in the amount of the Debt Service Reserve Requirement resulting from the issuance of Additional Obligations which also are secured by an existing subaccount of the Debt Service Reserve Account shall be accumulated, to the extent not covered by deposits from proceeds of Revenue Obligations or funds on hand or as otherwise provided in the Supplemental Resolution authorizing the issuance of the first series of Revenue Obligations secured by such subaccount, over a period not exceeding 61 months from date of delivery of such Additional Obligations in monthly deposits from the Revenue Fund, none of which is less than 1/60 of the amount to be accumulated. The balance of each subaccount of the Debt Service Reserve Account shall be maintained at an amount equal to the Debt Service Reserve Requirement for the related Revenue Obligations (or such lesser amount that is required to be accumulated in such subaccount of the Debt Service Reserve Account in connection with the periodic accumulation to the Debt Service Reserve Requirement after the issuance of Additional Obligations or upon the failure of the Authority to provide a substitute Reserve Account Credit Facility in certain events). There shall be transferred from the Revenue Fund on a pro rata basis (1) to each subaccount of the Debt Service Reserve Account the amount necessary to restore the amount of cash and securities in such subaccount of the Debt Service Reserve Account to an amount equal to the difference between (a) the Debt Service Reserve Requirement for the related Revenue Obligations (or such lesser monthly amount that is required to be deposited into the Debt Service Reserve Account after the issuance of Additional Obligations or upon the failure of the Authority to provide a substitute Reserve Account Credit Facility in certain events), and (b) the portion of the required balance of such subaccount of the Debt Service Reserve Account satisfied by means of a Reserve Account Credit Facility, and (2) to any Reserve Account Credit Facility Provider the amount necessary to reinstate any Reserve Account Credit Facility which has been drawn down. Notwithstanding

anything herein to the contrary, a subaccount in the Debt Service Reserve Account that secures General Revenue Obligations shall only be funded with General Revenues, a subaccount in the Debt Service Reserve Account that secures Special Purpose Revenue Obligations shall only be funded with related Special Purpose Revenues, and a subaccount in the Debt Service Reserve Account that secures Released Revenue Obligations shall only be funded with related Released Revenues. No Revenues shall be used to fund a subaccount in the Debt Service Reserve Account to secure Subordinate Lien Obligations if an Event of Default has occurred under the Resolution with respect to the related category of Revenue Obligations. Whenever for any reason the amount in the related subaccounts of the Interest Account or the Principal Account is insufficient to pay all interest or principal falling due on any Revenue Obligations, the Authority shall make up any deficiency by transfers from the Renewal and Extension Fund, if any. Whenever, on the date that such interest or principal is due on any Revenue Obligations, there are insufficient moneys in the related subaccounts of the Interest Account or the Principal Account available to make such payment, the Authority shall, without further instructions, apply so much as may be needed of the moneys in the related subaccount, if any, of the Debt Service Reserve Account to prevent default in the payment of such interest or principal, with priority to interest payments. Whenever by reason of any such application or otherwise the amount remaining to the credit of the related subaccount of the Debt Service Reserve Account is less than the amount then required to be in such subaccount of the Debt Service Reserve Account, such deficiency shall be remedied by monthly deposits from the related account or accounts of the Revenue Fund, to the extent funds are available in the related account or accounts of the Revenue Fund for such purpose after all required transfers set forth above have been made.

The Authority may elect to satisfy in whole or in part the Debt Service Reserve Requirement for any Revenue Obligations by means of a Reserve Account Credit Facility, subject to the following requirements: (A) the Reserve Account Credit Facility Provider must have a credit rating issued by a Rating Agency not less than the greater of the then current Rating on the related series of Revenue Obligations or the second highest long-term Rating of such Rating Agency; (B) no obligation to the Reserve Account Credit Facility Provider shall be secured by a lien equal to or superior to the lien granted to the related series of Revenue Obligations; (C) each Reserve Account Credit Facility shall have a term of at least one (1) year (or, if less, the remaining term of the related series of Revenue Obligations) and shall entitle the Authority to draw upon or demand payment and receive the amount so requested in immediately available funds the date of such draw or demand; (D) the Reserve Account Credit Facility shall permit a drawing by the Authority for the full stated amount in the event (i) the Reserve Account Credit Facility expires or terminates for any reason prior to the final maturity of the related series of Revenue Obligations, and (ii) the Authority fails to satisfy the Debt Service Reserve Requirement by the deposit to the Debt Service Reserve Account of cash, obligations, a substitute Reserve Account Credit Facility, or any combination thereof, on or before the date of such expiration or termination; (E) if the Rating issued by the Rating Agency to the Reserve Account Credit Facility Provider is withdrawn or reduced below the greater of the Rating assigned to the related series of Revenue Obligations immediately prior to such action by the Rating Agency or the second highest long-term Rating of such Rating Agency, the Authority shall provide a substitute Reserve Account Credit Facility within sixty (60) days after such rating change, and, if no substitute Reserve Account Credit Facility is obtained by such date, shall fund the Debt Service Reserve Requirement in not more than twenty-four (24) equal monthly deposits commencing not later than the first day of the month immediately succeeding the date

representing the end of such sixty (60) day period; and (F) if the Reserve Account Credit Facility Provider commences any insolvency proceedings or is determined to be insolvent or fails to make payments when due on its obligations, the Authority shall provide a substitute Reserve Account Credit Facility within sixty (60) days thereafter, and, if no substitute Reserve Account Credit Facility is obtained by such date, shall fund the Debt Service Reserve Requirement in not more than twenty-four (24) equal monthly deposits commencing not later than the first day of the month immediately succeeding the date representing the end of such sixty (60) day period. If the events described in either clauses (E) or (F) above occur, the Authority shall not relinquish the Reserve Account Credit Facility at issue until after the Debt Service Reserve Requirement is fully satisfied by the provision of cash, obligations, or a substitute Reserve Account Credit Facility or any combination thereof. Any amounts received from a Reserve Account Credit Facility for the purpose of paying principal and/or interest on related Revenue Obligations shall be deposited directly into the related subaccounts of the Interest Account and the Principal Account, and such deposit shall constitute the application of amounts in the related subaccount of the Debt Service Reserve Account. Any amounts received from a Reserve Account Credit Facility drawn upon as a result of expiration or termination of such Reserve Account Credit Facility shall be deposited to the related subaccount of the Debt Service Reserve Account. All repayments of any draw-down on the Reserve Account Credit Facility and any interest or fees due the Reserve Account Credit Facility Provider under such Reserve Account Credit Facility shall be secured by a lien on Revenues subordinate to the lien of the related Revenue Obligations for payments into the related subaccounts of the Sinking Fund, the Rebate Fund and payments on any Credit Facility Agreement securing the related Revenue Obligations.

Any such Reserve Account Credit Facility shall be pledged to the benefit of the owners of all of the Revenue Obligations secured by it. The Authority reserves the right, if it deems it necessary in order to acquire such a Reserve Account Credit Facility, to amend the Resolution without the consent of any of the owners of the Bonds in order to grant to the Reserve Account Credit Facility Provider such additional rights as it may demand, provided that such amendment shall not, in the written opinion of Bond Counsel filed with the Authority, impair or reduce the security granted to the owners of Revenue Obligations or any of them.

Renewal and Extension Fund. The Authority may deposit, in its sole discretion, funds in a Renewal and Extension Fund created by the Authority, which may be created by the Authority in its sole discretion. All sums accumulated and retained in the Renewal and Extension Fund shall be used first to prevent default in the payment of interest on or principal of any General Revenue Obligations when due and then shall be applied by the Authority from time to time, as and when the Authority shall determine, to the following purposes and, prior to the occurrence and continuation of an Event of Default, in the order of priority determined by the Authority in its sole discretion: (a) for the purposes for which moneys held in the Revenue Fund may be applied as described under the heading Revenue Fund, (b) to pay any amounts which may then be due and owing under any Hedge Agreement (including fees, expenses, and indemnity payments) and any Termination Payments due under a Hedge Agreement or Loan Agreement, (c) to pay any governmental charges and assessments against the System or any part thereof which may then be due and owing, (d) to make acquisitions, betterments, extensions, repairs, or replacements or other capital improvements (including the purchase of equipment) to the System deemed necessary by the Authority (including payments under contracts with vendors, suppliers, and contractors for the foregoing purposes), and (e) to acquire Revenue Obligations (other than

Special Purpose Revenue Obligations) by redemption or by purchase in the open market prior to their respective maturities, and when so used for such purposes the moneys shall be withdrawn from the Renewal and Extension Fund and deposited into the related subaccounts of the Interest Account and the Principal Account for the Revenue Obligations to be so redeemed or purchased.

Deposits and Security of Funds and Accounts. All moneys in the funds and accounts established under the Resolution shall be held by the Authority in one or more Depositories qualified for use by the Authority. Uninvested moneys shall, at least to the extent not guaranteed by the Federal Deposit Insurance Corporation, be secured to the fullest extent required by the laws of the State for the security of public funds.

Investment of Funds and Accounts. Moneys in the funds and accounts established under the Resolution shall be invested and reinvested in Permitted Investments and containing such maturities as are deemed suitable by the Authority.

Investment Earnings in each fund and account (except the Debt Service Reserve Account) shall be retained therein. Investment Earnings from the investment of moneys in each subaccount of the Debt Service Reserve Account shall be retained in such subaccount of the Debt Service Reserve Account at all times if the balance (taking into account the current market value of the investments held in the Debt Service Reserve Account) is less than the respective Debt Service Reserve Requirement; thereafter and at all times if the balance of such subaccount of the Debt Service Reserve Account is equal to or greater than the respective Debt Service Reserve Requirement (taking into account the current market value of the investments held in the Debt Service Reserve Account), such Investment Earnings shall be deposited in the related subaccount of the Interest Account.

The Supplemental Resolution authorizing the issuance of any Revenue Obligations may specify maturity limitations and different allocations of Investment Earnings on investments of moneys in the funds and accounts relating to such Revenue Obligations.

Moneys in each of such funds shall be accounted for as a separate and special fund apart from all other funds, provided that investments of moneys therein may be made in a pool of investments together with other moneys of the Authority so long as sufficient Permitted Investments in such pool, not allocated to other investments of contractually or legally limited duration, are available to meet the requirements of the foregoing provisions.

All investments made for any fund, account or subaccount under the Resolution shall, for purposes of the Resolution, be valued at fair market value on the last day of Fiscal Year.

Application of Excess in Sinking Fund. Whenever at the end of each Fiscal Year the amount of moneys in any account or subaccount of the Sinking Fund, including the Debt Service Reserve Account, exceeds the amount then currently required to be held therein, the excess shall be transferred to the related account in the Revenue Fund.

Disposition of Moneys After Payment of Revenue Obligations and Contracts. Any amounts remaining in any fund or account established under the Resolution after payment in full of the principal of, redemption premium, if any, and interest on the Revenue Obligations (or after provision for payment thereof has been made) and obligations treated as Senior Lien Revenue

Obligations or Subordinate Lien Obligations, the fees, charges, and expenses of the Trustee, the Paying Agent and Bond Registrar, all amounts owing to any Credit Issuer, any Reserve Account Credit Facility Provider, and any Qualified Hedge Provider or other party to a Contract, and all other amounts required to be paid under the Resolution (including amounts required to be paid into the Rebate Fund), shall be promptly paid to the Authority.

## **PARITY OBLIGATIONS**

No Revenue Obligations may be issued and no other obligations, except Contracts, which are secured by any interest in or lien on Pledged Revenues may be entered into except pursuant to Sections 5.02, 5.03 or 5.04 of the Resolution described below.

### Additional Senior Lien Revenue Obligations – Section 5.02 of the Master Resolution

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

(1) the Authority shall have obtained a report from an Independent Certified Public Accountant or a Financial Adviser demonstrating that the refunding will reduce the total debt service payments on Outstanding Senior Lien Revenue Obligations, including payments on related Contracts, which are parity secured with the Revenue Obligations to be refunded on a present value basis; or

(2) as an alternative to, and in lieu of, satisfying the requirements of (1), all Outstanding Senior Lien Revenue Obligations which are secured on a parity with the Revenue Obligations to be refunded are being refunded under arrangements which immediately result in making provision for the payment of such Revenue Obligations; and

(3) requirements of (b)(2), (5), and (6) are met with respect to such refunding Revenue Obligations.

(b) Additional Senior Lien Revenue Obligations (including refunding Revenue Obligations which do not meet the requirements of (a)) may also be issued on a parity with Outstanding Senior Lien Revenue Obligations pursuant to a Supplemental Resolution, and the Revenue Obligations so issued shall be secured on a parity with such Outstanding Senior Lien Revenue Obligations, if all of the following conditions are satisfied:

(1) There shall have been procured and filed with the Authority a report by a Financial Adviser or a certificate by the Chairman of the Authority, or his designee, to the effect that the historical related Net Revenues for either (i) a period of 12 consecutive months of the most recent 18 consecutive months prior to the issuance of the proposed Additional Obligations

or (ii) the most recent audited Fiscal Year, were equal to at least 120% of the maximum annual Debt Service Requirement on all related Senior Lien Revenue Obligations which will be Outstanding immediately after the issuance of the proposed Additional Obligations and secured on a parity therewith, in the then current and each succeeding Fiscal Year, provided, however, (x) the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to 100% of the increased annual amount attributable to any revision in the schedule of rates, fees, and charges for the services and facilities furnished by the System, imposed prior to the date of delivery of the proposed Additional Obligations and not fully reflected in the historical related Net Revenues actually received during such historical period used; (y) if the Authority has a contract to purchase or otherwise acquire an Acquired System that will become part of the System, the historical Net Revenues may be adjusted to include the anticipated Net Revenues from the Acquired System; and (z) if the Authority has entered into a contract to furnish services of the System that is not fully reflected in the historical Net Revenues of the System, such historical Net Revenues may be adjusted to include the anticipated Net Revenues from such contract.

(2) The Authority shall have received, at or before issuance of the Additional Obligations, a report from a Financial Adviser or a certificate of the Chairman of the Authority, or his designee, to the effect that the payments required to be made into each account or subaccount of the Sinking Fund have been made and the balance in each account or subaccount of the Sinking Fund is not less than the balance required by the Resolution as of the date of issuance of the proposed Additional Obligations.

(3) The Supplemental Resolution authorizing the proposed Additional Obligations must require (i) that the amount to be accumulated and maintained in the subaccount of the Debt Service Reserve Account for Senior Lien Revenue Obligations which are to be secured on a parity with such Additional Obligations, if any, be increased to not less than 100% of the Debt Service Reserve Requirement, if any, computed on a basis which includes all Senior Lien Revenue Obligations which will be Outstanding and secured on a parity with the Additional Obligations immediately after the issuance of the proposed Additional Obligations and (ii) that the amount of such increase be deposited in such subaccount prior to or at the end of the period and at least as fast as the rate specified in Section 4.04(g) of the Master Resolution.

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

(5) The Secretary shall have certified, by written certificate dated as of the date of issuance of the Additional Obligations, that the Authority is in compliance with all requirements of the Resolution.

(6) The Authority, shall have received an opinion of Bond Counsel, dated as of the date of issuance of the Additional Obligations, to the effect that the Supplemental

Resolution authorizing the issuance of Additional Obligations has been duly adopted by the Authority.

(c) Obligations which would be Other System Obligations but for the existence of a Senior Lien on a category of Revenues securing such obligations may be issued and so secured, and thereafter will be treated as Senior Lien Revenue Obligations, if all of the conditions of (b)(2) through (6) are satisfied treating such obligations as Additional Obligations and the issuance and security documents therefore as Supplemental Resolutions.

Additional Subordinate Lien Obligations Section 5.03 of the Master Resolution

(a) Revenue Obligations also may be issued on a Subordinate Lien basis pursuant to a Supplemental Resolution or a resolution otherwise adopted by the Authority payable from moneys which would otherwise be available for any other lawful purpose, and the Revenue Obligations so issued shall constitute Subordinate Lien Obligations, if (1) the Supplemental Resolution authorizing the Subordinate Lien Obligations shall provide that such Subordinate Lien Obligations shall be junior and subordinate in lien and right of payment (A) directly, to any Outstanding Senior Lien Revenue Obligations or Senior Lien Revenue Obligations issued in the future which have a Senior Lien on a category of Revenues as to which such proposed Additional Obligations have a Subordinate Lien; and (2) the Authority shall have received a report from a Financial Adviser, or a certificate of the Chairman of the Authority, or his designee, to the effect that the payments required to be made into each account or subaccount of the Sinking Fund have been made and the balance in each account or subaccount of the Sinking Fund is not less than the balance required by the resolution for Senior Lien Revenue Obligations as of the date of issuance of any Subordinate Lien Obligations.

(b) In the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization, or other similar proceedings in connection therewith, relative to the Authority or to its creditors, as such, or to its property, and in the event of any proceedings for voluntary liquidation, dissolution, or other winding up of the Authority, whether or not involving insolvency or bankruptcy, the owners of all Senior Lien Revenue Obligations then Outstanding and parties to related Contracts shall be entitled to receive payment in full of all principal and interest due on all such Senior Lien Revenue Obligations, all other payments due under Loan Agreements, which Loan Agreements are Senior Lien Obligations and all payments due under related Contracts (other than Termination Payments) in accordance with the provisions of the Resolution before the owners of any Subordinate Lien Obligations or Termination Payments having a Subordinate Lien on a category of Revenues as to which such Senior Lien Revenue Obligations have a Senior Lien or related Contracts are entitled to receive any payment from the Pledged Revenues or the amounts held in the funds and accounts created under the Resolution on account of principal of, premium, if any, or interest on the Subordinate Lien Obligations or related Contracts or Termination Payments.

(c) If any Event of Default shall have occurred and be continuing (under circumstances when the provisions of paragraph (b) shall not be applicable), the owners of all Senior Lien Revenue Obligations then Outstanding and parties to related Contracts shall be entitled to receive payment in full of all principal and interest then due on all such Senior Lien Revenue Obligations, all other payments due under Loan Agreements, which Loan Agreements

are Senior Lien Obligations, and all payments due on related Contracts (other than Termination Payments) before the owners of the Subordinate Lien Obligations or parties to Contracts related to Subordinate Lien Obligations or which are subordinate to Senior Lien Revenue Obligations or Termination Payments are entitled to receive any payment from the Pledged Revenues or the amounts held in the funds and accounts created under the Resolution of principal of, premium, if any, or interest on the Subordinate Lien Obligations or payments under related Contracts or Termination Payments.

(d) No owner of Senior Lien Revenue Obligations or party to any related Contract shall be prejudiced in its right to enforce subordination of the Subordinate Lien Obligations and related Contracts and Termination Payments by any act or failure to act on the part of the Authority.

(e) The obligations of the Authority to pay to the owners of the Subordinate Lien Obligations the principal of, premium, if any, and interest thereon in accordance with their terms and to pay parties to related Contracts in accordance with the terms of the related Contracts shall be unconditional and absolute. Nothing in the Resolution shall prevent the owners of the Subordinate Lien Obligations or parties to related Contracts or a party entitled to a Termination Payment having a Subordinate Lien from exercising all remedies otherwise permitted by applicable law or under the Resolution or the related Contracts upon default thereunder, subject to the rights contained in the Resolution of the owners of Senior Lien Revenue Obligations and parties to related Contracts to receive cash, property, or securities otherwise payable or deliverable to the owners of the Subordinate Lien Obligations, parties to related Contracts or a party entitled to a Termination Payment having a Subordinate Lien, and any Supplemental Resolution authorizing Subordinate Lien Obligations may provide that, insofar as a trustee or paying agent for the Subordinate Lien Obligations is concerned, the foregoing provisions shall not prevent the application by such trustee or paying agent of any moneys deposited with such trustee or paying agent for the purpose of the payment of or on account of the principal or premium, if any, and interest on such Subordinate Lien Obligations, payments under related Contracts or a party entitled to a Termination Payment having a Subordinate Lien if such trustee or paying agent did not have knowledge at the time of such application that such payment was prohibited by the foregoing provisions.

(f) Any series of Subordinate Lien Obligations and related Contracts or any Termination Payment secured by a Subordinate Lien may have such rank or priority with respect to any other series of Subordinate Lien Obligations and related Contracts or any Termination Payment secured by a Subordinate Lien as may be provided in the Supplemental Resolution or other resolution authorizing such series of Subordinate Lien Obligations and may contain such other provisions as are not in conflict with the provisions of the Resolution.

(g) Obligations which would be Other System Obligations but for the existence of a Subordinate Lien on a category of Revenues securing such obligations may be issued and so secured, and thereafter will be treated as Subordinate Lien Obligations, if all of the conditions of 503(a) through (c) are satisfied treating such obligations as Subordinate Lien Obligations and the issuance and security documents therefor as Supplemental Resolutions.

Additional Special Purpose Revenue Obligations - Section 5.04 of the Master Resolution. Additional Special Purpose Revenue Obligations may be issued after compliance with any requirements therefor set forth in any Supplemental Resolution related to such Special Purpose Obligations or Outstanding Special Purpose Obligations which will be secured on a parity with such Additional Special Purpose Obligations.

Released Revenues; Securitizations

(a) A separable category or portion of revenues, income, receipts and money relating to a definable service, facility or program of the System may be withdrawn from General Revenues and thereafter treated as Released Revenues for all purposes, including the security for Released Revenue Obligations, if the following conditions are met:

(1) Filing of a report of a Financial Adviser or a certificate of the Chairman of the Authority, or his designee, with the Trustee to the effect that historical Net General Revenues, determined by excluding the category of Revenues proposed to become Released Revenues, for the most recent audited Fiscal Year prior to the date of such report were equal to at least 120% of the maximum annual Debt Service Requirement on all General Revenue Obligations which will be Outstanding after the category of Revenues becomes Released Revenues;

(2) Filing of a resolution of the Board of the Authority stating the Authority's intent to release such category of Revenues with the Trustee accompanied by a written certificate of the Chairman of the Authority, or his designee, certifying the Authority is in compliance with all requirements of the Resolution; and

(3) The report described in (1) above or a separately filed report of an Independent Certified Public Accountant states that there are sufficient internal accounting and fiscal operations management practices in place at the System to provide an adequate basis for the additional accounting and related procedures required as a result of the release of revenues from General Revenues and the subsequent treatment thereof as Released Revenues.

(b) Upon compliance with subsection (a), Released Revenues may be sold, leased or loaned to a related or unrelated Person in a securitization or other similar transaction.

Accession of Subordinate Lien Obligations and Related Contracts to Senior Lien Status. By proceedings authorizing Subordinate Lien Obligations or a lien permitted by Section 5.03(g), the Authority may provide for the accession of such Subordinate Lien Obligations and related Contracts to the status of complete parity with any Senior Lien Revenue Obligations and related Contracts with a lien on the same category of Revenues if, as of the date of accession, the conditions of Section 5.02(b) are satisfied, on a basis that includes all Outstanding Senior Lien Revenue Obligations with a lien on the same category of Revenues and such Subordinate Lien Obligations, and if on the date of accession:

(a) The subaccount of the Debt Service Reserve Account, if any, relating to the Senior Lien Revenue Obligations secured by such Debt Service Reserve subaccount, if any,

contains an amount equal to the Debt Service Reserve Requirement computed on a basis that includes all Outstanding Senior Lien Revenue Obligations with a lien on the same category of Revenues and Debt Service Reserve subaccount, if any, and such Subordinate Lien Obligations; and

(b) The subaccounts of the Interest Account, the Principal Account, the Hedge Payments Account, the Contract Payments Account, the Termination Payment Account and the Loan Repayment Account contain the amounts, if any, which would have been required to be accumulated therein on the date of accession if the Subordinate Lien Obligations had originally been issued as Senior Lien Revenue Obligations with a lien on the same category of Revenues.

## **CREDIT FACILITIES AND HEDGE AGREEMENTS**

(a) In connection with the issuance of any Revenue Obligations, the Authority may obtain or cause to be obtained one or more Credit Facilities providing for payment of all or a portion of the principal of, premium, if any, or interest due or to become due on such Revenue Obligations, providing for the purchase of such Revenue Obligations by the Credit Issuer, or providing funds for the purchase of such Revenue Obligations by the Authority. In connection therewith, the Authority shall enter into Credit Facility Agreements with such Credit Issuers providing for, among other things, (i) the payment of fees and expenses to such Credit Issuers for the issuance of such Credit Facilities; (ii) the terms and conditions of such Credit Facilities and the Revenue Obligations affected thereby; and (iii) the security, if any, to be provided for the issuance of such Credit Facilities. The Authority may secure any Credit Facility by an agreement providing for the purchase of the Revenue Obligations secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as are specified by the Authority, in the applicable Supplemental Resolution. The Authority may in a Credit Facility Agreement agree to directly reimburse such Credit Issuer for amounts paid under the terms of such Credit Facility, together with interest thereon; provided, however, that no Reimbursement Obligation shall be created for purposes of the Resolution until amounts are paid under such Credit Facility. Any such Reimbursement Obligation shall be deemed to be a part of the Revenue Obligations to which the Credit Facility relates which gave rise to such Reimbursement Obligation, and references to principal and interest payments with respect to such Revenue Obligations shall include principal and interest (except for Additional Interest and principal amortization requirements with respect to the Reimbursement Obligation that are more accelerated than the amortization requirements for the related Revenue Obligations, without acceleration) due on the Reimbursement Obligation incurred as a result of payment of such Revenue Obligations with the Credit Facility. All other amounts payable under the Credit Facility Agreement (including any Additional Interest and principal amortization requirements with respect to the Reimbursement Obligation that are more accelerated than the amortization requirements for the related Revenue Obligations, without acceleration) shall be fully subordinate to the payment of debt service on the related class of Revenue Obligations. Any such Credit Facility shall be for the benefit of and secure such Revenue Obligations or portion thereof as specified in the applicable Supplemental Resolution. Notwithstanding the other provisions hereof, the Authority's obligations under a Credit Facility which requires the Credit Issuer to make all interest payments due on the Revenue Obligations may be secured to the extent of such amounts by a pledge of, and lien on, the Pledged Revenues on a parity with the

lien created to secure the related Revenue Obligations, or may be wholly or partially subordinate in lien and right of payment to the payment of the Revenue Obligations, as determined by the Authority.

(b) In connection with the issuance of any Revenue Obligations or at any time thereafter so long as such Revenue Obligations remain Outstanding, if and to the extent permitted by the Act, the Authority may enter into Hedge Agreements with Qualified Hedge Providers, and no other providers, with respect to any Revenue Obligations. The Authority shall authorize the execution, delivery, and performance of each Qualified Hedge Agreement in a Supplemental Resolution, in which it shall designate the related Hedged Obligations. The Authority's obligation to pay Hedge Payments on a Qualified Hedge Agreement may be secured by a pledge of, and lien on, the Pledged Revenues on a parity with the lien created to secure the related Hedged Obligations (other than Termination Payments), or may be wholly or partially subordinate in lien and right of payment to the payment of the Revenue Obligations, as determined by the Authority; provided, that the Authority's obligation to pay Termination Payments may be secured by a pledge of, and lien on, the Pledged Revenues to the same extent as Subordinate Lien Obligations.

## **COVENANTS OF THE AUTHORITY**

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

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

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

(1) will equal at least 120% of the Debt Service Requirement on all Senior Lien Revenue Obligations and 100% of the Debt Service Requirement on all other Revenue Obligations then Outstanding for such Fiscal Year and any Termination Payments due during such Fiscal Year which are secured by a lien on the Pledged Revenues;

(2) will enable the Authority to make all required payments, if any, into the Debt Service Reserve Account and the Rebate Fund and on any Contract or Other System Obligation;

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

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

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

provided for purposes of (a), (b)(1) and (2) each category of Net Revenues shall be compared to the required payments with respect to, or for accounts related to, related Operating Expenses, Revenue Obligations, Contracts and Other System Obligations.

The rates, fees, and other charges shall be classified in a reasonable manner to cover users of the services and facilities furnished by the System so that, as nearly as practicable, such rates, fees, and other charges shall be uniform in application to all users falling within any reasonable class.

Maintenance of the System in Good Condition. The Authority covenants that it has and will continue to enforce reasonable rules and regulations governing the System and the operation thereof, that all compensation, salaries, fees, and wages paid by it in connection with the operation, maintenance, and repair of the System will be reasonable, and that no more persons will be employed by it than are necessary, that it will operate the System in an efficient and economical manner and will at all times maintain the System in good repair and in sound operating condition, that it will make all necessary repairs, renewals, and replacements to the System, and that it will comply with all valid acts, rules, regulations, orders, and directions of any legislative, executive, administrative, or judicial body applicable to the System and the Authority's operation thereof.

Insurance. With respect to the System, the Authority will carry adequate public liability, fidelity, and property insurance, such as is maintained by similar Systems as the System; provided, the Authority shall not be required to insure beyond the limits of immunity provided by Sections 29-20-101 et seq., Tennessee Code Annotated, as amended, and provided further, the Authority may self-insure against any risks that its Governing Body deems appropriate provided the Authority maintains adequate reserves, in such amounts as the Authority determines is reasonable, for such self insurance.

The Authority, without in any way limiting the generality of the following, shall: (a) require each construction contractor and each subcontractor to furnish a bond, or bonds, of such type and in amounts adequate to assure the faithful performance of their contracts and the payment of all bills and claims for labor and material arising by virtue of such contracts; and (b) require each construction contractor or the subcontractor to maintain at all times until the completion and acceptance of the Project adequate compensation insurance for all of their employees and adequate public liability and property damage insurance for the full and complete protection of Authority from any and all claims of every kind and character which may arise by virtue of the operations under their contracts, whether such operations be by themselves or by anyone directly or indirectly for them, or under their control.

All such policies shall be for the benefit of and made payable to the Authority and shall be on deposit with the Authority.

All moneys received for losses under any such insurance policies, except public liability policies, are pledged by the Authority under the Resolution, as security for the Revenue Obligations until and unless such proceeds are paid out in making good the loss or damage in respect of which such proceeds are received, either by repairing the property damaged or replacing the property destroyed or by depositing the same in the Renewal and Extension Fund. Adequate provision for making good such loss and damage shall be made within 120 days from the date of the loss, insurance proceeds not used in making such provision shall be deposited in the Renewal and Extension Fund on the expiration of such 120-day period. Such insurance proceeds shall be payable to the Authority by appropriate clause to be attached to or inserted in the policies.

No Sale, Lease, or Encumbrance; Exceptions. Unless consent is given by the holders of at least a majority of the aggregate principal amount of the Revenue Obligations and by any Credit Issuer, the Authority 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 except as may be set forth herein; 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:

(a) All covenants and undertakings in connection with all Revenue Obligations then outstanding and payable from the Revenues of the System are in compliance and any required reserve funds have been fully established and contributions thereto are current;

(b) After the abandonment, sale or other disposal of all or a portion of the System, (i) provision is made for the payment of all the outstanding Revenue Obligations or (ii) the remaining Revenues of the System after such sale shall be sufficient to pay principal of, premium, if any, and interest on the remaining Revenue Obligations and sufficient to be in compliance with the covenants set forth herein as certified by a Consulting Engineer or Financial Adviser;

(c) 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 or it is otherwise in the best interests of the Authority to dispose of all or a part of the System as determined by the Governing Body of the Authority; and

(d) The Authority 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 Revenue Obligations from gross income of the holders thereof for purposes of federal income taxation.

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

In addition to the transfers permitted above and to the extent permitted under the Act, the Authority shall have the right to sell, lease, transfer or otherwise dispose of the System as a

whole or substantially as a whole, to any municipal corporation, county, political subdivision, governmental corporation or governmental agency (each of which shall be included within the term "Transferee" as used herein), provided the transferee thus acquiring the System from the Authority will assume the performance of and be bound by all of the Authority's obligations to the holders of the Revenue Obligations to make the payments into the funds required by the resolutions authorizing the Revenue Obligations and the Resolution and to pay the principal of, premium, if any, and interest on the Revenue Obligations as provided in the covenants and provisions of the Resolution.

No Impairment of Rights. The Authority shall not enter into any contract or contracts, nor take any action, the results of which might materially impair the rights of the holders of any Revenue Obligations.

Books and Accounts. The Authority shall keep proper books and accounts in compliance with applicable laws and regulations, if any, and shall cause such books and accounts to be audited for each Fiscal Year by an independent certified public accountant or firm of independent certified public accountants. A copy of each annual audit report showing in reasonable detail the financial condition of the System at the close of the Fiscal Year, the income and expenses for such Fiscal Year, including the transactions relating to any and all funds and accounts created pursuant to the Resolution, shall be available to any Bondholder upon request.

Enforcement of Charges and Connections. The Authority shall compel the prompt payment of rates, fees, and charges imposed for service connected with the System, and to that end will vigorously enforce all of the provisions of any resolution or ordinance of the Authority having to do with the same, and all of the rights and remedies permitted the Authority under law. The Authority expressly covenant and agree that such charges will be enforced and promptly collected to the full extent permitted by law.

Payments. All payments falling due on the Revenue Obligations and related Contracts shall be made by the Authority, from the Pledged Revenues or, at the Authority's option, other legally available revenues to the owners thereof when due in full, and all reasonable and authorized charges made by the Bond Registrar, the Trustee and the Paying Agent shall be paid by the Authority, when due.

No Loss of Lien on Revenues. The Authority shall not do, or omit to do, or permit to be done or to be omitted any matter or thing whatsoever whereby the lien of the Resolution on the Pledged Revenues or any part thereof might or could be lost or impaired.

Annual Budget. The Authority agrees to adopt an Annual Budget for the System for each Fiscal Year in compliance with the rate covenant described in this Summary.

Tax Provisions. The Authority recognizes that the purchasers and owners of Tax-Exempt Bonds will have accepted the Tax-Exempt Bonds on, and paid for the Tax-Exempt Bonds a price which reflects, the understanding that interest on such Tax-Exempt Bonds is not included in the gross income of the owners for federal income tax purposes under laws in force at the time the Tax-Exempt Bonds shall have been delivered.

The Authority shall take any and all action which may be required from time to time in order to assure that interest on the Tax-Exempt Bonds shall remain excludable from the gross income of the owners of the Tax-Exempt Bonds for federal income tax purposes and shall refrain from taking any action which would adversely affect such status.

The Authority will not knowingly use, invest or participate in the investment of any moneys held under the Resolution if such use or investment would cause interest on any Tax-Exempt Bonds to become included in gross income for federal income tax purposes.

The Authority shall calculate, from time to time, as required in order to comply with the provisions of Section 148(1) of the Code, the amounts required to be rebated (including penalties) to the United States and shall deposit or cause to be deposited into the Rebate Fund any and all of such amounts promptly following a determination of any such amount.

The Authority shall direct the Depository of the Rebate Fund to keep all moneys held therein invested in Permitted Investments. To the extent and at the times required in order to comply with Section 148(f) of the Code, the Authority may withdraw funds from the Rebate Fund for the purpose of making rebate payments (including penalties) to the United States as required by Section 148(f) of the Code. Except as otherwise specifically provided under this heading, moneys in the Rebate Fund may not be withdrawn from the Rebate Fund for any other purpose.

All earnings on investments held in the Rebate Fund shall be retained in the Rebate Fund and shall become part of the Rebate Fund. Moneys held in the Rebate Fund, including the investment earnings thereon, if any, shall not be subject to a pledge in favor of the owners of the Revenue Obligations under the Resolution and may not be used to pay amounts due on the Revenue Obligations or under any Credit Facility Agreements or Hedge Agreements or amounts required for the operation, maintenance, enlargement, or extension of the System.

The Authority shall have the right to create special accounts, from time to time, in the Rebate Fund as it may deem desirable.

If the Authority shall deliver to the Depository of the Rebate Fund a certificate, signed by an officer of the Authority certifying that the Authority has filed all reports required to be filed with the United States pursuant to Section 148(f) of the Code and has made all payments required to be made to the United States pursuant to Section 148(f) of the Code, then the Depository of the Rebate Fund shall transfer to, or upon the order of, the Authority all moneys or investments remaining in the Rebate Fund, and such moneys and investments may be used by the Authority for any lawful purpose.

The Authority may employ any rebate analyst or other expert to perform any of the duties with respect to the Rebate Fund, other than payment of moneys into the Rebate Fund.

## **EVENTS OF DEFAULT AND REMEDIES**

Definition of Events of Default. An "Event of Default" shall mean the occurrence of any one or more of the following:

(a) a failure to pay the principal or redemption price of any Senior Lien Revenue Obligation when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) a failure to pay any installment of interest on any Senior Lien Revenue Obligation when and as such installment of interest shall become due and payable; or

(c) a court of competent jurisdiction shall enter an order, judgment, or decree appointing a receiver of the System or any of the funds or accounts established in the Master Resolution, or approving a petition seeking reorganization of the Authority under the federal bankruptcy laws or any other applicable law or statute of the United States of America or the State, and such order, judgment, or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof; or

(d) the Authority shall fail to perform any of the other covenants, conditions, agreements, and provisions contained in the Senior Lien Revenue Obligations or in the Resolution on the part of the Authority to be performed, and such failure shall continue for 90 days after written notice specifying such failure and requiring it to be remedied shall have been given to the Authority by the Trustee or by the owners of not less than or any Credit Issuer securing not less than twenty-five percent (25%) in aggregate principal amount of the Senior Lien Revenue Obligations; provided, however, if the failure stated in such notice can be corrected, but not within such 90 day period, the Authority shall have 180 days after such written notice to cure such default if corrective action is instituted by the Authority within such 90 day period and diligently pursued until the failure is corrected; or

(e) an Event of Default under any Supplemental Resolution relating to Senior Lien Revenue Obligations shall occur;

provided if the Event of Default relates solely to Revenue Obligations related to a particular category of Revenues and no other event has occurred which, with the lapse of time or the delivery of notice or both, could become an Event of Default with respect to any other Revenue Obligations then Outstanding, such Event of Default shall be deemed to apply solely to the related Revenue Obligations and Contracts and the provisions of the Resolution shall otherwise remain in full force and effect with respect to all other Revenue Obligations and related Contracts.

Remedies. Upon the occurrence of an Event of Default, the Trustee shall have the power to proceed with any right or remedy available at law or in equity or by statute, as it may deem best, including any suit, action or special proceeding in equity or at law for the collection of amounts due and to become due under the Resolution and under the Senior Lien Revenue Obligations or the performance of any covenant or agreement contained herein or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect the rights aforesaid, insofar as such may be authorized by law. The rights herein specified are to be cumulative to all other available rights, remedies or powers.

Without limiting the foregoing, upon the request of the holders of not less than twenty-five percent (25%) of the Outstanding Senior Lien Revenue Obligations, the Trustee shall, in

addition to all other remedies and rights upon or under the Resolution, have the right, by appropriate proceedings in any court of competent jurisdiction, to obtain the appointment of a receiver for the System, which receiver may enter upon and take possession of the System, operate and maintain the System, fix rates and collect all revenues arising therefrom in as full a manner and to the same extent as the Authority itself might do. The receiver shall deposit all moneys collected by him in a separate account or accounts and shall dispose of such revenues in accordance with the terms and conditions of the resolutions authorizing Senior Lien Revenue Obligations and the Resolution and as the court shall direct.

No delay or omission to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or shall be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right and remedy may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default under the Resolution, whether by the Trustee, any Credit Issuer or by the Bondholders, shall extend to or affect any subsequent or other Event of Default, or impair any rights or remedies consequent thereon.

Rights of Bondholders. Upon the occurrence of an Event of Default and if requested so to do by the Holders of more than fifty percent (50%) in aggregate principal amount of the Senior Lien Revenue Obligations then Outstanding and if indemnified for its costs and expenses, the Trustee, subject to the provisions of Section 7.04 of the Resolution, shall be obligated to exercise such one or more of the rights and remedies conferred by the Master Resolution as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bondholders.

Right of Bondholders to Direct Proceedings. Anything herein to the contrary notwithstanding, the Holders of more than fifty percent (50%) in aggregate principal amount of the Senior Lien Revenue Obligations then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct (as between such Bondholders and the Trustee) the time, method and place of conducting all proceedings otherwise permitted to be taken in connection with the enforcement of the terms and conditions hereof, or for the appointment of a receiver or any other proceedings under the Resolution, provided the Trustee is indemnified as provided above.

Remedies Cumulative. No remedy conferred upon or reserved to the holders of any Revenue Obligations is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or now or hereafter existing at law or in equity or by statute.

Waiver of Default. No delay or omission of any holder of any Revenue Obligations to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default, or an acquiescence therein, and every power and remedy given by the Resolution to the holders of any Revenue Obligations may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys After Default. If an Event of Default occurs and shall not have been remedied, the Authority or a receiver appointed for the purpose shall apply all Pledged Revenues

as follows and in the following order of priority (subject to the last paragraph under this heading):

(a) Expenses of Receiver and Trustee and Bond Registrar - to the payment of the reasonable and proper charges, expenses, and liabilities of the receiver and the Trustee and Bond Registrar under the Resolution with the amounts payable under this (a), if related to a particular series and therefore to a particular category of Revenues, first from such category and second from other categories of Revenues in amounts as determined by the receiver or the Trustee, and if not so related to a particular series or category of Revenues, then from all Revenues as determined by the Receiver or the Trustee;

(b) Operating Expenses - then, within each category of Revenues, to the payment of all reasonable and necessary related Operating Expenses;

(c) Then, within each category of Revenues, to the payment of the interest and principal or redemption price then due on the related Senior Lien Revenue Obligations and payments then due under Loan Agreement and payments under related Contracts (other than Termination Payments), as follows:

(1) Unless the principal of all the Senior Lien Revenue Obligations related to such category of Revenues shall have become due and payable due to the maturity thereof, all such moneys shall be applied as follows:

first: to the payment to the persons entitled thereto of all installments of interest then due on the Senior Lien Revenue Obligations, in the order of the maturity of such installments (with interest on defaulted installments of interest at the rate or rates borne by the Senior Lien Revenue Obligations with respect to which such interest is due, but only to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference. If some of the Senior Lien Revenue Obligations bear interest payable at different intervals or upon different dates and if at any time moneys from the Debt Service Reserve Account securing such Revenue Obligations must be used to pay any such interest, the moneys in any subaccount of the Debt Service Reserve Account shall be applied (to the extent necessary) to the payment of all interest falling due on the dates upon which such interest is payable to and including the date six months after the date of application of such moneys. After such period, moneys in any subaccount of the Debt Service Reserve Account securing such Revenue Obligations plus any other moneys available in the Interest Account shall be set aside for the payment of interest on Senior Lien Revenue Obligations of each class (a class consisting of all Senior Lien Revenue Obligations payable as to interest on the same dates) pro rata among Senior Lien Revenue Obligations of the various classes on a daily basis so that there shall accrue to each owner of a Senior Lien Revenue Obligation throughout each Fiscal Year the same proportion of the total interest payable to such owner of a Senior Lien Revenue Obligation as shall so accrue to every other owner of a Senior Lien Revenue Obligation during

such Fiscal Year. As to any Compound Interest Bond which is a Senior Lien Revenue Obligation, such interest shall accrue on the Accreted Value of such Senior Lien Revenue Obligation and be set aside on a daily basis until the next compounding date for such Senior Lien Revenue Obligations, whereupon it shall be paid to the owner of such Senior Lien Revenue Obligation as interest on a defaulted obligation and only the unpaid portion of such interest (if any) shall be treated as principal of such Senior Lien Revenue Obligation.

second: to the payment to the persons entitled thereto of the unpaid principal of any of the Senior Lien Revenue Obligations which shall have become due at maturity or upon mandatory redemption prior to maturity (other than Senior Lien Revenue Obligations called for redemption for the payment of which moneys are held pursuant to the provisions of Article IX of the Master Resolution), in the order of their due dates, with interest upon such Senior Lien Revenue Obligations from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full Senior Lien Revenue Obligations due on any particular date, together with such interest, then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal, ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference. If some of the Senior Lien Revenue Obligations mature (including mandatory redemption prior to maturity as a maturity) upon a different date or dates and if at any time moneys from the Debt Service Reserve Account must be used to pay any such principal falling due, the moneys in the Debt Service Reserve Account not required to pay interest under paragraph first above shall be applied to the extent necessary to the payment of all principal falling due prior to the date 12 months after the date of application of such moneys. After such period, moneys in the Debt Service Reserve Account not required to pay interest plus any other moneys available in the Principal Account shall be set aside for the payment of principal of Senior Lien Revenue Obligations of each class (a class consisting of all Senior Lien Revenue Obligations payable as to principal on the same date) pro rata among Senior Lien Revenue Obligations of the various classes which mature or must be redeemed pursuant to mandatory redemption prior to maturity throughout each Fiscal Year in such proportion of the total principal payable on each such Senior Lien Revenue Obligation as shall be equal among all classes of Senior Lien Revenue Obligations maturing or subject to mandatory redemption within such Fiscal Year. The Accreted Value of a Compound Interest Bond which is a Senior Lien Revenue Obligation (except for interest which shall have been paid under paragraph first) shall be treated as principal for purposes of this paragraph third.

third: to the payment of the redemption premium on and the principal of any Senior Lien Revenue Obligations called for optional redemption pursuant to their terms.

fourth: to interest portions of Reimbursement Obligations that have not been designated as Senior Lien Revenue Obligations, but are related to Senior Lien Revenue Obligations pursuant to the terms of the related Contracts.

fifth: to the payment of the principal portions of Reimbursement Obligations that have not been designated as Senior Lien Revenue Obligations but are related to Senior Lien Revenue Obligations pursuant to the terms of the related Contracts.

sixth: to the payment of all other amounts then due on Loan Agreements (excluding Termination Payments) and on Contracts (excluding Termination Payments) related to Senior Lien Revenue Obligations.

seventh: to the payment of other obligations of the Authority, including Subordinate Lien Obligations and Termination Payments, as may be provided in a Supplemental Resolution.

(2) If the principal of all the Senior Lien Obligations shall have become due and payable, all such moneys shall be applied as follows:

first, to the payment of the principal and interest then due and unpaid upon the Senior Lien Revenue Obligations, with interest thereon as aforesaid, and due and unpaid payments under related Contracts (excluding Termination Payments) and due and unpaid payments under Loan Agreements other than principal and interest (excluding Termination Payments), without preference or priority of principal over interest or payments on Contracts and other payments on Loan Agreements (excluding Termination Payments) or of interest over principal or payments on Contracts and other payments on Loan Agreements, or of payments on Contracts (excluding Termination Payments) over principal or interest, or of any installment of interest over any other installment of interest, or of any Senior Lien Revenue Obligation over any other Senior Lien Revenue Obligations, or of any such payment under a Contract and other payments on Loan Agreements (excluding Termination Payments) over any other such payment under a Contract and other payments on Loan Agreements (excluding Termination Payments), ratably, according to the amounts due respectively for principal, interest, and payments under Contracts and other payments on Loan Agreements (excluding Termination Payments), to the persons entitled thereto without any discrimination or preference.

second, to the payment of other obligations of the Authority, including Subordinate Lien Obligations and Termination Payments, as may be provided in a Supplemental Resolution.

Notwithstanding anything else herein to the contrary, payments made pursuant to (b) and (c) shall be made by category of Revenues to related Revenue Obligations such that:

(i) Amounts traceable to General Revenues are used only for General Revenue Obligations and related Contracts;

(ii) Amounts traceable to Released Revenues are used only for Released Revenue Obligations and related Contracts or otherwise as permitted by the Resolution;

(iii) Amounts traceable to Special Purpose Revenues are used only for Special Purpose Revenue Obligations and related Contracts or otherwise as permitted by the Resolution; and

(iv) Amounts not traceable to particular categories of Revenues shall be used first as General Revenues for purposes of this section, then as other Released Revenues, and then as Special Purpose Revenues.

Rights of Credit Issuer. Notwithstanding any other provision of the Resolution, in the event that the Authority shall draw under a Credit Facility any amount for the payment of principal or interest on any Revenue Obligations, then upon such payment the related Credit Issuer shall succeed to and become subrogated to the rights of the recipients of such payments to the extent of such payments and such principal or interest shall be deemed to continue to be unpaid and Outstanding for all purposes and shall continue to be fully secured by the Resolution until the Credit Issuer, as successor and subrogee, has been paid all amounts owing in respect of such subrogated payments of principal and interest. Such rights shall be limited and evidenced by having the Authority note the Credit Issuer's rights as successor and subrogee on its records, and the Authority shall, upon request, deliver to the Credit Issuer (i) in the case of interest on the Revenue Obligations, an acknowledgment of the Credit Issuer's ownership of interest to be paid on the Revenue Obligations specifying the amount of interest owed, the period represented by such interest, and the numbers of the Revenue Obligations on which such interest is owed and (ii) in the case of principal of the Revenue Obligations, either the Revenue Obligations themselves duly assigned to the Credit Issuer or new Revenue Obligations registered in the name of the Credit Issuer or in such other name as the Credit Issuer shall specify. Whenever moneys become available for the payment of any interest or principal then overdue, the Credit Issuer shall be treated as to interest or principal owed to it as successor and subrogee as if it had been the holder of the Revenue Obligations on which such interest or principal is payable on any special record date therefor.

Rights and Remedies Vested in Trustee. All rights of action and remedies under the Resolution or under any of the Senior Lien Revenue Obligations may be enforced by the Trustee without the possession of any of the Senior Lien Revenue Obligations or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Senior Lien Revenue Obligations or any Credit Issuer, and any recovery of judgment shall, subject to the terms hereof, be for the benefit of the Holders of the Senior Lien Revenue Obligations and any Credit Issuer.

Rights and Remedies of Bondholders. No Holder of any Senior Lien Revenue Obligation shall have any right to institute any suit, action or proceeding in equity or law for the enforcement hereof, for the execution of any trust hereof or for the appointment of a receiver or to enforce any other right or remedy under the Resolution, unless (a) a Default has occurred of which the Trustee has been notified, or of which it is deemed to have notice, (b) such Default shall have become an Event of Default and the Holders of more than fifty percent (50%) in aggregate

principal amount of Senior Lien Revenue Obligations then outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity to the Trustee either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, and (c) such Bondholders have offered to the Trustee indemnity as provided herein and the Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name. Such notification, request and offer of indemnity are declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts hereof, and to any action or cause of action for the enforcement hereof, or for the appointment of a receiver or for any other right or remedy under the Resolution; it being understood and intended that no one or more Holders of the Senior Lien Revenue Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien hereof by its, his or their action or to enforce any right or remedy under the Resolution except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit, first, of the Holders of all Senior Lien Revenue Obligations and, second, of any Credit Issuer.

Termination of Proceedings. If the Trustee shall have proceeded to enforce any right or remedy under the Resolution by any action at law or in equity, by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee, any Credit Issuer and the Bondholders shall be restored to their former positions and rights under the Resolution, respectively, with respect to the Pledged Revenues, and all rights, remedies and powers of the Trustee, any Credit Issuer and the Bondholders, respectively, shall continue as if no such proceedings had been taken.

Waivers of Events of Default. The Trustee shall waive any Event of Default under the Resolution and its consequences upon the written request of the Holders of more than fifty percent (50%) in aggregate principal amount of all Senior Lien Revenue Obligations then Outstanding, provided, however, there shall not be waived:

(i) any Event of Default pertaining to the payment of the principal or redemption price of any Senior Lien Revenue Obligation at its maturity or Redemption Date; or

(ii) any Event of Default pertaining to the payment when due of the interest on any Senior Lien Revenue Obligation unless prior to such waiver, all arrears of interest and all principal or redemption price payments in respect of which such Event of Default shall have occurred, with interest thereon (to the extent permitted by law) for the period from the occurrence of such Event of Default until paid in full at a rate per annum equal to the interest rate payable on the Senior Lien Revenue Obligations from time to time during such period in accordance with the terms of the Senior Lien Revenue Obligations, and all expenses of the Trustee in connection with such Event of Default, shall have been paid or provided for, and in case of any such waiver, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or abandoned or for any reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee, the Credit Issuer and the Bondholders shall be restored to their former positions and rights under the Resolution, respectively,

but no such waiver shall extend to or affect any subsequent or other Event of Default, or impair any rights or remedies consequent thereon.

**THE TRUSTEE Acceptance of Duties.** With respect to the Senior Lien Revenue Obligations issued under the Resolution, the Trustee by participating in the closing of the initial series of Senior Lien Revenue Obligations, was deemed to have accepted the duties imposed upon it by the Resolution, and agreed to perform said duties, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred undertakes to perform such duties and only such duties as are specifically set forth in the Resolution, and no implied agreements or obligations shall be read into the Resolution against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Resolution and use the same degree of care and skill in their exercise as a prudent corporate trustee would exercise or use under the circumstances.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified in subsection (a) above, and shall be entitled to advice of counsel concerning all matters relating to its duties under the Resolution, and may in all cases pay reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Authority), approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be responsible for any recital herein, or in the Senior Lien Revenue Obligations (except with respect to the authentication certificate of the Trustee endorsed on the Senior Lien Revenue Obligations), or for the recording or rerecording, filing or re-filing of the Resolution or any other document, or for the validity of the execution or approval hereof by the Authority or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Senior Lien Revenue Obligations, or for the value of or title in and to the Pledged Revenues or any part of the Pledged Revenues or otherwise as to the maintenance of the security hereof, and the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any agreements or conditions on the part of the Authority except as hereinafter set forth.

(d) Except to the extent herein specifically provided, the Trustee shall not be accountable for the use of the proceeds of any of the Senior Lien Revenue Obligations. The Trustee, in its individual capacity, may in good faith buy, sell, own, hold or deal in any of the Revenue Obligations issued under the Resolution, and may join in any action

which any Bondholder may be entitled to take with like effect as if such Person did not act in any capacity under the Resolution. The Trustee, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with any Credit Issuer, and may act as depository, paying agent or agent for any committee or body of Bondholders in connection with any other resolution or similar agreement to which the Authority or any Credit Issuer is a party and hold any bonds secured thereby or other obligations of the Authority as freely as if such Person did not act in any capacity under the Resolution.

(e) Except as is otherwise provided in subsection (a) above:

(i) The Trustee shall be protected in acting upon opinions of Counsel and upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed to be genuine and correct and to have been signed or sent by the proper Person or Persons. Any action taken by the Trustee, pursuant hereto upon the request, authority or consent of the Bond Registrar acting at the direction of any Person who at the time of making such request or giving such authority or consent is the Holder of any Senior Lien Revenue Obligation, shall be conclusive and binding upon all future Holders of the same Senior Lien Revenue Obligation and upon Senior Lien Revenue Obligations issued in exchange therefor or in place thereof. The Trustee may conclusively rely upon a certificate furnished by any Credit Issuer as to amounts owing with respect to any Credit Facility.

(ii) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate or the Authority as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default of which the Trustee has been notified as provided in subsection (e)(iv) under this heading, or of which by said subsection it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the Authority to the effect that a resolution in the form therein set forth has been adopted as conclusive evidence that such resolution has been adopted and is in full force and effect.

(iii) The right of the Trustee to do things enumerated herein shall not be construed as a duty and the Trustee shall not be answerable for other than its gross negligence or willful misconduct.

(iv) Unless a Responsible Officer of the Trustee shall be specifically notified in writing of an Event of Default by the Authority, any Credit Issuer or by the Holders of more than fifty percent (50%) in aggregate principal amount of Outstanding Senior Lien Revenue Obligations, the Trustee shall not be required to take notice or be deemed to have notice of any Default under the Resolution

except failure to pay the principal or redemption price of or interest on the Senior Lien Revenue Obligations when due. All notices or other instruments required to be delivered to the Trustee must, in order to be effective, be delivered at the principal corporate trust office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Default except as aforesaid. In the event that any payment referred to above is not paid when due, the Trustee shall give Immediate Notice to the Authority and any Credit Issuer that such payment has not been made and shall immediately confirm such notice by registered or certified mail to the Authority and any Credit Issuer.

(f) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(g) Notwithstanding anything elsewhere herein contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Senior Lien Revenue Obligations, the taking of any action reasonably within the purview hereof, as a condition of such action by the Trustee.

(h) Before taking any action under the Resolution (other than acting on a Credit Facility) at the request or direction of any Bondholder, the Trustee may require that satisfactory security or indemnity be furnished by the Holders of the Senior Lien Revenue Obligations for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from the gross negligence or willful misconduct of the Trustee, by reason of any action so taken.

(i) All moneys received by the Trustee or the Bond Registrar for the Senior Lien Revenue Obligations shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required herein or by law.

(j) No provision of the Resolution shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Resolution, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate security or indemnity against such risk or liability is not reasonably assured to it.

(k) The Trustee shall be entitled to pay any amount to a Credit Issuer required under the Resolution upon written notice from the Credit Issuer that such amount is due and owed by the Authority to the Credit Issuer pursuant to the Resolution, a Credit Facility or other related documents, and the Trustee shall have no obligation to determine whether such amount is in fact owed to the Credit Issuer.

#### Notice by Trustee and Authority

(a) If a Default occurs of which the Trustee is required to take notice or if notice of a Default be given, then the Trustee shall give written notice thereof by first-class mail, postage

prepaid, to any Credit Issuer, the Authority and the Holders of all Senior Lien Revenue Obligations then Outstanding of the applicable series.

(b) At any time that any series of Senior Lien Revenue Obligations are rated by a Rating Agency or the Authority, shall promptly give notice to such Rating Agency, at such address as the Rating Agency shall have furnished to the Authority of:

- (i) any change in the identity of the Trustee,
- (ii) any amendments or supplements of the Resolution or the Senior Lien Revenue Obligations,
- (iii) any redemption of all the Senior Lien Revenue Obligations or any mandatory purchase of all the Senior Lien Revenue Obligations,
- (iv) any amendment, renewal, substitution, termination or expiration of any Credit Facility; and
- (v) any other information that the Rating Agency may reasonably request.

Successor Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, merger, consolidation, sale or transfer to which it is a party, ipso facto, shall be and become successor Trustee under the Resolution and vested with all the trusts, powers of discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any Person, anything herein to the contrary notwithstanding.

Resignation by the Trustee. The Trustee and any successor Trustee may at any time resign from the trusts created under the Resolution by giving written notice by first-class mail, postage prepaid, to the Authority, any Credit Issuer and to each Bondholder, but such resignation shall take effect only upon the appointment of a successor Trustee; provided, however, that if a successor Trustee shall not have been appointed within 30 days from the date of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Removal of the Trustee. The Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Trustee and to the Authority and any Credit Issuer, and signed by the Authority or the Holders of more than fifty percent (50%) in aggregate principal amount of the outstanding Senior Lien Revenue Obligations; provided, however, that such removal shall take effect only upon the appointment of a successor Trustee and provided further if the removal is by the Authority, that there shall not then exist an Event of Default under the Resolution.

Appointment of Successor Trustee; Temporary Trustee. If the Trustee shall resign, be removed, be dissolved, be in course of dissolution or liquidation, or shall otherwise become incapable of acting under the Resolution or in case it shall be taken under the control of any public officer,

officers or a receiver appointed by a court, a successor may be appointed by the Authority (if no Event of Default has occurred and is continuing) or by the Holders of more than fifty percent (50%) of the principal amount of the Outstanding Senior Lien Revenue Obligations (if an Event of Default has occurred and is continuing), by an instrument or concurrent instruments in writing signed by such Holders, or by their attorneys-in-fact, duly authorized; provided, nevertheless, that in case of such event pursuant to which the Holders are entitled to appoint a successor, the Authority shall appoint a temporary Trustee to serve until a successor Trustee shall be appointed, and any such temporary Trustee shall immediately and without further act be superseded by the Trustee so appointed by such Bondholders. Every such Trustee appointed pursuant shall be, if there be such an institution willing, qualified and able to accept the trusts upon reasonable and customary terms in good standing, a bank or trust company having a combined capital surplus and undivided profits of not less than \$25,000,000.

Concerning Any Successor Trustee. Every successor Trustee appointed under the Resolution shall execute, acknowledge and deliver to its predecessor and also to the Authority, any Credit Issuer and each Bondholder an instrument in writing accepting such appointment under the Resolution and specifying its principal corporate trust office for the purpose of the Resolution, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Authority, or of its successor, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor under the Resolution; and every predecessor Trustee shall deliver all securities and moneys held by it as Trustee under the Resolution to its successor. Should any instrument in writing from the Authority be required by any successor Trustee in order to more fully and certainly vest in such successor the estates, properties, rights, powers and trusts vested or intended to be vested under the Resolution in the predecessor any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor under the Resolution, together with all other instruments provided for in this Article, shall be filed and/or recorded by the successor Trustee wherever required by applicable law or to continue the perfection of any lien or security interest created under the Resolution.

Paying Agent. The Authority appointed the Trustee as the Paying Agent under the Resolution and, in addition, may designate separate and additional paying agents to undertake any portion of the duties and obligations of the Paying Agent under the Resolution. If any Paying Agent other than the Trustee is designated under the Resolution, the Trustee will make payments to such Paying Agent, with the funds provided for in the Resolution, sufficient to make timely payments of principal, premium and interest on the Revenue Obligations. Any Paying Agent shall designate to the Authority, the Trustee, any Credit Issuer and each Bondholder the principal office of the Paying Agent and, except for the Trustee, signify its acceptance of the duties and obligations imposed upon it under the Resolution by a written instrument of acceptance delivered to the Authority and the Trustee under which such Paying Agent will agree, if applicable:

- (a) to hold all sums held by it for the payment of the principal of, premium, if any, purchase price or interest on the Revenue Obligations in trust for the benefit of

Bondholders until such sums shall be paid to such Bondholders or otherwise disposed of as herein provided;

(b) to keep such books and records as shall be consistent with prudent industry practice, to make such books and records available for inspection by the Authority and the Trustee at all reasonable times; and

(c) upon the request of the Trustee, to forthwith deliver to the Trustee all sums so held in trust by it.

The Authority shall cooperate with the Trustee and the Paying Agent to cause the necessary arrangements to be made and to be thereafter continued whereby funds derived from the sources specified herein will be made available to the Paying Agent for the payment when due of the principal of, premium, if any, and interest on the Revenue Obligations, or for the payment of the purchase price of the Revenue Obligations.

**DEFEASANCE Provision for Payment.** Except as otherwise set forth in the Supplemental Resolution authorizing Revenue Obligations, all or any portion of the Revenue Obligations for the payment, prepayment or redemption of which sufficient moneys or sufficient Defeasance Obligations shall have been deposited with the Trustee or an escrow agent selected by the Authority (whether upon or prior to the maturity or the redemption date of such Revenue Obligations) shall be deemed to be paid and no longer Outstanding under the Resolution; provided, however, that if such Revenue Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given as provided in the Resolution or firm and irrevocable arrangements shall have been made for the giving of such notice. Defeasance Obligations shall be considered sufficient only: (i) if such Defeasance Obligations are not callable by the issuer of the Defeasance Obligations prior to their stated maturity, and (ii) if such Defeasance Obligations fall due and bear interest in such amounts and at such times as will assure sufficient cash (whether or not such Defeasance Obligations are redeemed by the Authority pursuant to any right of redemption) to pay currently maturing interest and to pay principal and redemption premiums, if any, when due on the Revenue Obligations without rendering the interest on any Tax-Exempt Bonds includable in gross income of any owner thereof for federal income tax purposes.

The Authority may at any time surrender to the Bond Registrar for cancellation by it any Bonds previously authenticated and delivered under the Resolution which the Authority may have acquired in any manner whatsoever. All such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

**Release of Pledge.** If all Revenue Obligations and obligations secured by a lien on a category of Revenues have been paid or provision for payment thereof made pursuant to the defeasance provisions described and the related Supplemental Resolution, then at the option of the Authority, the terms and provisions of the Resolution relating solely to such category of Revenues may be determined as void and of no further force or effect; provided the other terms and provisions of the Resolution shall remain in effect until the election of the Authority, after

payment or provision for payment of all Revenue Obligations and obligations secured by a lien created pursuant to the Resolution on any Revenues.

**SUPPLEMENTAL RESOLUTIONS** Supplemental Resolutions Not Requiring Consent of Bondholders. The Authority, from time to time and at any time, subject to the conditions and restrictions in the Resolution, may adopt one or more Supplemental Resolutions which thereafter shall form a part of the Resolution, for any one or more or all of the following purposes:

(a) to add to the covenants and agreements in the Resolution other covenants and agreements thereafter to be observed or to surrender, restrict, or limit any right or power reserved in the Resolution to or conferred upon the Authority (including but not limited to the right to issue Additional Obligations);

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting, or supplementing any defective provision contained in the Resolution, or in regard to matters or questions arising under the Resolution, as the Authority may deem necessary or desirable and not inconsistent with the Resolution;

(c) to subject to the lien and pledge of the Resolution additional revenues, receipts, properties, or other collateral;

(d) to evidence the appointment of successors to the Trustee, the Paying Agent or the Bond Registrar;

(e) to modify, amend, or supplement the Resolution in such manner as to permit the qualification of the Resolution under the Trust Indenture Act of 1939 or any federal statute hereinafter in effect, and similarly to add to the Resolution such other terms, conditions, and provisions as may be permitted or required by such Trust Indenture Act of 1939 or any similar federal statute;

(f) to make any modification or amendment of the Resolution required in order to make any Revenue Obligations eligible for acceptance by DTC or any similar holding institution or to permit the issuance of any Revenue Obligations or interests therein in book-entry form;

(g) to modify any of the provisions of the Resolution in any respect if such modification shall not become effective until after all the Outstanding Revenue Obligations immediately prior to the effective date of such Supplemental Resolution shall cease to be Outstanding and if any Revenue Obligations issued contemporaneously with or after the effective date of such Supplemental Resolution shall contain a specific reference to the modifications contained in such subsequent proceedings;

(h) to modify the provisions of the Resolution with respect to the disposition of any moneys remaining in the Project Fund upon the completion of any Project or to revise, enlarge or reduce the definition or description of any particular Project;

(i) to create additional subaccounts or to abolish any subaccounts within any account;

(j) to modify the Resolution to permit the qualification of any Revenue Obligations for offer or sale under the securities laws of any state in the United States of America;

(k) to modify the Resolution in connection with the issuance of Additional Obligations or Subordinate Lien Obligations permitted to be issued under the Resolution prior to such modification, and such modification may deal with any subjects and make any provisions relating to the Additional Obligations or Subordinate Lien Obligations which the Authority deems necessary or desirable for that purpose; provided that no such modification shall have a material adverse effect upon the security for the Obligations other than that implicit in the authorization of Additional Obligations and shall not affect the restrictions applicable to the issuance of Additional Obligations under Sections 5.02, 5.03 or 5.04 of the Resolution described in this Summary;

(l) to make such modifications in the provisions of the Resolution as may be deemed necessary by the Authority to accommodate the issuance of Revenue Obligations which (i) are Compound Interest Bonds (including, but not limited to, provisions for determining the Debt Service Requirement for such Compound Interest Bonds and for treatment of Accreted Value in making such determination) or (ii) bear interest at a Variable Rate; or

(m) to modify any of the provisions of the Resolution in any respect (other than a modification of the type requiring the unanimous written consent of the holders); provided that for (i) any Outstanding Revenue Obligations which are assigned a Rating and which are not secured by a Credit Facility providing for the payment of the full amount of principal and interest to be paid thereon, each Rating Agency shall have given written notification to the Authority that such modification will not cause the then applicable Rating on any Revenue Obligations to be reduced or withdrawn, and (ii) any Outstanding Revenue Obligations which are secured by Credit Facilities providing for the payment of the full amount of the principal and interest to be paid thereon, each Credit Issuer shall have consented in writing to such modification.

Any Supplemental Resolution authorized by the provisions of this Section may be adopted by the Authority without the consent of or notice to the owners of any of the Revenue Obligations (except as otherwise set forth in such Supplemental Resolution) at the time Outstanding, notwithstanding any of the provisions of Section 10.02 of the Master Resolution. Any such Supplemental Resolution may modify the provisions of the Resolution in such a manner, and to such extent and containing such provisions, as the Authority may deem necessary or desirable to effect any of the purposes stated above. As used in this Section, the term "modify" shall mean "modify, amend, or supplement" and the term "modification" shall mean "modification, amendment, or supplement." Modifications to any Loan Agreement shall also be made only in conformance with any additional provisions required by such Loan Agreement. The Authority may agree in any Supplemental Resolution authorizing Revenue Obligations not to exercise its right to modify the Resolution pursuant to any of the provisions above without the consent of a requisite number of holders of the Revenue Obligations being issued.

The provisions of this Section shall be interpreted by category of Revenues such that each provision of any Supplemental Resolution shall be reviewed for compliance with such sections upon its effect on the Revenue Obligations and Loan Agreements secured by the related category of Revenues and whether the consent of any holders, of a majority of holders of a certain

category of Revenue Obligations and Loan Agreements or the consent of all such holders shall be determined with respect to each category of Revenues. Supplemental Resolutions may be adopted containing provisions which (1) do not require the consents of any holders, (2) require the consents of some but not all holders of Revenue Obligations and Loan Agreements related to a category of Revenues, (3) require the consents of some but not all holders of Revenue Obligations and Loan Agreements related to several categories of Revenues, (4) require the consents of all holders of Revenue Obligations and Loan Agreements related to a category of Revenues, (5) require the consents of all holders of Revenue Obligations and Loan Agreements, or (6) are covered in a combination of some or all of (1) through (5).

Supplemental Resolutions Requiring Consent of Holders of Revenue Obligations. Exclusive of Supplemental Resolutions described above under the heading Supplemental Resolutions Not Requiring Consent of Bondholders, with the consent of the owners of not less than a majority in aggregate principal amount of the Outstanding Revenue Obligations of each class (senior and subordinate), voting separately by class, of each series of Revenue Obligations related to an affected category of Revenues or related Revenue Obligations, the Authority may from time to time and at any time adopt a Supplemental Resolution for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Resolution or of any Supplemental Resolution; provided, however, that no such Supplemental Resolution shall: (a) extend the maturity date or due date of any mandatory sinking fund redemption with respect to any Revenue Obligations Outstanding under the Resolution; (b) reduce or extend the time for payment of principal of, redemption premium, or interest on any Revenue Obligations Outstanding under the Resolution; (c) reduce any premium payable upon the redemption of any Revenue Obligations under the Resolution or advance the date upon which any Revenue Obligations may first be called for redemption prior to its stated maturity date; (d) give to any Revenue Obligation or Revenue Obligations (or related Contracts) a preference over any other Revenue Obligation or Revenue Obligations (or related Contracts) not already permitted by the Resolution; (e) permit the creation of any lien or any other encumbrance on the Pledged Revenues having a lien equal to or prior to the lien created under the Resolution for the Senior Lien Revenue Obligations; (f) reduce the percentage of owners of Revenue Obligations required to approve any such Supplemental Resolution; or (g) deprive the owners of the Revenue Obligations of the right to payment of the Revenue Obligations or from the Pledged Revenues, without, in each case, the consent of the owners of all the Revenue Obligations then Outstanding of the category of Revenue Obligations affected thereby. No amendment may be made under this Section which affects the rights or duties of any Credit Issuer securing any of the Revenue Obligations or any Qualified Hedge Provider under any Hedge Agreement without its written consent. The provisions of this paragraph shall be strictly construed such that Supplemental Resolutions requiring the consents of owners of Revenue Obligations shall be limited to those clearly falling within one of the enumerated categories.

If the Authority intends to enter into or adopt any Supplemental Resolution as described in this Section, the Authority shall mail, by registered or certified mail, to the registered owners of the Revenue Obligations at their addresses as shown on the Bond Register and the holders or assignees of such holders of any Loan Agreement, a notice of such intention along with a description of such Supplemental Resolution not less than 30 days prior to the proposed effective date of such Supplemental Resolution. The consents of the registered owners of the Revenue Obligations and the holders or assignees of such holders of any Loan Agreement need not

approve the particular form of wording of the proposed Supplemental Resolution, but it shall be sufficient if such consents approve the substance thereof. Failure of the owner of any Bond and the holders or assignees of such holders of any Loan Agreement to receive the notice required in the Resolution shall not affect the validity of any Supplemental Resolution if the required number of owners of the Bonds and the holders or assignees of such holders of any Loan Agreement of each class shall provide their written consent to such Supplemental Resolution. Modifications to any Loan Agreement shall also be made in conformance with any additional provisions required by such Loan Agreement. In connection with the issuance of any Revenue Obligations, the underwriter of such Revenue Obligations shall be deemed to be the initial holder of such Revenue Obligations for all purposes under the Resolution, whether or not such Revenue Obligations are delivered in book-entry form through DTC or another securities depository, and the consent of such underwriter to any Supplemental Resolution shall be fully binding on all subsequent holders of such Revenue Obligations.

Notwithstanding any provision of the Resolution to the contrary, upon the issuance of a Credit Facility to secure any Revenue Obligations and for the period in which such Credit Facility is outstanding, the Credit Issuer may have the consent rights of the owners of the Revenue Obligations which are secured by such Credit Facility pertaining to some or all of the amendments or modifications of the Resolution, to the extent provided in the applicable Supplemental Resolution. Notwithstanding the foregoing, if a Credit Issuer is granted the consent rights of the owners of any Revenue Obligations in a Supplemental Resolution and refuses to exercise such consent rights, either affirmatively or negatively, then the registered owners of the Revenue Obligations secured by the related Credit Facility may exercise such consent rights.

Notice of Supplemental Resolutions. The Authority shall cause the Bond Registrar to mail a notice by registered or certified mail to the registered owners of all Bonds Outstanding, at their addresses shown on the Bond Register or at such other address as has been furnished in writing by such registered owner to the Bond Registrar, and to the holder or its assignee of any Loan Agreement at the address set forth therein, setting forth in general terms the substance of any Supplemental Resolution which has been: (i) adopted by the Authority under the heading above Supplemental Resolutions Not Requiring Consent of Bondholders; or (ii) approved by holders or any Credit Issuer and adopted by the Authority under the heading above Supplemental Resolutions Requiring Consent of Bondholders.

Bond Opinion for Supplemental Resolutions. So long as there are Tax-Exempt Bonds Outstanding, no Supplemental Resolution may become effective prior to the filing by the Authority of an opinion from Bond Counsel that such Supplemental Resolution will have no adverse effect on the tax status of any Tax-Exempt Bonds and the adoption of such Supplemental Resolution was permitted by the terms of the Resolution.

**PROJECT FUND** Project Fund. There shall be established within the Project Fund a separate account for each series of Revenue Obligations used to finance Costs of Projects. Moneys in the Project Fund shall be held by the Authority and applied to the payment of the Costs of the Projects financed with such series of Revenue Obligations, or for the repayment of advances made for that purpose in accordance with and subject to the provisions and restrictions set forth in the Resolution. The Authority covenants that it will not cause or permit to be paid from the

Project Fund any sums except in accordance with such provisions and restrictions; provided, however, that any moneys in the Project Fund not presently needed for the payment of current obligations during the course of construction may be invested in Permitted Investments maturing or otherwise available not later than (i) the date upon which such moneys will be needed according to a schedule of anticipated payments from the Project Fund prepared by the Authority in connection with the Project, if any, or, (ii) in the absence of such schedule, 36 months from the date of purchase, in either case upon written direction of the Authority. Any such investments shall be held by the Authority, in trust, for the account of the Project Fund until maturity or until sold, and at maturity or upon such sale the proceeds received therefrom including accrued interest and premium, if any, shall be immediately deposited by the Depository in the Project Fund and shall be disposed of in the manner and for the purposes provided in the Resolution.

Purposes of Payments. Moneys in each separate account in the Project Fund shall be used for the payment or reimbursement of the Costs of the Project for which such account was established.

Documentation of Payments. The Authority shall maintain records with respect to the expenditure of such funds.

Funds Remaining on Completion of Projects. Funds remaining upon completion of a Project shall be used as set forth in the related Supplemental Resolution.

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**GENERAL PURPOSE FINANCIAL STATEMENTS**  
**OF**  
**ANDERSON COUNTY WATER AUTHORITY**  
**FOR THE FISCAL YEAR ENDED**  
**June 30, 2015**

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



**ANDERSON COUNTY WATER AUTHORITY  
Clinton, Tennessee**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**For the Years Ended**

**June 30, 2015 and 2014**

**PREPARED BY:**

**Larry Clowers, General Manager**

**ANDERSON COUNTY WATER AUTHORITY**  
**Clinton, Tennessee**  
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## INTRODUCTORY SECTION



**P. O. Box 70  
Clinton, Tennessee 37717**

**Anderson County Water Authority**

**(865) 457-3033**

Board of Directors of  
Anderson County Water Authority  
Clinton, Tennessee

October 30, 2015

State law and the Comptroller of the Treasury, State of Tennessee, requires that every political subdivision or municipal corporation publish within six months of the close of each fiscal year-end, a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) of the Anderson County Water Authority (the Authority) is published to fulfill these requirements for the fiscal years ended June 30, 2015 and 2014.

#### Internal Controls

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

#### Independent Audit

Parsons & Wright CPA's have issued an unmodified ("clean") opinion on the Authority's financial statements for the years ended June 30, 2015 and 2014, respectively. As stated in the independent auditor's report, the audits were conducted in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The independent auditor's report is located at the front of the financial section of this report.

#### Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of MD&A. The Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the Independent Auditor's Report.

#### Profile of the Authority

The Authority was created by the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority started organizing activities on July 16, 2007, and began significant operations on January 1, 2009 and provides water and wastewater collection services to the unincorporated areas of Anderson County, Tennessee. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system." The Authority's primary source of water is drawn from the Clinch River.

The Authority is governed by a Board of Directors composed of five citizens who reside in, or are customers, of the Authority. Board members are nominated by the Anderson County Mayor for a term of four years, subject to confirmation by the Anderson County Commission.

The Authority's primary capital assets consists of two water treatment plants, one office building, one wastewater treatment plant, and eleven water reservoir tanks.

The Authority receives no financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water and wastewater charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Directors.

#### Budgeting

The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with GAAP. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contributions, grants, borrowings and certain revenues for capital projects.

#### Local Economy

The Authority is located within the Knoxville Metropolitan Statistical Area (MSA) which includes Knox, Blount, Anderson, Sevier, Loudon and Union Counties. The Knoxville MSA is also the trade center for several counties in East Tennessee, and parts of Kentucky, Virginia and North Carolina.

For June 2015, the unemployment rates according to the U.S. Bureau of Labor Statistics for Anderson County, Tennessee, and the Nation were 6.4%, 5.7% and 5.3%, respectively.

Per capita income in 2014 for Anderson County, Tennessee, and the Nation was \$39,148, \$39,324, and \$44,543, respectively.

The Knoxville MSA has several large employers including the Tennessee Valley Authority, U.S. Department of Energy, Alcoa Aluminum, several hospitals, Clayton Homes, HGTV cable network, Denso and several automobile parts manufacturers, the University of Tennessee, and several regional shopping malls and centers.

#### Long-Term Financial Planning

The Authority has projected a 2% annual increase in the number of customers over the next several years. The Authority is planning several capital improvements including upgrading water and sewer lines, pump stations, and building additional water lines to provide new water service to various areas.

The financing of the Authority's capital improvements is by internally generated cash flows and the issuance of long-term debt.

#### Relevant Financial Policies

The combination of continued customer growth, moderate rate increases and the issuance of long-term debt are projected to provide the Authority with adequate resources to provide for the delivery of water and wastewater services and for capital improvements.

#### Major Initiatives

During FY 2016 the Authority plans to start construction of a 12 mile forced wastewater main line that will connect all of the Authority's sewer customers directly to the Clinton Utilities Board wastewater treatment plant which will reduce monthly treatment costs by 50%. This project is to be financed by a \$3,500,000 thirty year low interest rate loan, that includes a 20% principal debt forgiveness, with the State of Tennessee Revolving Loan Fund and is expected to be completed in FY 2018 and save an estimated \$24,000 annually (net of debt service payments) in operating costs.

#### Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. The Authority received this award for the fifth consecutive year for the FYE June 30, 2014. In order to be awarded a Certificate of Achievement, the Authority must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments

The preparation of this CAFR results from the combined efforts of our staff, accountant, and technical assistance provided by our independent auditors. Those involved have our sincere appreciation for the individual and collective contributions made in preparation of the report. Thank you very much for your professional dedication.

Recognition and appreciation are also extended to the Board of Directors for its continued guidance of the operation of the Authority in a financially responsible and progressive manner.

Respectfully submitted,



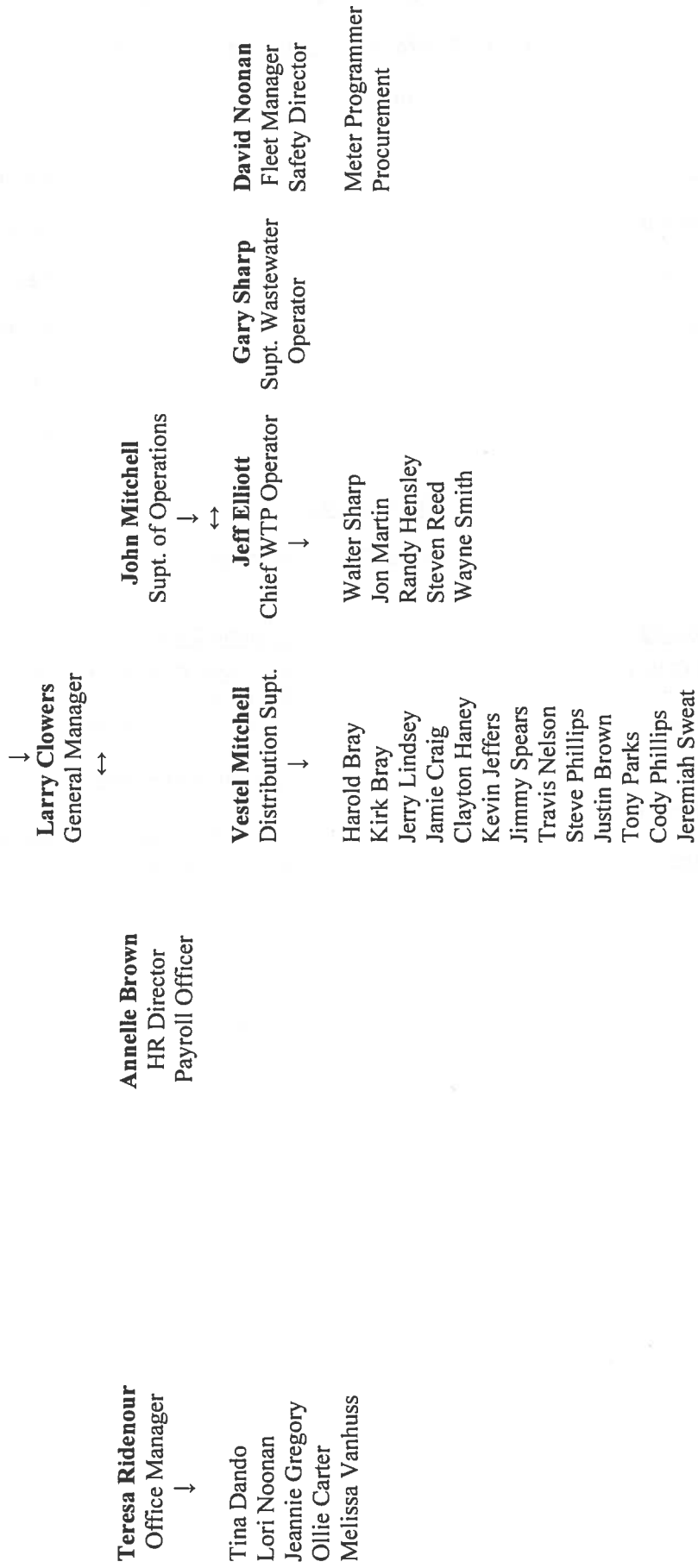
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Larry Clowers  
General Manager

# ANDERSON COUNTY WATER AUTHORITY

## ORGANIZATION CHART June 30, 2015

### ACWA BOARD OF DIRECTORS



**ANDERSON COUNTY WATER AUTHORITY**  
**ROSTER OF AUTHORITY OFFICIALS AND OTHERS**  
**June 30, 2015**

**Board of Directors**

Duane Stooksbury, Chairman

Jack Shelton, Vice Chairman

Zenith R. Rose, Secretary

Jack D. Hill

Rex Lynch

**Expiration of Term**

September 30, 2017

September 30, 2015

September 30, 2015

September 30, 2016

September 30, 2017

**Management**

Larry Clowers, General Manager

**Independent Auditors**

Parsons & Wright CPA's  
Certified Public Accountants  
Kingston, Tennessee

**Bond Counsel**

Bass, Berry and Sims, PLC  
Attorneys at Law  
Nashville, Tennessee

**General Counsel**

C. Coulter Gilbert, Esquire  
Attorney at Law  
Knoxville, Tennessee

**Consulting Engineer**

Robert G. Campbell, PE  
Robert B. Campbell & Associates, LP  
Knoxville, Tennessee



Government Finance Officers Association

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

Presented to

**Anderson County Water Authority  
Tennessee**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

A handwritten signature in black ink, reading 'Jeffrey R. Emer'. The signature is written in a cursive, flowing style.

Executive Director/CEO



Commonwealth of Massachusetts

Department of  
Transportation  
Highway Division  
Boston, Massachusetts

**FINANCIAL SECTION**

Address: 100 State Street, Boston, Massachusetts

1967

For the year ending  
December 31, 1967  
Total: \$1,000,000

Page 1

Enclosed for the  
Department of Transportation  
are the following:

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage  
Marie I. Niekerk  
Josh Stone  
Earl O. Wright - 1988 - 2002

Stephen J. Parsons - Retired  
Catherine R. Hulme  
Rebecca Hutsell  
William R. Scandlyn - 1988 - 1999

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Anderson County Water Authority  
Clinton, Tennessee

**Report on the Financial Statements**

We have audited the accompanying financial statements of Anderson County Water Authority (the "Authority") as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anderson County Water Authority, as of June 30, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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236 Miller Ave., Suite 202  
Crossville, Tennessee 38555  
Telephone (931) 202-1220  
Fax (888) 430-9848

## **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 3 through 11 and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in The Public Employee Pension of TCRS – Last Fiscal Year, Schedule of Employer Contributions Based on Participation in the Public Employee Pension Plan of TCRS – Last Two Fiscal Years, Schedule of Employer Pension Contributions – Last Six Fiscal Years, and Schedule of Employer Pension Funding Progress – Last Two Valuation Dates on pages 38 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Anderson County Water Authority's basic financial statements. The introductory, supplementary information and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in the supplementary information section as listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, on our consideration of the Anderson County Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Anderson County Water Authority's internal control over financial reporting and compliance.

## **Parsons & Wright**

Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

October 30, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Anderson County Water Authority's (the Authority) financial condition and results of operations for the years ending June 30, 2015, 2014, and 2013. This information should be read in conjunction with the accompanying financial statements.

The Authority was created on July 16, 2007, by the Anderson County Commission and significant operations began on January 1, 2009. On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, entered into a consolidation agreement to merge their operations into the Authority with an effective date of January 1, 2009.

### INDEPENDENT AUDIT

The unqualified opinion of our independent auditors, Parsons & Wright CPA's, is included in this report on pages 1 and 2.

### FINANCIAL HIGHLIGHTS

Management believes the Authority's financial position is strong and results of operations continue to improve.

The Authority maintained good debt service coverage and was in compliance with all debt covenants. The following are key financial highlights:

- The Authority sold 719, 693, and 706 million gallons of water in 2015, 2014 and 2013.
- Total assets and deferred outflows of resources at June 30, 2015, 2014 and 2013 were \$25,430,605, \$25,154,544 and \$25,279,598 and exceeded liabilities (net position), by \$17,054,842, \$16,722,776 and \$16,569,391, respectively. Of the total net position, \$2,824,680, \$2,463,093 and \$2,687,448 were unrestricted and were available to support short-term operations for 2015, 2014 and 2013. Net position increased by \$73,767 in 2015, by \$153,385 in 2014 and \$616,064 in 2013, as restated.
- Operating revenues were \$5,659,530, \$5,256,763, and \$5,029,783 for 2015, 2014 and 2013.
- During FY 2014 the East Tennessee area experienced record rainfall which resulted in approximately \$300,000 in less revenue than was projected.
- Operating expenses before depreciation were \$4,372,975, \$4,205,466 and \$3,841,087 for 2015, 2014 and 2013.
- Operating income (loss) was \$151,663, \$(60,823) and \$114,603 for 2015, 2014 and 2013.
- The ratios of operating income (loss) to total operating revenues were 2.7%, (1.2)%, and 2.3% for 2015, 2014 and 2013.
- Debt service coverage ratio was 2.42 for 2015, 2.00 for 2014 and 2.25 for 2013.
- There were no cash capital contributions received in 2015. Cash capital contributions for 2014 and 2013 were \$160,590 and \$197,528, respectively. Noncash contributions recorded in 2015, 2014 and 2013 were \$262,293, \$375,098 and \$605,897.
- During 2014 the Authority received \$71,233 in other income from the sale of common stock in an insurance company. The common stock was the result of a demutualization of life insurance company policies that were previously owned by the former NACUD.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

### **OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS**

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions and other management information were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include a balance sheet; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Authority on a full accrual basis of accounting. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows presents cash receipt and cash disbursement information and changes in cash and cash equivalents resulting from operational, financing and investing activities.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The supplementary information provides information on debt service requirements and schedule of water rates and statistics. The required supplementary information provides information about the financial health of the Authority's defined benefit plan as administered by the Tennessee Consolidated Retirement System.

The compliance section includes the auditor's report on the Authority's internal controls and compliance. Also included is the auditor's schedule of audit findings and recommendations.

### **SUMMARY OF ORGANIZATION AND BUSINESS**

The Authority was created under the authority of the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority began significant operations on January 1, 2009. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system" in the unincorporated areas of Anderson County. The Authority serves approximately 9,399 water customers and 1,012 wastewater customers in Anderson County. The Authority's primary source of water is drawn from the Clinch River that forms Norris and Melton Hill lakes.

The Authority is governed by a Board of Directors composed of five citizens who reside in, or are current customers, of the Authority. All Board members are nominated by the Anderson County Mayor for a term of four years, subject to confirmation by the Anderson County Commission.

The Authority's main capital assets consist of approximately 630 miles of water lines, two water treatment plants, one office building, one wastewater treatment facility, and 11 water reservoir tanks.

The Authority receives no financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water charges based upon metered water consumption of customers. The water and wastewater rates are established by the Authority's Board of Directors.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning. Net position may serve over time as a useful indicator of the Authority's financial position.

#### Condensed Balance Sheets (In Thousands of Dollars) June 30, 2015, 2014 and 2013

	2015	2014	2013
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
Current Assets	\$ 2,947	\$ 2,967	\$ 3,138
Capital Assets:			
Producing - Net	21,759	21,855	21,736
Other Assets - Net	286	0	0
Total Assets	<u>24,992</u>	<u>24,822</u>	<u>24,874</u>
Deferred Outflows of Resources			
Deferred Cost of Defeased & Refunded Bonds - Net	264	333	406
Deferred Cost of Pension Plan	175	0	0
Total Deferred Outflows	<u>439</u>	<u>333</u>	<u>406</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 25,431</u>	<u>\$ 25,155</u>	<u>\$ 25,280</u>
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>			
Liabilities:			
Current Liabilities	\$ 702	\$ 597	\$ 643
Bonds Payable - Net of Current Portion	7,587	7,835	8,068
Total Liabilities	<u>8,289</u>	<u>8,432</u>	<u>8,710</u>
Deferred Inflows of Resources			
Deferred Inflows - Pension Plan	<u>86</u>	<u>0</u>	<u>0</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	14,199	14,132	13,864
Restricted for:			
Debt Service	31	28	18
Capital Assets	0	100	0
Unrestricted	<u>2,825</u>	<u>2,463</u>	<u>2,687</u>
Total Net Position	<u>17,055</u>	<u>16,723</u>	<u>16,569</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 25,431</u>	<u>\$ 25,155</u>	<u>\$ 25,280</u>

The largest portion of the Authority's net position reflects its net investment in capital assets. The Authority uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay long-term debt.

The unrestricted net position may be used to meet the obligations to employees and creditors and provide current operating resources.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

## FINANCIAL ANALYSIS (Continued)

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

For the Years Ended June 30, 2015, 2014, and 2013

	2015	2014	2013
<b>Operating Revenues</b>			
Water - Net	\$ 4,481	\$ 4,195	\$ 3,994
Wastewater - Net	856	700	736
Connection Fees	95	91	88
Customer Forfeited Discounts	118	110	105
Tap Fees	98	150	91
Other Charges and Fees	12	11	16
Total Operating Revenues	<u>5,660</u>	<u>5,256</u>	<u>5,030</u>
<b>Operating Expenses</b>			
Water Treatment, Transmission and Distribution	2,929	2,819	2,686
Wastewater Treatment	642	601	522
Customer Billing and Accounting	21	16	10
General and Administrative	781	770	623
Depreciation	1,135	1,112	1,074
Total Operating Expenses	<u>5,508</u>	<u>5,318</u>	<u>4,915</u>
<b>Operating Income (Loss)</b>	<u>152</u>	<u>(62)</u>	<u>115</u>
<b>Non-Operating Revenues (Expenses)</b>			
Gain (Loss) on Disposal of Capital Assets	0	(18)	53
Investment Income (Loss)	13	10	5
Other Income	20	71	0
Interest Expense	(373)	(383)	(360)
Total Non-Operating Revenues (Expenses) - Net	<u>(340)</u>	<u>(320)</u>	<u>(302)</u>
Increase (Decrease) in Net Position Before Capital Contributions	<u>(189)</u>	<u>(381)</u>	<u>(187)</u>
<b>Capital Contributions</b>			
Cash	0	161	198
Non-Cash	262	375	606
Total Capital Contributions	<u>262</u>	<u>536</u>	<u>804</u>
Change in Net Position	<u>74</u>	<u>154</u>	<u>617</u>
Net Position, Beginning of Year, as Previously Reported	16,723	16,569	15,952
Prior Period Adjustment for 2015 (See Note 18)	<u>258</u>	<u>0</u>	<u>0</u>
Net Position, Beginning of Year, As Restated for 2015	<u>16,981</u>	<u>16,569</u>	<u>15,952</u>
Net Position, End of Year	<u>\$ 17,055</u>	<u>\$ 16,723</u>	<u>\$ 16,569</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### OTHER SELECTED INFORMATION

#### Selected Data:

	2015	2014	2013
Full-Time Equivalent Employees at Year-End	32	31	29
Full-Time Average Employees for the Year	31.5	30	30
Customers at Year-End:			
Water	9,399	9,283	9,227
Wastewater	1,012	1,014	986
Water (Millions of Gallons)			
Treated and Purchased	1,148	1,131	1,122
Sold	719	693	706
Per Average Employee:			
Operating Revenues	\$ 179,668	\$ 175,225	\$ 173,441
Operating Expenses	\$ 174,853	\$ 177,253	\$ 169,489
Realized Rate per 1,000 Gallons of Water Sold:			
Retail	\$ 8.51	\$ 8.09	\$ 7.65
Wholesale	\$ 1.13	\$ 1.15	\$ 1.15
Ratio of Operating Revenues to:			
Operating Expenses	1.03	0.99	1.02
Operating Expenses Excluding Depreciation	1.29	1.25	1.31
Total Assets	0.22	0.21	0.20
Net Position	0.33	0.31	0.30
Debt Related Ratios:			
Long-Term Debt to Net Position	0.44	0.47	0.49
Long-Term Debt to Total Assets	0.30	0.31	0.32
Coverage Ratio	2.42	2.00	2.25

### GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the Authority has remained strong over the last several years, especially in the eastern area of the district primarily in the Andersonville and Bethel area near I-75.

### FINANCIAL CONDITION

The Authority's financial condition remained strong at year-end with adequate current assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Net customer accounts receivable at year-end 2015, 2014, and 2013 was \$743,616, \$684,849, and \$666,689. At year-end 2015, 2014, and 2013, 80%, 74% and 68% of billed accounts receivable were current within 30 days. The Authority's allowance for uncollectible accounts receivable was \$72,470, \$104,684 and \$123,490 for 2015, 2014, and 2013.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### RESULTS OF OPERATIONS

#### Operating Revenues

Revenues from operations fall into three general categories: water and wastewater service and ancillary charges. Ancillary charges include connection fees, account set up and customer forfeited discounts, and charges for miscellaneous billed services.

During FY 2015, the Authority lowered the minimum monthly water billings from 1,500 to 1,200 gallons. Also during FY 2015, the Authority increased wastewater rates by 8%. During 2014 the Authority increased water rates by 13% and wastewater rates by 8%. Also during FY 2014 East Tennessee experienced record rainfall which resulted in water revenues decreasing by \$300,000 than was originally projected.

There was no increase in water or wastewater rates during 2013.

The average realized rate from retail water sales was \$8.51, \$8.09 and \$7.65 per thousand gallons and \$1.13, \$1.15 and \$1.15 per thousand gallons for wholesale water sales in 2015, 2014, and 2013.

#### Capital Contributions

The Authority collects water connection fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of service connectivity of the new customer. These fees are paid at the time a new water customer is connected to the system. In addition, the Authority accepts new water lines that are donated by residential and commercial real estate developers, and various federal, state and local government entities.

Capital contributions during 2015, 2014, and 2013, consisted of the following:

	2015	2014	2013
Cash:			
Anderson County, TN	\$ 0	\$ 136,000	\$ 197,528
City of Rocky Top, TN (formerly Lake City)	0	24,590	0
Total Cash	0	160,590	197,528
Non-Cash:			
Anderson County, TN (via Federal Grants)	262,293	375,098	605,897
Total	\$ 262,293	\$ 535,688	\$ 803,425

The non-cash capital contributions from Anderson County (the "County") are funded primarily by various federal grant awards for which the County is the grantee and is responsible for administering these grants in accordance with various federal audit requirements including OMB Circular A-133. After the grant projects are completed the capital asset are accepted by the Authority and placed into service.

The Authority's capital contributions activity for 2015 and 2014 are more fully described in Note 11 to the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### RESULTS OF OPERATIONS (Continued)

#### Operating Expenses

Operating expenses, excluding depreciation, increased (decreased) by \$112,482 in 2015, \$364,379 in 2014, and \$55,309 in 2013. This was a result of increases and (decreases) during 2015, 2014 and 2013 in:

	2015	2014	2013
Electricity & Utilities	\$ 23,594	\$ 0	\$ 115,398
Salaries and Benefits	68,514	104,168	(96,157)
Wastewater Treatment Costs	23,646	28,825	(20,027)
Meter Reading Services	0	0	(18,245)
Fuel	(21,994)	49,226	0
Distribution Supplies	33,308	69,102	0
Repairs & Maintenance - Equipment	13,659	29,462	0
Chemicals	11,156	14,781	9,324
Other	15,626	68,815	65,016
Total	<u>\$ 167,509</u>	<u>\$ 364,379</u>	<u>\$ 55,309</u>

During 2015, the Authority hired one additional employee, electricity usage and chemical costs increased as the result of treating more water, increased charges from CUB for wastewater treatment fees and distribution supplies continued to increase as the result of repairing more water line leaks in the northern part of the district.

During 2014 the Authority hired two additional staff members, CUB increased its wastewater treatment fees, fuel charges and chemical costs increased as a result of increased petroleum commodity prices and more distribution supplies were required to repair several water line leaks in the northern part of the district.

During 2013 the Authority experienced a TVA electric rate increase through its power distributor CUB.

#### CAPITAL ASSETS

The Authority is improving its water treatment, distribution and storage system to reduce water line loss and provide adequate capacity for future customer growth. In addition the Authority is improving its wastewater collection and treatment systems.

During 2015, 2014, and 2013, the Authority increased its capital assets before depreciation and disposals by \$1,068,734, \$1,733,489, and \$653,597. This increase is due to the following:

	2015	2014	2013
Easements	\$ 114,225	\$ 0	\$ 0
Water Reservoirs, Line Improvements & Extensions	432,740	1,252,579	327,897
Water Treatment Plant Improvements	0	24,536	0
Wastewater Collection Lines and Equipment	392,115	196,835	320,300
Vehicles and Equipment	129,654	249,104	5,400
Office Furniture and Equipment	0	10,435	0
Total	<u>\$ 1,068,734</u>	<u>\$ 1,733,489</u>	<u>\$ 653,597</u>

During 2015 the Authority purchased the majority of easements for the 12 mile wastewater line project, the replacement of several water lines, the extension of wastewater lines and the purchase of several vehicles.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

### **CAPITAL ASSETS (Continued)**

During 2014 the Authority completed several capital projects that were placed into service including water line improvements and extensions for Park Road – Phase I & II, B. Wells Lane, Seiber Road, the Claxton business district wastewater line and several vehicles and machinery and equipment. Also during 2014 there were several capital assets that were written off due to no longer being in service that were fully depreciated several years ago.

During 2013 the Authority completed renovations to the Elza gate water reservoir tank and water line extensions for Laurel Road, Mt. Olive Road, New River Road Phase II, and the Claxton & Edgemoor Road sewer line and a new dump truck. Also during 2013 the Authority sold the old NACUD office building.

The Authority's capital asset activity for 2015 and 2014 is described in Notes 3 and 4 to the financial statements.

### **DEBT**

At June 30, 2015, 2014, and 2013, the Authority had \$7,822,563, \$8,054,979 and \$8,277,558 in revenue bonds payable, net of unamortized bond premiums.

During 2015, 2014, and 2013, the Authority incurred \$372,973, \$383,398, and \$360,087 in interest expense. During 2013 the Authority capitalized \$31,809 of interest costs as part of the capital asset costs since several of these projects were financed by the Series 2010 revenue bonds which were issued in FY 2011.

The long-term debt to total assets ratio was .30, .31 and .33 at years-end 2015, 2014, and 2013, respectively.

More detailed information about the Authority's debt is described in Notes 7 and 8 to the financial statements.

### **NET PENSION ASSET (LIABILITY)**

As calculated under GASB Statements No. 67, 68 and 71, the Authority's net pension asset was \$286,464 as of year-end 2015 for its participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS). More detailed information about the Authority's participation in TCRS is described in Note 14 to the financial statements.

## ECONOMIC FACTORS AND FISCAL YEAR 2016

- Number of water customers is projected to increase by 2% during 2016 due to the completion of several water line extensions.
- FY 2016 Budget:

Revenues	\$ 5,888,000
Expenses	<u>(5,756,600)</u>
Increase in Net Position	<u>\$ 131,400</u>

- The budget includes increases of 4% for salaries during 2015.
- Due to the decline in debt and equity financial markets during FY 2015 when compared to FY 2014, the Authority expects that the net pension asset will decrease and the related pension expense will increase during FY 2016.
- The Authority plans to start construction of a 12 mile forced wastewater main line that directly connects the Authority's sewer customers to the Clinton Utilities Board wastewater treatment plant which will reduce monthly treatment costs by 50%. This project is to be financed by a \$3,500,000 thirty-year low-interest-rate loan with the State of Tennessee Revolving Loan Fund and is expected to save an estimated \$24,000 annually (net of debt service payments) in operating costs.

## CONTACTING THE AUTHORITY

This comprehensive annual financial report (CAFR) is designed to provide our customers, creditors and regulatory agencies with a general overview of the Authority's finances. If you have any questions about this report or need additional information, you may contact the Authority:

Mr. Larry Clowers, General Manager  
Anderson County Water Authority  
P.O. Box 70  
Clinton, TN 37716  
865-457-3033

## BASIC FINANCIAL STATEMENTS

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS

	As of June 30,	2015	2014
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$	776,505	\$ 589,938
Cash and Cash Equivalents - Restricted		57,081	153,984
Certificates of Deposit		1,200,116	1,342,567
Accounts Receivable - Customers (Net of Allowance for Uncollectible Accounts of \$72,470 for 2015 and \$104,684 for 2014.)		743,616	684,849
Accrued Interest Receivable		17,238	6,238
Prepaid Expenses		10,242	9,000
Inventories		142,177	180,240
<b>Total Current Assets</b>		<u>2,946,975</u>	<u>2,966,816</u>
<b>NON-CURRENT ASSETS</b>			
Capital Assets - Net		21,757,741	21,854,374
Net Pension Asset		286,464	0
Utility Deposits		635	635
<b>Total Non-Current Assets</b>		<u>22,044,840</u>	<u>21,855,009</u>
<b>TOTAL ASSETS</b>		<u>24,991,815</u>	<u>24,821,825</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Cost of Defeased Bonds		183,316	238,604
Deferred Cost of Refunded Bonds		80,636	94,115
Deferred Cost of Pension Plan		174,838	0
<b>Total Deferred Outflows of Resources</b>		<u>438,790</u>	<u>332,719</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	\$	<u>25,430,605</u>	\$ <u>25,154,544</u>

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

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS (Continued)

	As of June 30,	2015	2014
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$	147,690	\$ 104,144
Accrued Liabilities		69,618	41,564
Accrued Bond Interest Payable		26,049	26,415
Compensated Absences Payable		49,101	40,465
Customer Deposits		174,348	164,201
Bonds Payable - Current Portion		<u>235,000</u>	<u>220,000</u>
<b>Total Current Liabilities</b>		701,806	596,789
<b>NON-CURRENT LIABILITIES</b>			
Bonds Payable - Net of Current Portion		<u>7,587,563</u>	<u>7,834,979</u>
<b>Total Liabilities</b>		<u>8,289,369</u>	<u>8,431,768</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows - Pension Plan		<u>86,394</u>	<u>0</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets		14,199,130	14,132,114
Restricted:			
Debt Service		31,032	27,569
Capital Assets		0	100,000
Unrestricted		<u>2,824,680</u>	<u>2,463,093</u>
<b>Total Net Position</b>		<u>17,054,842</u>	<u>16,722,776</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	\$	<u>25,430,605</u>	\$ <u>25,154,544</u>

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

ANDERSON COUNTY WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For the Years Ended June 30,	2015	2014
<b>OPERATING REVENUES</b>			
Water - Net	\$	4,480,748	\$ 4,194,593
Wastewater - Net		855,701	699,653
Connection Fees		95,450	90,920
Customer Forfeited Discounts		118,050	110,039
Tap Fees		97,850	150,250
Other Charges and Fees		11,731	11,308
<b>Total Operating Revenues</b>		<u>5,659,530</u>	<u>5,256,763</u>
<b>OPERATING EXPENSES</b>			
Water Treatment, Transmission, and Distribution		2,929,398	2,818,994
Wastewater Treatment		642,206	600,936
Customer Billing and Accounting		20,629	15,882
General and Administrative		780,742	769,654
Depreciation		1,134,892	1,112,120
<b>Total Operating Expenses</b>		<u>5,507,867</u>	<u>5,317,586</u>
<b>OPERATING INCOME (LOSS)</b>		<u>151,663</u>	<u>(60,823)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Gain (Loss) on Disposal of Capital Assets		0	(18,498)
Interest Income		12,576	9,183
Other Income (Expenses) - Net		20,208	71,233
Interest Expense		(372,973)	(383,398)
<b>Total Non-Operating Revenues (Expenses) - Net</b>		<u>(340,189)</u>	<u>(321,480)</u>
<b>INCREASE (DECREASE) IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>		<u>(188,526)</u>	<u>(382,303)</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Cash		0	160,590
Non-Cash		262,293	375,098
<b>Total Capital Contributions</b>		<u>262,293</u>	<u>535,688</u>
<b>CHANGE IN NET POSITION</b>		<u>73,767</u>	<u>153,385</u>
<b>NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED - 2015</b>		16,722,776	16,569,391
<b>PRIOR PERIOD ADJUSTMENT - 2015 (See Note 18)</b>		<u>258,299</u>	<u>0</u>
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>		<u>16,981,075</u>	<u>16,569,391</u>
<b>NET POSITION, END OF YEAR</b>	\$	<u><u>17,054,842</u></u>	\$ <u><u>16,722,776</u></u>

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

ANDERSON COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users	\$	5,636,849	\$ 5,303,286
Payments to Employees		(2,012,001)	(1,865,004)
Payments to Suppliers		(2,386,466)	(2,470,274)
<b>Net Cash Provided (Used) by Operating Activities</b>		<u>1,238,382</u>	<u>968,008</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>			
Net Proceeds from Sale of Asset Recovery		<u>0</u>	<u>71,233</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Contributions		0	160,590
Acquisition and Construction of Capital Assets		(775,967)	(888,725)
Interest & Fees Paid on Revenue Bonds		(317,004)	(323,257)
Principal Paid on Revenue Bonds		(220,000)	(210,000)
Proceeds from Sale of Materials & Disposal of Capital Assets		<u>20,226</u>	<u>14,210</u>
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>		<u>(1,292,745)</u>	<u>(1,247,182)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Received on Certificates of Deposit		1,576	3,356
Maturity (Purchase) of Certificates of Deposit		<u>142,451</u>	<u>(1,001,188)</u>
<b>Net Cash Provided (Used) by Investing Activities</b>		<u>144,027</u>	<u>(997,832)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		89,664	(1,205,773)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		<u>743,922</u>	<u>1,949,695</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$	<u>833,586</u>	\$ <u>743,922</u>

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

**ANDERSON COUNTY WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS (Continued)**

For the Years Ended June 30,	2015	2014
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF:</b>		
Unrestricted Cash and Cash Equivalents	\$ 776,505	\$ 589,938
Restricted Cash and Cash Equivalents	<u>57,081</u>	<u>153,984</u>
<b>Total</b>	<b>\$ <u>833,586</u></b>	<b>\$ <u>743,922</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 151,663	\$ (60,823)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,134,892	1,112,120
Provision for Uncollectible Receivables	25,636	46,629
Net Change in Net Pension (Asset) Obligation	(104,134)	0
Net Change in Deferred Outflows - Pensions	(98,869)	0
Net Change in Deferred Inflows - Pensions	86,394	0
Changes in:		
Accounts Receivable, Net of Charge Offs	(84,403)	(64,789)
Other Current Assets	36,821	(9,619)
Accounts Payable	43,546	(71,823)
Other Accrued Liabilities	28,053	7,902
Compensated Absences Payable	8,636	(6,455)
Customer Deposits	<u>10,147</u>	<u>14,866</u>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ <u>1,238,382</u></b>	<b>\$ <u>968,008</u></b>
<b>NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Amortization of Bond Premiums	\$ 12,416	\$ 12,579
Amortization of Deferred Cost of Defeased Bonds	55,288	58,748
Amortization of Deferred Cost of Refunded Bonds	13,479	14,323
Contribution of Capital Assets by Anderson County	262,293	375,098

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

## ANDERSON COUNTY WATER AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015 and 2014

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** - Anderson County Water Authority (the Authority) was created on July 16, 2007 by the Anderson County Commission under the authority of the Tennessee State Legislature Private Act No. 40 (House Bill No. 2388 and Senate Bill No. 2362) passed on May 7, 2007 and signed by the Governor on May 21, 2007.

On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, Tennessee, entered into a consolidation agreement to merge NACUD and ACUB into the Authority with an effective date of January 1, 2009. The Authority provides water and wastewater services to customers in the unincorporated areas of Anderson County, Tennessee.

The Authority's Board of Directors serves staggered four-year terms. The Anderson County Mayor nominates all five directors, which are subject to confirmation by the Anderson County Commission. Therefore, the Authority is considered a related organization of Anderson County as defined by the Governmental Accounting Standards Board. However, Anderson County, Tennessee (the "County") does not have any fiscal or budgetary control over the Authority. In addition, the County does not approve or pledge assets to secure the debts of the Authority. The operations of the Authority are funded by water and wastewater rates established by the Authority's Board of Directors.

A summary of the major accounting policies of the Authority are presented as follows:

**Basis of Accounting and Presentation** - The Authority's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets and deferred outflows of resources, net of total liabilities and deferred inflows of resources, if any) are segregated into net investment in capital assets; restricted for capital asset activity and debt service; and unrestricted components.

**Budgeting** - The Authority adopts a flexible annual operating budget. The budget is adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The Authority's budget is not legally binding.

Management submits a proposed budget to the Authority's Board of Directors prior to the July Board meeting. A budget is adopted by resolution prior to July 1.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Cash and Cash Equivalents, Deposits and Investments** - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Investment Pool, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

Investments are reported at their fair value. Fair value is based upon quoted market prices. Realized gains and losses from the sale of investments are calculated separately from the change in the fair value using the specific identification method. Realized gains or losses in the current period include unrealized amounts from prior periods.

**Restricted Assets** - Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system. Restricted assets are generally not available for current operating expenses.

**Receivables and Revenues** - Revenues are billed monthly to customers on a cyclical meter reading basis. Unbilled revenues are accrued for estimated usage from the last meter reading date to year-end.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Authority provides for estimated uncollectible receivables through a reduction of gross water revenues and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Operating revenues consist of net water and wastewater revenues, forfeited discounts, inspection fees and various service fees. Connection (tap) fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Connection fees in excess of costs, if any, are recorded as cash capital contributions.

Non-operating revenue consists of investment income and gains (losses) on the sale or disposal of capital assets. Investment income is interest earned and the change in unrealized gains and losses on the fair value of marketable debt securities.

**Expenses** - Operating expenses consist of the cost of water treatment, storage and distribution. Other operating expenses include customer billing, collections, administrative and general and depreciation on capital assets.

Non-operating expenses consist of interest on long-term liabilities and loss on the disposal or impairment of capital assets.

**Inventories** - Material and supply inventories are stated at cost using the first in, first out method. Incidental supplies are not included in inventory.

**Capital Assets** - Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

Interest is not capitalized on project costs funded by contributed capital, such as grants, gifts and impact fees. Interest costs of tax-exempt borrowings are capitalized, net of related investment earnings on the proceeds, during the construction period. Depreciation is not recorded until the assets are actually put into use.

The Authority defines a capital asset as an asset with an initial individual cost, or a project with a cumulative cost of more than \$5,000 and an estimated useful life in excess of one year.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets are depreciated using primarily the straight-line method. Depreciation is calculated using the following estimated useful lives:

	Years
Water and Wastewater Treatment Plants	40-50
Transmission and Distribution Lines	40-50
Meters	10-15
Vehicles	5-10
Machinery and Equipment	5-20
Buildings and Improvements	15-40
Office Furniture and Equipment	5-10

**Long-Term Obligations and Costs** - Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts and gains or losses on advance or current refundings or defeasances are deferred and amortized over the life of the related bonds.

**Compensation Absences** - Accumulated vacation eligible to be paid to employees at termination is recorded as an expense and liability as the benefits are earned. The Authority has assumed a first-in, first-out method of using accumulated compensated time and the related liability has been recorded as a liability in the financial statements.

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

**Contributions** - Contributions are recognized in the statement of revenues, expenses and changes in net position when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

**Presentation of Certain Taxes** - The Authority collects various taxes from customers and remits these amounts to applicable taxing authorities. The Authority's accounting policy is to exclude these taxes from revenues and cost of sales.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the balance sheet 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. In addition to liabilities, the balance sheet 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.

**Net Position** - Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity and debt service; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and deferred outflows of resources and deferred inflows of resources and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted for capital activity and debt service consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. The unrestricted component of net position is the net 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 components of net position.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Net Position Flow Assumption** - Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

### New Accounting Governmental Accounting Standards Board Pronouncements

**GASB Statement No. 68** - During fiscal year 2015, the Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statements No. 27 and 50*. The requirements of this new standard, its effect on the financial statements and the amount of the prior period adjustment are disclosed in Notes 14 and 18.

**GASB Statement No. 71** - During fiscal year 2015, the Authority implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. This statement requires the Authority to record employer pension contributions after the measurement date to be recorded as a deferred outflow of resources. Since the Authority's pension contributions for FY 2015 were made after the measurement date, the effects are disclosed on the balance sheet and in Note 14.

**GASB Statement No. 72** - During fiscal year 2015, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*.

**Reclassification of Comparative Financial Statements** - Certain items in the 2014 financial statements have been reclassified to conform to the 2015 financial statements.

## NOTE 2 - DEPOSITS AND INVESTMENTS

Tennessee Code Annotated (TCA) Section 7-82-108 and bond covenants restrict the types of depositories and investment securities available to the Authority. State statutes and bond indentures limit depositories to state or national banks, or credit unions located in the United States. The types of deposits and investments permitted are certificates of deposit, repurchase agreements in governmental obligations, money market accounts, state local government investment pool (SLGIP), obligations of states, municipalities, U.S. Government and federal agency debt securities.

At June 30, 2015 and 2014, the Authority had the following bank deposits and investments:

	2015	2014
Deposits:		
Demand Deposits	\$ 833,586	\$ 743,922
Certificates of Deposit	1,200,116	1,342,567
Total	<u>\$ 2,033,702</u>	<u>\$ 2,086,489</u>

## NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

A summary of the bank deposits and investments on the balance sheets at June 30, 2015 and 2014 were as follows:

	2015	2014
Current Assets:		
Cash and Cash Equivalents	\$ 776,505	\$ 589,938
Cash and Cash Equivalents - Restricted	57,081	153,984
Certificates of Deposits - .10% to 1.10% maturing from 7/26/2014 to 12/6/2015.	<u>1,200,116</u>	<u>1,342,567</u>
Total	<u>\$ 2,033,702</u>	<u>\$ 2,086,489</u>

**Restricted Cash Equivalents** - The restricted cash and cash equivalents are for construction projects and also for required reserves by various covenants of the revenue bonds and are to be used solely for the repayment of debt and capital improvements. As of June 30, 2015 and 2014 the amount of restricted cash and cash equivalents was \$153,984 and \$45,099.

**Custodial Credit Risk - Deposits** - The Authority's deposits, with a carrying amount of \$2,033,702 and \$2,086,489 at June 30, 2015 and 2014, respectively, were covered by FDIC insurance, pledged investment collateral held in safekeeping by a custodial bank, or by the bank collateral pool administered by the Treasurer of the State of Tennessee. The bank may use one of three different pledged security levels (90, 100 or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public fund accounts for the Authority. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured and classified as Category 1, under GASB Statement No. 40, for purposes of custodial credit risk disclosure.

During 2014 the Authority's primary depository bank became a member of the bank collateral pool as administered by the Treasurer of the State of Tennessee.

**Investment Income (Loss)** - Investment income (loss) for 2015 and 2014 consisted of the following:

	2015	2014
Interest Income	\$ <u>12,576</u>	\$ <u>9,183</u>

### Investment Policies

**Custodial Credit Risk:** The Authority's investment policy requires that investment securities be registered in the name of Anderson County Water Authority. All safekeeping receipts for investment instruments are held in accounts in the Authority's name and all securities are registered in the Authority's name.

**Credit Risk:** The Authority's investment policy and state law limits investments in non-federal obligations to issuers that are rated in the two highest rating categories by a nationally recognized rating agency of such obligations.

**Interest Rate Risk:** The Authority's Investment Policy limits its holdings to obligations having a final maturity on the date of investment of not to exceed forty-eight (48) months. Investments are made based upon prevailing market conditions with the intent to hold the instrument until maturity. If the performance of the portfolio can be improved upon by the sale of an investment prior to maturity, the policy allows for the implementation of this strategy. The Authority uses the specific identification method to manage interest rate risk.

**Concentration of Credit Risk:** The Authority's Investment Policy has no limit to its exposure to various investment debt securities as a whole or individually.

The Authority's Investment Policy does not require diversification among authorized investment broker-dealers. Presently, the Authority has selected Raymond James, Inc. as its authorized broker-dealer.

### NOTE 3 - CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2015 was as follows:

	Balance 7/1/14	Additions and Transfers	Deletions, Retirements and Transfers	Balance 06/30/15
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 390,134	\$ 114,225	\$ 0	\$ 504,359
Construction in Progress	321,322	708,241	(676,788)	352,775
Total Capital Assets Not Being Depreciated	711,456	822,466	(676,788)	857,134
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	22,832,092	353,868	0	23,185,960
Treatment Facilities	9,750,326	78,872	0	9,829,198
Wastewater System:				
Collection Lines and Equipment	4,861,247	392,115	0	5,253,362
Treatment Facilities	306,734	0	0	306,734
Other:				
Building and Improvements	537,025	0	0	537,025
Machinery and Equipment	67,647	0	0	67,647
Vehicles	1,026,774	123,110	(165,162)	984,722
Office Furniture and Equipment	106,945	0	0	106,945
Total Capital Assets Being Depreciated	39,488,790	947,965	(165,162)	40,271,593
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	9,526,223	610,380	0	10,136,603
Treatment Facilities	6,330,989	272,239	0	6,603,228
Wastewater System:				
Collection Lines and Equipment	1,578,104	122,560	0	1,700,664
Treatment Facilities	136,606	6,932	0	143,538
Other:				
Building and Improvements	54,434	13,426	0	67,860
Machinery and Equipment	51,137	3,671	0	54,808
Vehicles	599,246	94,744	(109,778)	584,212
Office Furniture and Equipment	69,133	10,940	0	80,073
Total Accumulated Depreciation	18,345,872	1,134,892	(109,778)	19,370,986
Total Capital Assets Being Depreciated - Net	21,142,918	(186,927)	(55,384)	20,900,607
Total Capital Assets	\$ 21,854,374	\$ 635,539	\$ (732,172)	\$ 21,757,741

Depreciation expense was \$1,134,892 for 2015.

**NOTE 3 - CAPITAL ASSETS (Continued)**

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2014, was as follows:

	Balance 07/01/13	Additions and Transfers	Deletions, Retirements and Transfers	Balance 06/30/14
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 390,134	\$ 0	\$ 0	\$ 390,134
Construction in Progress	790,992	624,707	(1,094,377)	321,322
Total Capital Assets Not Being Depreciated	1,181,126	624,707	(1,094,377)	711,456
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	12,685,077	10,347,305	(200,290)	22,832,092
Treatment Facilities	19,698,753	(9,426,464)	(521,963)	9,750,326
Wastewater System:				
Collection Lines and Equipment	4,368,872	492,375	0	4,861,247
Treatment Facilities	300,591	24,535	(18,392)	306,734
Other:				
Buildings and Improvements	445,260	91,765	0	537,025
Machinery and Equipment	307,050	(229,001)	(10,402)	67,647
Vehicles	746,460	425,930	(145,616)	1,026,774
Office Furniture and Equipment	191,128	25,435	(109,618)	106,945
Total Capital Assets Being Depreciated	38,743,191	1,751,880	(1,006,281)	39,488,790
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	4,758,989	4,958,016	(190,782)	9,526,223
Treatment Facilities	10,879,961	276,492	(4,825,464)	6,330,989
Wastewater System:				
Collection Lines and Equipment	1,432,425	145,679	0	1,578,104
Treatment Facilities	148,589	6,319	(18,302)	136,606
Other:				
Buildings and Improvements	41,009	13,425	0	54,434
Machinery and Equipment	268,534	5,058	(222,455)	51,137
Vehicles	508,348	218,610	(127,712)	599,246
Office Furniture and Equipment	151,084	26,622	(108,573)	69,133
Total Accumulated Depreciation	18,188,939	5,650,221	(5,493,288)	18,345,872
Total Capital Assets Being Depreciated - Net	20,554,252	(3,898,341)	4,487,007	21,142,918
Total Capital Assets	\$ 21,735,378	\$ (3,273,634)	\$ 3,392,630	\$ 21,854,374

Depreciation expense was \$1,112,120 for 2014.

#### NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress at June 30 consisted of:

Projects	2015		2014	
	Actual To Date	Remaining Contractual Commitments	Actual To Date	Remaining Contractual Commitments
Braden Flats Water Pump	\$ 0	\$ 0	\$ 64,778	\$ 0
CUB Wastewater Monitoring	0	0	81,448	0
NACUD New Water Line Switchover	0	0	84,659	0
Wastewater Line Project to CUB	223,507	0	34,500	0
Commercial Water Meter Replacement	57,588	0	0	0
Various Projects	71,680	0	55,937	0
Total Construction in Progress	<u>\$ 352,775</u>	<u>\$ 0</u>	<u>\$ 321,322</u>	<u>\$ 0</u>

There were no construction contractual commitments as of June 30, 2015 and 2014.

#### NOTE 5 - GAIN (LOSS) ON DISPOSAL OF CAPITAL ASSETS

The Authority's gain (loss) on disposal of capital assets for 2015 and 2014 was as follows:

	2015	2014
Sales Proceeds	\$ 0	\$ 14,210
Less: Net Book Value of Capital Asset	0	(32,708)
Net Gain (Loss)	<u>\$ 0</u>	<u>\$ (18,498)</u>

#### NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities at year-end 2015 and 2014 consisted of the following:

	2015	2014
Sales Taxes Payable	\$ 37,154	\$ 36,850
Accrued Salaries and Payroll Taxes	32,464	4,714
Total	<u>\$ 69,618</u>	<u>\$ 41,564</u>

## NOTE 7 - LONG-TERM DEBT

Long-term debt at June 30, 2015 and 2014, consisted of the following

### Revenue Bonds

	2015	2014
Revenue Term Bonds Series 2010 of \$8,650,000 with an interest rate of between 2% to 5%. Semi-annual payments on June 1 and December 1 through June 1, 2036. Principal payments are annually deposited with the bond trustee on June 1, ranging from \$165,000 to \$555,000. Interest is paid semi-annually ranging from \$167,167 to \$13,875.	\$ 7,655,000	\$ 7,875,000
Add: Unamortized Bond Premium	167,563	179,979
Total	<u>\$ 7,822,563</u>	<u>\$ 8,054,979</u>
Current Portion	\$ 235,000	\$ 220,000
Long-Term	<u>7,587,563</u>	<u>7,834,979</u>
Total	<u>\$ 7,822,563</u>	<u>\$ 8,054,979</u>

The Authority has pledged revenues as collateral for the Revenue Term Bonds Series 2010. The bond holders have placed a statutory lien upon the Authority as permitted by TCA, Section 7-28-101, and will remain in effect until the bond issue is paid in full. There is a bond covenant, which requires a minimum debt service coverage ratio of 1.2, the ratio for 2015 and 2014 was 2.42 and 2.00.

### Activity

The following is a summary of changes in long-term debt for 2015 and 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>2015</b>					
Revenue Bonds	\$ 7,875,000	\$ 0	\$ (220,000)	\$ 7,655,000	\$ 235,000
Add: Bond Premium	179,979	0	(12,416)	167,563	0
Total	<u>\$ 8,054,979</u>	<u>\$ 0</u>	<u>\$ (232,416)</u>	<u>\$ 7,822,563</u>	<u>\$ 235,000</u>
<b>2014</b>					
Revenue Bonds	\$ 8,085,000	\$ 0	\$ (210,000)	\$ 7,875,000	\$ 220,000
Add: Bond Premium	192,558	0	(12,579)	179,979	0
Total	<u>\$ 8,277,558</u>	<u>\$ 0</u>	<u>\$ (222,579)</u>	<u>\$ 8,054,979</u>	<u>\$ 220,000</u>

## NOTE 7 - LONG-TERM DEBT (Continued)

### Debt Service

The Annual debt service requirements of the bonds payable as of June 30, 2015, are as follows:

Years Ending June 30,	Principal	Interest	Total
2016	\$ 235,000	\$ 312,588	\$ 547,588
2017	245,000	307,888	552,888
2018	255,000	302,375	557,375
2019	260,000	296,000	556,000
2020	270,000	288,850	558,850
2021-2025	1,530,000	1,286,950	2,816,950
2026-2030	1,910,000	950,950	2,860,950
2031-2035	2,395,000	504,900	2,899,900
2036	555,000	27,750	582,750
Total	<u>\$ 7,655,000</u>	<u>\$ 4,278,251</u>	<u>\$ 11,933,251</u>

### Interest Expense

Interest expense for 2015 and 2014 consisted of the following:

	2015	2014
Interest Paid	\$ 316,989	\$ 321,188
Change in Accrued Interest Payable	(367)	(351)
Less: Capitalization of Construction Period Interest	0	0
Amortization of Bond Premium	(12,416)	(12,579)
Amortization of Deferred Cost of Defeasance	55,288	58,748
Amortization of Deferred Refunding Loss	13,479	14,323
Debt Servicing Fees	0	2,069
Total	<u>\$ 372,973</u>	<u>\$ 383,398</u>

The amortization of the deferred cost of defeasance is related to an advance refunding of debt as described in Note 8. The amortization of refunding costs is due to a current refunding of debt that occurred during FY 2011.

### Restricted Cash and Cash Equivalents - Debt Service

The Revenue Term Bonds – Series 2010, require the Authority to make mandatory semi-annual sinking fund payments to the bond trustee, Regions Bank, who is responsible for paying the bondholder when the term bond matures on June 1, 2036.

The Authority is required by various bond covenants to maintain the following restricted cash and cash equivalents at June 30, 2015 and 2014:

	2015	2014
Bond Principal and Interest Payment Account	<u>\$ 57,081</u>	<u>\$ 53,984</u>

## NOTE 8 - DEFEASANCE OF DEBT

### Advanced Refunding

On December 31, 2008, the Authority refinanced \$3,080,000 in revenue bonds previously issued by North Anderson County Utility District (NACUD) which were assumed by the Authority. The Authority placed \$3,355,507 of funds with the escrow agent (Regions Bank) which was used to purchase State and Local Government Securities (SLGS) for the purpose of generating resources for future debt service payments of \$3,540,450. Future payments consist of annual bond principal maturities of between \$275,000 to \$305,000 on January 1, 2010 through January 1, 2013, and a final principal redemption of \$1,920,000, which requires a call premium of 1%, on the call date of January 1, 2014. As a result, the advanced refunded bonds are considered to be defeased and the liability has been removed from the Authority's balance sheet. The escrowed investment securities exceeded the net carrying amount of the old debt by \$595,687. This amount is being amortized over the original life of the old NACUD Series 2004 debt issue through January 1, 2019, using the stated interest required method.

Due to the additional eight years until maturity in 2026, the refunding increased total aggregate debt service payment by \$736,263. In addition, the Authority incurred an economic loss, the difference between the present values of the old and new debt service payments of \$145,899.

### Deferred Outflows of Resources

As of June 30, 2015 and 2014 the remaining unamortized deferred cost of defeasance was \$183,316 and \$238,604 and the unamortized cost of refunding of was \$80,636 and \$94,115.

## NOTE 9 - COMPENSATED ABSENCES

Changes in compensated absences for the years ended June 30, 2015 and 2014, consisted of:

	2015	2014
Beginning Balance	\$ 40,465	\$ 46,920
Earned	71,663	71,760
Used	<u>(63,027)</u>	<u>(78,215)</u>
Ending Balance	\$ <u>49,101</u>	\$ <u>40,465</u>
Current Portion Due	\$ <u>49,101</u>	\$ <u>40,465</u>

Since the amount of compensated absences used by the employees during FY 2015 and 2014 is more than the amount outstanding at year-end 2015 and 2014, then the year-end liability amount has been recorded on the balance sheets as a current liability.

## NOTE 10 - NET POSITION

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources, if any. The net position at June 30, 2015 and 2014 were as follows:

	2015	2014
Net Investment in Capital Assets		
Capital Assets, Net of Accumulated Depreciation	\$ 21,757,741	\$ 21,854,374
Less: Revenue Bonds Payable - Net of Unamortized Premiums and Discounts	(7,822,563)	(8,054,979)
Add: Unamortized Deferred Defeasance & Refunding	263,952	332,719
Add: Debt Proceeds to be Used for Capital Assets	0	0
	<u>14,199,130</u>	<u>14,132,114</u>
Restricted for Debt Service:		
Restricted Cash and Cash Equivalents	57,081	53,984
Less: Accrued Interest Payable - Revenue Bonds	(26,049)	(26,415)
	<u>31,032</u>	<u>27,569</u>
Restricted for Capital Asset Activity:		
Restricted Cash and Cash Equivalents	0	100,000
Restricted Investments	0	0
Less: Debt Proceeds to be Used for Capital Assets	0	0
Accounts Receivable - Capital Contribution	0	0
	<u>0</u>	<u>100,000</u>
Unrestricted	<u>2,824,680</u>	<u>2,463,093</u>
Total	<u>\$ 17,054,842</u>	<u>\$ 16,722,776</u>

During 2014 the Authority received \$100,000 from Anderson County, TN to improve water and wastewater lines in an industrial park which was completed by the Authority in FY 2015.

## NOTE 11 - CAPITAL CONTRIBUTIONS

Capital contributions during 2015 and 2014 were as follows:

	2015	2014
Cash:		
Anderson County, TN	\$ 0	\$ 136,000
City of Rocky Top, TN (formerly Lake City)	0	24,590
Total	<u>0</u>	<u>160,590</u>
Non-Cash:		
Anderson County, TN (Funded by Federal Grants awarded to the County.)	262,293	375,098
Total	<u>\$ 262,293</u>	<u>\$ 535,688</u>

### Cash

During 2015, the Authority did not receive any contributed capital cash.

# NOTE 11 - CAPITAL CONTRIBUTIONS (Continued)

## Cash (Continued)

During 2014, the Authority received contributed cash totaling \$136,000 from Anderson County, TN (the "County") and \$24,590 from the City of Rocky Top, TN (the "City") for the following projects: (a) \$24,590 from the City to complete a tie in of the Authority's water lines to Industrial Park Drive, (b) \$100,000 from the County to improve water and wastewater line upgrades to the David Jones Industrial Park which was completed in 2015, (c) \$21,000 from the County for the Seiber Flats water line project (funded by the U.S. Office of Surface Mining and the County) and (d) \$15,000 from the County for the installation of five new fire hydrants.

## Noncash

During 2015, non-cash contributions from the County, which were funded by federal grants awarded to and administered by Anderson County (funded by the Appalachian Regional Commission), consisted of \$262,293 for the sewer lines on Elza Drive Phase I.

During 2014, non-cash contributions from the County, which were funded by federal grants awarded to and administered by the County, consisted of: (a) \$139,606 for wastewater lines on B. Wells Road (funded by the U.S. Housing & Urban Development - Community Block Grant Program) and (b) \$235,492 for water lines on Seiber Flats Road (funded by the U.S. Office of Surface Mining and the County) based on actual costs incurred by the County.

# NOTE 12 - NET OPERATING REVENUES

Net operating revenues during 2015 and 2014 consisted of the following:

	Water	Wastewater	Other Charges	Total
<b>2015</b>				
Gross Revenues	\$ 4,502,273	\$ 859,812	\$ 323,081	\$ 5,685,166
Less: Provision for Bad Debt Expense	(21,525)	(4,111)	0	(25,636)
Operating Revenues - Net	<u>\$ 4,480,748</u>	<u>\$ 855,701</u>	<u>\$ 323,081</u>	<u>\$ 5,659,530</u>
<b>2014</b>				
Gross Revenues	\$ 4,234,556	\$ 706,319	\$ 362,517	\$ 5,303,392
Less: Provision for Bad Debt Expense	(39,963)	(6,666)	0	(46,629)
Operating Revenues - Net	<u>\$ 4,194,593</u>	<u>\$ 699,653</u>	<u>\$ 362,517</u>	<u>\$ 5,256,763</u>

# NOTE 13 - WHOLESALE WATER SALES

The Authority sells treated water on a month-to-month basis to the Caryville - Jacksboro Utility District (CJUD) and the City of Rocky Top, Tennessee (formerly Lake City) for \$1.20 per 1,000 gallons. During 2015 and 2014, the revenues earned under these billings were \$248,507 and \$228,742.

## NOTE 14 - DEFINED BENEFIT PENSION PLAN

On January 1, 2009, the Authority established a defined benefit plan through the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System, (TCRS). All full-time employees (also known as members) are required to participate. The FY 2015 disclosures and required supplementary information are provided in accordance with GASB Statements No. 67, 68 and 71 (new method). The FY 2014 disclosures and required supplementary information are provided in accordance with GASB Statements No. 25 and 27 (old method).

### FY 2015 Disclosures

**Plan Description** - Employees of the Authority are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. TCRS was created by state statute under Tennessee Code Annotate (TCA) Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of TCRS. TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

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

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

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

Inactive Employees or beneficiaries currently receiving benefits	1
Inactive Employees entitled to but not yet receiving benefits	2
Active Employees	31
Total	<u>34</u>

**Contributions** - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary. The Authority makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation. For the fiscal year ended June 30, 2015, employer contributions made by the Authority were \$84,583 based on a rate of 5.85% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the Authority's state shared taxes, if applicable, if the required employer contributions are not remitted. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of unfunded liability.

### Net Pension Liability (Asset)

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

**NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)**

**FY 2015 Disclosures (Continued)**

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

Reporting Date	June 30, 2015
Measurement Date	June 30, 2014
Actuarial Valuation Date	June 30, 2014
Amortization Method	Level Dollar
Asset Valuation Method	Fair Market Value
Actuarial Cost Method	Entry Age Normal
Inflation	3.0%
Salary Increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment Rate of Return	7.5%, net of pension plan investment expenses, including inflation
Discount Rate	7.5% per annum, compounded annually
Cost-of-living-adjustment	2.5%
Remaining Amortization Period	10 years
Retirement Age	Pattern of retirement was determined by an experience study.
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement.

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

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

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

**NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)**

**FY 2015 Disclosures (Continued)**

**Actuarial Assumptions (Continued)**

The target allocation and best estimates of arithmetic real rates of return, net of 3% inflation, for each major asset class are summarized in the following table:

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

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

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

**Changes in Net Pension Liability (Asset)**

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
<b>Balance at June 30, 2013</b>	\$ <u>940,559</u>	\$ <u>1,122,889</u>	\$ <u>(182,330)</u>
<b>Changes for the Year:</b>			
Service Cost	58,821	0	58,821
Interest	74,681	0	74,681
Differences between expected and actual experience	100,283	0	100,283
Contributions - Employer	0	75,969	(75,969)
Contributions - Employees	0	65,831	(65,831)
Net Investment Income	0	197,213	(197,213)
Benefit Payments, including Refunds of Employee Contributions	(7,269)	(7,269)	0
Administrative Expenses	0	(1,094)	1,094
<b>Net Change</b>	<u>226,516</u>	<u>330,650</u>	<u>(104,134)</u>
<b>Balance at June 30, 2014</b>	\$ <u>1,167,075</u>	\$ <u>1,453,539</u>	\$ <u>(286,464)</u>

**NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)**

**FY 2015 Disclosures (Continued)**

**Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate** - The following presents the net pension liability (asset) of the Authority calculated using the discount rate of 7.5%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net Pension Liability (Asset)	\$ <u>(71,406)</u>	\$ <u>(286,464)</u>	\$ <u>(460,503)</u>

**Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources**

**Pension Expense (Income)** - For the fiscal year ended June 30, 2015, the Authority recognized pension expense (income) of \$(32,026) which consisted of the following:

	Pension Expense (Income)
Service Cost	\$ 58,821
Interest	74,681
Contributions - Employees	(65,831)
Projected Investment Income	(89,221)
Recognition of Experience (Gain)/Loss	10,028
Recognition of Investment (Gain)/Loss	(21,598)
Administrative Expenses	1,094
Pension Expense (Income)	\$ <u>(32,026)</u>

**Deferred Outflows of Resources and Deferred Inflows of Resources** - For the fiscal year ended June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 90,255	\$ 0
Net Difference between Projected and Actual Investment Earnings	0	86,394
Employer contributions subsequent to the measurement date of June 30, 2014.	84,583	0
Total	\$ <u>174,838</u>	\$ <u>86,394</u>

**NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)**

**FY 2015 Disclosures (Continued)**

**Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)**

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

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

<u>Years Ended June 30:</u>	<u>Amounts</u>
2016	\$ 73,013
2017	(11,570)
2018	(11,570)
2019	(11,570)
2020	10,028
2021 & Thereafter	40,113
Totals	<u>\$ 88,444</u>

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

**Payable to the Pension Plan**

At June 30, 2015, the Authority reported a payable of \$18,921 to TCRS for the year ended June 30, 2015 that was remitted on July 1, 2015. The payable of \$18,921 consisted of \$8,719 of employee contributions and \$10,202 of employer contributions.

**Required Supplementary Information**

The Authority has presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the net pension liability (asset) assets is increasing or decreasing over time relative to the plan's fiduciary net position and if the Authority has made its actuarial determined contributions as required by the TCRS.

## **NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)**

### **FY 2014 Disclosures**

#### **Plan Description**

Employees of the Authority are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits, as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55.

Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system on or after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute, Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions, such as the Authority, participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to the Authority unless approved by the Board of Directors.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the following address:

Tennessee Treasury Department  
Consolidated Retirement System  
10th Floor, Andrew Jackson State Office Building  
Nashville, TN 37243-0230  
(615) 741-7063  
[www.tn.gov/treasury/tcrs/PS](http://www.tn.gov/treasury/tcrs/PS)

#### **Funding Policy**

The Authority requires employees to contribute 5.0% of earnable compensation.

The Authority is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2014 was 5.77% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Authority is established and may be amended by the TCRS Board of Trustees.

#### **Annual Pension Cost**

For the year ending June 30, 2014, the Authority's annual pension cost of \$75,969 to TCRS was equal to the Authority's required and actual employer contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten year period. The Authority's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 18 years. An actuarial valuation was performed as of July 1, 2011, which established employer contribution rates effective July 1, 2012.

# NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

## FY 2014 Disclosures (Continued)

### Trend Information

During FY 2014 and 2013 the Authority made annual employer contributions of \$75,969 and \$54,126 which was 100% of the annual pension costs. The Authority did not have an outstanding net pension obligation as of June 30, 2014 and 2013.

### Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 73% funded. The actuarial accrued liability for benefits was \$949,000 and the actuarial value of assets was \$692,000 resulting in an unfunded actuarial accrued liability (UAAL) of \$257,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$913,000 and the ratio of the UAAL to the covered payroll was 28%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2013	\$ 692,000	\$ 949,000	\$ 257,000	73%	\$ 909,000	28%
7/1/2011	371,000	690,000	319,000	54%	913,000	35%

Since the Authority started participation in the TCRS defined benefit plan on January 1, 2009, the first actuarial valuation was completed as of July 1, 2011.

## NOTE 15 - RISK MANAGEMENT

The Authority 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 Authority's loss exposure for general liability and worker's compensation is limited by state law.

During FY 2015 and 2014, the Authority obtained general liability, vehicle, errors and omissions, worker's compensation, and other property and casualty insurance coverage through commercial insurance.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The occurrence deductible for each insurance policy of the Authority is as follows: comprehensive general liability \$0, public official's liability \$2,500, electronic data processing \$0, property \$1,000, automobile \$500, and umbrella policy \$0.

## NOTE 16 - ECONOMIC CONCENTRATION

The Authority's area covers the unincorporated areas of Anderson County located in East Tennessee. At June 30, 2015 and 2014, the Authority served 9,399 and 9,283 water customers located in a semi-rural area 25 miles from Knoxville, Tennessee. The Authority's ten largest customers accounted for 13% and 11% of water revenues during 2015 and 2014.

# **NOTE 17 - ASSET RECOVERY AND SALE**

During 2014 the Authority received 1,703 shares of common stock of a publicly traded life insurance company. The common stock was the result of a demutualization of a life insurance company which had issued policies owned by the former NACUD. The common stock was sold in FY 2014 and the Authority received \$71,233 which was net of \$17,808 in recovery and legal fees. These transactions were reviewed by the Authority's legal counsel and approved by the Board of Directors.

# **NOTE 18 - PRIOR PERIOD ADJUSTMENT AND IMPLEMENTATION OF NEW GASB ACCOUNTING PRONOUNCEMENTS**

During 2015 the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment to GASB Statement No. 27*, which requires the Authority to recognize a net pension liability, or asset, on the balance sheet. In addition, the Authority adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. GASB Statement No. 71 requires the Authority to record employer pension contributions after the measurement date to be recorded as a deferred outflow of resources. See Note 14 for additional information about the Authority's pension plan.

As a result of implementing GASB Statements No. 68 and 71, the Authority has recorded a prior period adjustment to the unrestricted net position as of July 1, 2014.

	<u>Effect of Prior Period Adjustmnet</u>
Net Pension Asset/Obligation, Beginning of Year, as previously reported under GASB Statements No. 25 & 27 (old method).	\$ 0
Net Pension Asset, Beginnig of Year, as calculated and reported under GASB Statements No. 67 & 68 (new method).	182,330
Recording of Employer Contributions made during FY 2014 for transition to GASB Statement No. 68 per paragraph 9 of GASB Statement No. 71.	<u>75,969</u>
Net Effect of Prior Period Adjustment for New Accounting Standard	258,299
Net Position, Beginnig of Year, as Originially Reported	<u>16,722,776</u>
Net Positon, Beginning of Year, as Restated	<u>\$ 16,981,075</u>

The effects of implementing GASB Statements No. 68 and 71 in the Authority's FY 2014 results of operations and beginning of year net position as of July 1, 2013 were not available from TCRS; therefore the financial statements for FY 2014 cannot be restated and are as originally presented.

## REQUIRED SUPPLEMENTARY INFORMATION

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS  
BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Fiscal Year

	2015
<b>Total Pension Liability</b>	
Service Cost	\$ 58,821
Interest	74,681
Changes in Benefit Terms	0
Differences between Actual and Expected Experience	100,283
Change of Assumptions	0
Benefit Payments, Including Refunds of Employee Contributions	(7,269)
<b>Net Change in Pension Liability</b>	226,516
<b>Total Pension Liability - Beginning</b>	940,559
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 1,167,075</u>
<b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 75,969
Contributions - Employees	65,831
Net Investment Income	197,213
Benefit Payments, Including Refunds of Employee Contributions	(7,269)
Administrative Expenses	(1,094)
<b>Net Change in Plan Fiduciary Net Position</b>	330,650
<b>Plan Fiduciary Net Position - Beginning</b>	1,122,889
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 1,453,539</u>
<b>Net Pension Liability (Asset) - Ending (a) - (b)</b>	<u>\$ (286,464)</u>
<b>Plan Fiduciary Net Position as % of Total Pension Liability</b>	124.55%
<b>Covered-Employee Payroll</b>	\$ 1,316,623
<b>Net Pension Liability (Asset) as a % of Covered-Employee Payroll</b>	-21.76%

Notes: (1) The last measurement period was for the year ended June 30, 2014 for FY 2015 financial reporting and disclosures.

(2) Fiscal year 2015 was the first year the Authority implemented GASB Statement No. 68.

(3) Future years will be added to this schedule until 10 years of information is available.

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF EMPLOYER CONTRIBUTIONS BASED ON PARTICIPATION IN THE  
PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Two Fiscal Years

	2015	2014
Actuarially Determined Contribution (ADC)	\$ 84,583	\$ 75,969
Contributions Made in Relation to ADC	84,583	75,969
Contribution Deficiency (Excess)	\$ 0	\$ 0
Covered-Employee Payroll	\$ 1,445,856	\$ 1,316,623
Contributions as a % of Covered-Employee Payroll	5.85%	5.77%

Notes to the Schedule

*Valuation Date:* Actuarially determined contribution rates for FY 2015 and 2014 were calculated based on the July 1, 2013 actuarial valuation.

*Methods and Assumptions used to determine contribution rates:*

Actuarial Cost Method	Frozen Initial Liability
Amortization Method	Level Dollar, Closed (not to exceed 20 years)
Remaining Amortization Period	11 Years
Asset Valuation	10 Year Smoothed within a 20% corridor to market value
Inflation	3.0%
Salary Increases	Graded salary ranges from 8.97 to 3.71% based on age, including inflation, averaging 4.25%.
Investment Rate of Return	7.5%, net of investment expense, including inflation
Retirement Age	Pattern of retirement determined by experience study.
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvements.
Cost of Living Adjustments	2.5%

Note: (A) Future years will be added to this schedule until 10 years of information is available.

**ANDERSON COUNTY WATER AUTHORITY**  
**SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS**  
**Last Six Fiscal Years**

<u>Fiscal Year</u>	<u>Annual Required Contribution (ARC)</u>	<u>Contributions Made</u>	<u>Percentage of Contributions/ ARC</u>
2009	\$ 26,593	\$ 26,593	100%
2010	65,937	65,937	100%
2011	67,830	67,830	100%
2012	75,333	75,333	100%
2013	54,126	54,126	100%
2014	75,969	75,969	100%

Notes: (A) The Authority started participation in the TCRS defined benefit plan on January 1, 2009.

(B) This schedule is presented under GASB Statements No. 25 & 27 (old method) so no information is provided after fiscal year 2014 due to the implementation of GASB Statement No. 68.

**ANDERSON COUNTY WATER AUTHORITY**  
**SCHEDULE OF EMPLOYER PENSION FUNDING PROGRESS**  
**Last Two Valuation Dates**

Actuarial Valuation Date	<u>7/1/2011</u>	<u>7/1/2013</u>
Actuarial Value of Assets	\$ 371,000	\$ 692,000
Actuarial Accrued Liability	<u>(690,000)</u>	<u>(949,000)</u>
Total Unfunded Actuarial Accrued Liability	\$ <u>(319,000)</u>	\$ <u>(257,000)</u>
Funded Ratio (Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability)	54%	73%
Annual Covered Payroll	\$ 913,000	\$ 909,000
Ratio of the Unfunded Actuarial Liability to Annual Covered Payroll	35%	28%

- Notes: (A) Since the Authority started participation in the TCRS defined benefit plan on January 1, 2009, the first actuarial valuation was completed as of July 1, 2011. TCRS performs an actual valuation every two years.
- (B) This schedule is presented under GASB Statements No. 25 & 27 (old method).
- (C) Due to the implementation of GASB Statements No. 68 & 71 during FY 2015, this is the last year that this schedule will be presented.

## SUPPLEMENTARY INFORMATION

**ANDERSON COUNTY WATER AUTHORITY**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS**

**June 30, 2015**

Years Ending June 30,	Revenue Term Bonds Series 2010		
	Principal	Interest	Total
2016	\$ 235,000	\$ 312,588	\$ 547,588
2017	245,000	307,888	552,888
2018	255,000	302,375	557,375
2019	260,000	296,000	556,000
2020	270,000	288,850	558,850
2021	280,000	280,750	560,750
2022	290,000	269,550	559,550
2023	305,000	257,950	562,950
2024	320,000	245,750	565,750
2025	335,000	232,950	567,950
2026	350,000	219,550	569,550
2027	370,000	205,550	575,550
2028	380,000	190,750	570,750
2029	400,000	175,550	575,550
2030	410,000	159,550	569,550
2031	435,000	143,150	578,150
2032	455,000	125,750	580,750
2033	480,000	103,000	583,000
2034	500,000	79,000	579,000
2035	525,000	54,000	579,000
2036	555,000	27,750	582,750
<b>TOTAL</b>	<b>\$ 7,655,000</b>	<b>\$ 4,278,251</b>	<b>\$ 11,933,251</b>

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF RATES AND STATISTICS

June 30, 2015 and 2014

1. Monthly Water Rates

All Customers:

1st 1,200 (FY 2015) and 1,500 (FY 2014) gallons - \$18.00 minimum bill.

All over 1,200 (FY 2015) and 1,500 (FY 2014) gallons - \$6.20 per 1,000 gallons.

2. Monthly Wastewater Rates

Sewer Residential:

1st 1,200 (FY 2015) and 1,500 (FY 2014) gallons of water used - \$24.48 (FY 2015) and \$19.48 (FY 2014) minimum bill.

All over 1,200 (FY 2015) and 1,500 (FY 2014) gallons of water used - \$9.32 per 1,000 gallons.

Sewer Commercial:

1st 1,200 (FY 2015) and 1,500 (FY 2014) gallons of water used - \$24.48 (FY 2015) and \$19.48 (FY 2014) minimum bill.

All over 1,200 (FY 2015) and 1,500 (FY 2014) gallons of water used - \$10.58 per 1,000 gallons.

3. Service Charges:

Residential Connection Fee	\$	40
Customer Deposits - Residential Renters		100
Commercial Connection Fee		100
Wastewater Connection Fee		50
Reconnection Fee for Nonpayment		50
Returned Check Fee		25
Reactivation Fee		20

4. New Service Installation:

Water Tap Fees for:

¾"	\$	600
1"		800
1 ½"		2,000
2"		2,500
Above 2"		1,000
		Plus actual costs

5. There were 9,399 and 9,283 water and 1,012 and 1,014 wastewater customers at June 30, 2015 and 2014.



# AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0

American Water Works Association

? Click to access definition  
 + Click to add a comment

Water Audit Report for: **Anderson County Water Authority (0000514)**  
 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.

Master Meter and Supply Error Adjustments

## WATER SUPPLIED

Enter grading in column 'E' and 'J'

	+	?	8		MG/Yr	+	?	3	1.00%	0	0		MG/Yr
Volume from own sources:				1,080,819									
Water imported:				66,741									
Water exported:				219,177									

**WATER SUPPLIED:** **919,191** MG/Yr

## AUTHORIZED CONSUMPTION

Billed metered:	+	?	8	695,955	MG/Yr
Billed unmetered:	+	?	n/a	0,000	MG/Yr
Unbilled metered:	+	?	9	5,098	MG/Yr
Unbilled unmetered:	+	?	10	40,789	MG/Yr

Unbilled Unmetered volume entered is greater than the recommended default value

**AUTHORIZED CONSUMPTION:** **741,842** MG/Yr

Click here ? for help using option buttons below

Pcnt	Value	MG/Yr
1.25%	0	40,789

Use buttons to select percentage of water supplied OR value

## WATER LOSSES (Water Supplied - Authorized Consumption)

**177,349** MG/Yr

### Apparent Losses

Unauthorized consumption: + ? 10 2,298 MG/Yr

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

Customer metering inaccuracies:	+	?	9	7,081	MG/Yr
Systematic data handling errors:	+	?	5	1,740	MG/Yr

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

**Apparent Losses:** **11,119** MG/Yr

Pcnt	Value	MG/Yr
0.25%	0	

1.00%	0	
0.25%	0	

### Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? 166,230 MG/Yr

**WATER LOSSES:** **177,349** MG/Yr

## NON-REVENUE WATER

**NON-REVENUE WATER:** **223,236** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

## SYSTEM DATA

Length of mains:	+	?	6	630.0	miles
Number of active AND inactive service connections:	+	?	8	9,360	
Service connection density:	?			15	conn./mile main

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

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

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

Average operating pressure: + ? 7 125.0 psi

## COST DATA

Total annual cost of operating water system:	+	?	10	\$5,109,142	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+	?	10	\$4.72	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+	?	10	\$631.99	\$/Million gallons

☐ Use Customer Retail Unit Cost to value real losses

## WATER AUDIT DATA VALIDITY SCORE:

\*\*\* YOUR SCORE IS: 83 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: Volume from own sources

2: Unauthorized consumption

3: Systematic data handling errors



# **AWWA Free Water Audit Software: System Attributes and Performance Indicators**

WAS v5.0  
American Water Works Association

Water Audit Report for: Anderson County Water Authority (0000514)

Reporting Year: 2015 | 7/2014 - 6/2015

\*\*\* YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 \*\*\*

## System Attributes:

Apparent Losses:	<u>11.119</u>	MGYr
+ Real Losses:	<u>166.230</u>	MGYr
= <b>Water Losses:</b>	<u>177.349</u>	MGYr

? Unavoidable Annual Real Losses (UARL): 219.56 MGYr

Annual cost of Apparent Losses: \$52,483

Annual cost of Real Losses: \$105,056

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: 24.3%

Non-revenue water as percent by cost of operating system: 3.7%

Real Losses valued at Variable Production Cost

Operational Efficiency:

Apparent Losses per service connection per day: 3.25 gallons/connection/day

Real Losses per service connection per day: N/A gallons/connection/day

Real Losses per length of main per day\*: 722.90 gallons/mile/day

Real Losses per service connection per day per psi pressure: N/A gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 166.23 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]: 0.76

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

## STATISTICAL SECTION

This part of the Authority's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time. ....	46-47
Revenue Capacity	
These schedules contain information to help the reader assess the Authority's operating revenues and customer statistics. ....	48-52
Debt Capacity	
These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future. ....	53-54
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place. ....	55-56
Operating Information	
These schedules contain service data to help the reader understand how the information in the Authority's financial report relates to the water services provided by the Authority. ....	57-58

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

ANDERSON COUNTY WATER AUTHORITY

NET POSITION BY COMPONENT

Last Eight Fiscal Years

Fiscal Year			Restricted		Unrestricted	Total
			Debt Service	Capital Activity		
2008	(A)	\$ 0	\$ 0	\$ 0	\$ 14,823	\$ 14,823
2009	(B)	12,765,165	17,862	627,330	2,630,990	16,041,347
2010		13,134,668	25,260	45,000	2,508,266	15,713,194
2011		13,196,514	16,503	0	2,517,613	15,730,630
2012 (Restated)		13,425,235	16,582	0	2,511,511	15,953,328
2013		13,863,610	18,333	0	2,687,448	16,569,391
2014		14,132,114	27,569	100,000	2,463,093	16,722,776
2015	(C)	14,199,130	31,032	0	2,824,680	17,054,842

Notes: (A) FY 2008 was the first year the Authority was organized.

(B) FY 2009 was the first year the Authority began operations (effective January 1, 2009).

(C) FY 2015 the Authority implemented GASB Statements No. 68 and No. 71.

# ANDERSON COUNTY WATER AUTHORITY

## CHANGES IN NET POSITION

### Last Eight Fiscal Years

	(C) 2015	2014	2013	(Restated) 2012	2011	2010	(B) 2009	(A) 2008
Operating Revenues								
Water - Net	\$ 4,480,748	\$ 4,194,593	\$ 3,993,754	\$ 3,965,496	\$ 3,713,110	\$ 3,894,825	\$ 1,873,956	\$ 0
Wastewater - Net	855,701	699,653	735,767	732,686	641,015	578,260	339,171	0
Connection Fees	95,450	90,920	87,590	123,143	105,190	50,810	11,201	0
Customer Forfeited Discounts	118,050	110,039	105,100	111,258	87,518	0	41,300	0
Tap Fees	97,850	150,250	91,210	68,650	55,620	40,550	15,500	0
Other Charges and Fees	11,731	11,308	16,362	7,901	17,728	40,127	43,201	0
Total Operating Revenues	5,659,530	5,256,763	5,029,783	5,009,134	4,620,181	4,604,572	2,324,329	0
Operating Expenses								
Water Treatment, Transmission and Distribution	2,929,398	2,818,994	2,685,646	2,621,711	2,444,457	2,488,121	1,402,607	0
Wastewater Treatment	642,206	600,936	522,323	533,027	462,561	449,829	246,428	0
Customer Billing and Accounting	20,629	15,882	9,843	31,152	100,940	189,670	119,442	0
General and Administrative	780,742	769,654	623,275	599,888	617,668	626,086	377,710	5,200
Depreciation	1,134,892	1,112,120	1,074,093	963,933	915,378	901,475	436,347	0
Total Operating Expenses	5,507,867	5,317,586	4,915,180	4,749,711	4,541,004	4,655,181	2,582,534	5,200
Operating Income (Loss)	151,663	(60,823)	114,603	259,423	79,177	(50,609)	(258,205)	(5,200)
Non-Operating Revenues (Expenses)								
Gain (Loss) on Disposal of Capital Assets	0	(18,498)	53,126	36,915	12,000	(15,721)	10,281	0
Investment Income	12,576	9,183	4,997	(1,828)	24,253	14,869	20,484	23
Other Income (Expense) - Net	20,208	71,233	0	0	0	0	0	0
Debt Issuance Costs	0	0	0	0	0	(138,411)	0	0
Interest (Expense)	(372,973)	(383,398)	(360,087)	(193,613)	(334,791)	(283,081)	(148,657)	0
Non-Operating Revenues (Expenses) - Net	(340,189)	(321,480)	(301,964)	(158,526)	(298,538)	(422,544)	(117,892)	23
Increase (Decrease) in Net Position Before Capital Contributions	(188,526)	(382,303)	(187,361)	100,897	(219,361)	(473,153)	(376,097)	(5,177)
Capital Contributions								
Cash	0	160,590	197,528	121,799	236,800	145,000	2,988,916	20,000
Non-Cash	262,293	375,098	605,897	0	0	0	13,413,705	0
Total Capital Contributions	262,293	535,688	803,425	121,799	236,800	145,000	16,402,621	20,000
Change in Net Position	\$ 73,767	\$ 153,385	\$ 616,064	\$ 222,696	\$ 17,439	\$ (328,153)	\$ 16,026,524	\$ 14,823

Notes: (A) FY 2008 was the first year the Authority was organized.

(B) FY 2009 was the first year the Authority began operations (effective January 1, 2009).

(C) FY 2015 the Authority implemented GASB Statements No. 68 and No. 71

**ANDERSON COUNTY WATER AUTHORITY**  
**CUSTOMER STATISTICS, WATER RATES, AND TAP SALES**  
**Last Seven Fiscal Years**

Fiscal Year	Water Customers	Former ACUB Territory		Former NACUD Territory		Annual Tap Sales
		Minimum Bill (A)	Rate Per 1,000 Gallons	Minimum Bill (A)	Rate Per 1,000 Gallons	
2009 (C)	8,990	\$ 15.20	\$ 4.90	\$ 21.14	\$ 5.42	19
2010	9,136	15.20	4.90	21.14	5.42	78
2011 (D)	9,132	18.00	5.50	18.00	5.50	93
2012 (E)	9,126	18.00	5.50	18.00	5.50	107
2013	9,227	18.00	5.50	18.00	5.50	134
2014 (F)	9,283	18.00	6.20	18.00	6.20	169
2015 (G)	9,399	18.00	6.20	18.00	6.20	87

- Notes:
- (A) Minimum bill is based upon the first 2,000 and 1,500 gallons of water purchased.
  - (B) Rates are the same for any size meter.
  - (C) FY 2009 was the first year the Authority began operations (effective January 1, 2009).
  - (D) During FY 2011, the Authority changed the rate per 1,000 gallons to \$5.50 and the monthly minimum residential billing to \$18.00 for ratepayers in the former ACUB and NACUD territories.
  - (E) During FY 2012, the Authority reduced the monthly minimum billing to 1,500 gallons.
  - (F) During FY 2014, the Authority increased the rate per 1,000 gallons to \$6.20.
  - (G) During FY 2015, the Authority reduced the monthly minimum billing to 1,200 gallons.

**ANDERSON COUNTY WATER AUTHORITY**  
**WATER TREATED, SOLD, AND CONSUMED**  
**Last Seven Fiscal Years**

Fiscal Year	Gallons of Water (In Thousands)			Percent Lost
	Water Treated and Purchased	Water Sold and Consumed	Water Unbilled	
2009	495,339	335,174	160,165	32.3%
2010	1,015,372	684,203	331,169	32.6%
2011	1,047,568	688,207	359,361	34.3%
2012	1,131,927	748,779	383,148	33.8%
2013	1,116,747	749,325	367,421	32.9%
2014	1,131,480	752,809	378,671	33.5%
2015	1,147,559	787,879	359,681	31.3%

Note: FY 2009 was the first year the Authority began operations (effective January 1, 2009).

**ANDERSON COUNTY WATER AUTHORITY**

**ANNUAL TAPS SOLD**

**Last Seven Fiscal Years**

<u>Fiscal Year</u>	<u>Water Meter Taps Sold</u>	<u>Sewer Taps Sold</u>	<u>Total Taps</u>
2009	19	0	19
2010	69	9	78
2011	66	27	93
2012	95	12	107
2013	124	10	134
2014	149	20	169
2015	77	10	87

Note: FY 2009 was the first year the Authority began operations  
(effective January 1, 2009).

**ANDERSON COUNTY WATER AUTHORITY**

**NUMBER OF CUSTOMERS BY TYPE**

**Last Seven Fiscal Years**

<u>Fiscal Year</u>	<u>Water</u>	<u>Wastewater</u>
2009	8,990	1,089
2010	9,136	1,063
2011	9,132	1,059
2012	9,126	928
2013	9,227	986
2014	9,283	1,014
2015	9,399	1,012

Note: FY 2009 was the first year the Authority began operations  
(effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

TEN LARGEST CUSTOMERS

Current Fiscal Year and Six Fiscal Years Ago

Customer	Type of Business	2015		2009 (B)	
		(A) Total Annual Sales	Percentage of Total Sales	(A) Total Annual Sales	Percentage of Total Sales
City of Lake City	Municipality	\$ 177,392	3.96%	\$ 49,634	2.65%
Clinton Utility Board	Municipality	60,494	1.35%	15,186	0.81%
Stardust Marina	Recreation	51,514	1.15%	16,268	0.87%
Waterside Marina	Recreation	35,681	0.80%	16,043	0.86%
Mariner Health	Health Care	112,101	2.50%	26,488	1.41%
Mountain Lake Marina	Recreation	70,693	1.58%	38,517	2.06%
TVA	Electrical Power Distributor	25,403	0.57%	26,684	1.42%
City of Caryville	Municipality	10,221	0.23%	5,851	0.31%
Meadowview Senior Living	Health Care	11,590	0.26%	0	0.00%
Rocky Top Marina	Recreation	0	0.00%	11,843	0.63%
Norris Dam State Park	Recreation	0	0.00%	1,696	0.09%
Shoney's of Knoxville	Restaurant	30,563	0.68%	0	0.00%
Total		\$ 585,652	13.07%	\$ 208,210	11.11%

Note: (A) Sales includes net water revenues only.

(B) FY 2009 is for the initial six month period ending June 30, 2009.

**ANDERSON COUNTY WATER AUTHORITY**  
**OUTSTANDING DEBT PER CUSTOMER**  
**Last Seven Fiscal Years**

<u>Fiscal Year</u>	<u>Revenue Bonds (A)</u>	<u>Number of Customers (B)</u>	<u>Amount of Outstanding Debt Per Customer</u>
2009 (C)	\$ 4,750,000	8,990	\$ 528
2010	4,550,000	9,136	498
2011	8,703,192	9,132	953
2012	8,495,299	9,126	931
2013	8,277,558	9,227	897
2014	8,054,979	9,283	868
2015	7,822,563	9,399	832

Notes: (A) Net of related unamortized bond premiums or discounts.

(B) Water customers at year end.

(C) Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

(D) No debt to personal income ratio is shown because personal income for the Authority service area, which excludes the Cities of Oak Ridge, Clinton, and Norris, TN, is not available.

ANDERSON COUNTY WATER AUTHORITY

PLEDGED REVENUE COVERAGE

Last Seven Fiscal Years

(A) Fiscal Year	(B) Gross Revenues	(C) Operating Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			(E) Coverage Ratio
				Principal	(D) Interest Paid	Total	
2009	\$ 2,344,813	\$ 2,146,187	\$ 198,626	\$ 150,000	\$ 95,729	\$ 245,729	0.80
2010	4,619,241	3,753,706	865,535	200,000	199,975	399,975	2.16
2011	4,644,434	3,625,626	1,018,808	165,000	262,947	427,947	2.38
2012 (Restated)	5,007,306	3,785,778	1,221,528	195,000	329,188	524,188	2.33
2013	5,034,780	3,841,087	1,193,693	205,000	325,955	530,955	2.25
2014	5,265,946	4,205,466	1,060,480	210,000	321,188	531,188	2.00
2015	5,672,106	4,372,975	1,299,131	220,000	316,989	536,989	2.42

- Notes:
- (A) FY 2009 is for a six month period beginning January 1, 2009, the effective date of significant operations.
  - (B) Includes operating revenues and investment interest income.
  - (C) Does not include depreciation expense.
  - (D) Includes interest paid net of capitalization construction period interest.
  - (E) The Bond Series 2010 covenants requires a coverage ratio of 1.20.

ANDERSON COUNTY WATER AUTHORITY

DEMOGRAPHIC AND ECONOMIC INDICATORS (E)

Last Seven Fiscal Years

Fiscal Year	Population (A)	Personal Income In Thousands (A)	Per Capita Personal Income (A)	Median Age (A)	School Attendance (B)	Unemployment Rates (C)	
						County	State
2009	74,738	\$ 2,258,433	\$ 30,218	41.4	8,541	11.2%	10.8%
2010	74,849	2,154,154	28,780	39.2	8,117	9.1%	10.0%
2011	75,129	2,580,901	34,358	39.9	8,186	9.2%	9.8%
2012	75,129	2,543,192	33,851	39.5	8,141	9.0%	8.1%
2013	75,416	2,908,538	38,567	40.5	8,081	8.8%	8.5%
2014	75,542	2,957,316	39,148	42.0	8,080	7.0%	6.6%
2015	N/A	N/A	N/A	42.6	8,053	6.4%	5.7%

Notes: (A) U.S. Department of Commerce Bureau of Economic Analysis for the previous calendar year.

(B) Anderson County Board of Education - Average Daily Attendance

(C) U.S. Department of Labor - Bureau of Labor Statistics for June.

(D) The Authority was created in Fiscal Year 2008 on July 16, 2007.

(E) Demographic and economic information is for Anderson County, Tennessee. Specific information for the Authority is not available.

(F) N/A data not yet available.

# ANDERSON COUNTY WATER AUTHORITY

## PRINCIPAL EMPLOYERS

### Current Fiscal Year and Six Fiscal Years Ago

Customer	2015			2009		
	Employees	Rank	Percentage of County Workforce	Employees	Rank	Percentage of County Workforce
BWXT - Y12	7,000	1	20.28%	4,500	1	12.56%
UT Battelle (Oak Ridge National Laboratory)	4,374	2	12.67%	4,200	2	11.73%
Anderson County Government	1,644	3	4.76%	1,542	3	4.30%
Covenant Health Systems (Methodist Medical Center)	1,407	5	4.08%	1,337	5	3.73%
Bechtel Jacobs Co., LLC	1,042	4	3.02%	1,306	4	3.65%
SAIC	1,000	6	2.90%	902	8	2.52%
City of Oak Ridge	800	8	2.32%	1,053	6	2.94%
Oak Ridge Associated Universities (ORAU)	788	7	2.28%	600	10	1.68%
Sitel	725	9	2.10%	0	0	0.00%
Energy Solutions	625	10	1.81%	0	0	0.00%
Wackenhut	0	0	0.00%	902	7	2.52%
Eagle Bend Manufacturing	0	0	0.00%	624	9	1.74%
Duratek Resource Recovery	0	0	0.00%	510	11	1.43%
Carlisle Tire and Wheel Co. (B)	0	0	0.00%	400	12	1.12%
Total	19,405		56.22%	17,876		49.92%

Notes: (A) Source(s): Tennessee Department of Economic and Community Development and Tennessee Department of Labor and Workforce Development.

(B) Carlisle Tire and Wheel Co. was previously named Dico Tire.

ANDERSON COUNTY WATER AUTHORITY

EMPLOYEES BY FUNCTION

Last Seven Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>WATER AND WASTEWATER</b>							
Water System	21.5	23	22	22	24	21	20
Wastewater System	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>23.5</u>	<u>24</u>	<u>22</u>	<u>22</u>	<u>24</u>	<u>21</u>	<u>20</u>
<b>ADMINISTRATION</b>							
Billing and Customer Service	5.5	4	2	2	2	2	4.5
Finance & Accounting	2	2	2	2	2.5	2.5	2
Administrative	<u>1</u>	<u>1</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>2</u>
	<u>8.5</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7.5</u>	<u>7.5</u>	<u>8.5</u>
<b>TOTAL EMPLOYEES</b>	<u>32</u>	<u>31</u>	<u>29</u>	<u>29</u>	<u>31.5</u>	<u>28.5</u>	<u>28.5</u>

Note: FY 2009 was the first year the Authority began significant operations on January 1, 2009.

**ANDERSON COUNTY WATER AUTHORITY**  
**OPERATING AND CAPITAL INDICATORS**

**Last Seven Fiscal Years**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Area in Square Miles:	220	220	220	220	220	220	220
Water System:							
Miles of Water Mains	630	630	625	612	426	422	420
Number of:							
Water Service Connections	9,399	9,283	9,227	9,126	9,132	9,136	8,990
Wastewater Service Connections	1,012	1,014	986	928	1,059	1,063	1,089
Office Building	1	1	1	1	1	1	0
Water Treatment Plants	2	2	2	2	2	2	2
Wastewater Treatment Plants	1	1	1	1	1	1	1
Reservoirs	11	11	13	13	16	16	16
Water Pumping Stations	23	23	23	24	24	24	24
Wastewater Pumping Stations	19	19	19	19	19	19	19
Fire Hydrants	347	345	340	330	327	325	325
Daily Average Water Treatment in Gallons (MGD)	2.96	2.92	2.87	2.90	2.69	2.61	2.58
Daily Average Water Purchases in Gallons (MGD)	0.18	0.18	0.18	0.18	0.18	0.17	0.12
Daily Average Water Sales and Consumption in Gallons (MGD)	2.16	2.06	2.05	1.87	1.86	1.87	1.84
Water Reservoir Storage Capacity (Millions of Gallons)	6.00	6.00	6.00	6.00	4.38	4.38	4.38

Notes: (A) MGD = Million of gallons per day

(B) FY 2009 was the first year that the Authority began significant operations on January 1, 2009.

## COMPLIANCE SECTION

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage  
Marie I. Niekerk  
Josh Stone  
Earl O. Wright - 1988 - 2002

Stephen J. Parsons - Retired  
Catherine R. Hulme  
Rebecca Hutsell  
William R. Scandlyn - 1988 - 1999

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

Board of Directors  
Anderson County Water Authority  
Clinton, 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 Anderson County Water Authority ("the Authority"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Anderson County Water Authority's basic financial statements and have issued our report thereon dated October 30, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Anderson County Water Authority'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 Anderson County Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Anderson County Water Authority's internal control.

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Anderson County Water Authority'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 audits, 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*.

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### **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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

### **Parsons & Wright**

Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

October 30, 2015

ANDERSON COUNTY WATER AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015

**CURRENT YEAR FINDING**

**NONE**

**PRIOR YEAR FINDING – RESOLVED**

**2014-1 Sales Tax Returns**

**Criteria or Specific Requirement** – The Authority serves water customers in multiple municipalities and counties and is required to report applicable sales on a sales tax return for each.

**Condition** – Since inception, the Authority has only filed one sales tax return, for Anderson County. Water sales for the entire distribution area have been reported on the sales tax return and all sales tax paid to Anderson County.

**Cause and Effect** – The Authority is not filing all applicable sales tax returns and is not paying sales tax to the correct municipality or county. The Authority has also collected and paid sales tax at the incorrect rate for some customers.

**Recommendation** – We recommend that the Authority complete and file applicable sales tax returns for the previous 3 years. The Authority will need to work with Anderson County to get excess taxes refunded or transferred to appropriate municipality or county. In the future, the Authority needs to file sales tax returns for all applicable municipalities and counties. This would include withholding and paying the correct rate of sales tax in each municipality and county.

**Management's Response** – We concur and have started the process to remedy the past 3 years, the maximum length of time allowed by the State. The process includes working with the State to make each municipality and county whole. We will also calculate a credit amount for all customers charged a higher rate of tax. The credit amount will be based on the average bill for the past three years. The credit amount will be calculated based on actual billings for large customers. Additionally, our system has been updated to charge the correct rate going forward and all applicable sales tax returns will be completed and filed.

**Current Status** – The Authority has completed and filed all applicable past (amended) and current sales tax returns in the appropriate municipality or county. Additionally, the correct rate of sales tax has been withheld for each municipality and county. This is no longer considered a finding.